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Draft Energy Policy Speech
Kevin Hopkins and Doug Bandow
November 21, 1979

Ladies and gentlemen.

The 1970s marked the end of an era. After a decade of desperate self-criticism, we finally put the tragedy of Vietnam behind us. America removed from itself a shroud of despair and turned again to the job of providing hope for its people.

Unfortunately, that shroud has returned. Our leaders are again sending America to war -- one that promises to be as emotionally painful and as economically destructive as Vietnam. But the battles this time will be fought not in the rice paddies of Southeast Asia, but in the streets and homes of the United States. And the aim is the defeat not of some communist guerrillas called Viet Cong, but of an implacable Goliath called OPEC. The "Battle for Oil." The "Moral Equivalent of War." The "Energy Crisis." Call it what you will. But unless we adopt a winning strategy <u>now</u>, we will be forced to accept an energy "Peace With Honor" that will be no more than the moral equivalent of defeat.

And, you will recall, just such a defeat is what the United States suffered in Vietnam. But as diplomatically inglorious as was the loss, the greatest immorality of that war was that our government sent more than 50,000 troops to their death without ever attempting to <u>win</u>. The result was a decade of despair and dissent, with the protest march as a national symbol.

If you haven't noticed, the protest march has returned. Last October, thousands of people flocked to the streets in 100 cities to rally against high energy prices. And well they should -- we've been in a permanent state of energy crisis since 1973, during which time gasoline prices have nearly tripled and fuel shortages of one kind or another have become almost commonplace. It is a deplorable situation. Yet instead of doing everything possible to help its citizens meet the crisis, our government is drafting American energy consumers as the shock troops in its ill-fated energy battle, <u>without seriously attempting to win</u>. We are being told to drive less, pay more, tighten belts, heat less, and wear cardigan sweaters, all in the name of "selfless" sacrifice, while the government fights back with D-O-E, E-S-C, E-M-B, and a panoply of other paper solutions.

To this administration, "living with less" seems to be the only way to fight back. Yet our nation is not being brought to its knees by dwindling domestic fuel resources or by a global cartel beyond our control. It is being threatened by a national politics which refuses to let go of the past and assume the responsibilities of the present and future.

Those responsibilities are clear: to ensure that America can provide its people adequate domestic energy supplies at stable long-run prices. Any policy which fails to meet these goals does not serve the interests of the American people.

Current U. S. energy policy does <u>not</u> meet these goals. It only condemns the U. S. energy consumer to intermittent shortages, tight supplies, and ever-increasing fuel prices, and will make us ever more dependent on OPEC. This prescription for defeat cannot -- and should not -- be tolerated.

It is time we recognized that the so-called energy "solutions" proposed by this administration are the same brand of policies that have made the energy crisis such a demoralizing part of every American's life. This crisis, in fact, began with a 1954 Supreme Court decision which imposed price controls on natural gas, and was intensified by the imposition of oil price controls in 1971. These controls held U. S. fuel prices artificially low, which led to overutilization of oil and gas by energy consumers and a drastic reduction in producers' incentive to drill for these fuels, or to develop alternative energy sources.

The result was predictable to all but those who refused to accept economic reality. Oil and gas output in the continental U. S. has declined every year since oil price controls were imposed. Discoveries of natural gas peaked when the 1954 price controls began to diminish the real new-contract natural gas prices. Even Patricia Starratt, former special assistant in the Federal Energy Administration, has admitted that the natural gas shortage resulted directly from the decline in gas discoveries, which "was due to the (natural gas price) ceilings." In fact, the number of drilling rigs operating in the United States declined 12 per cent in the first six months following the passage of Mr. Carter's 1978 natural gas act.

Thus, the controls, by significantly impeding U. S. energy production, forced the U. S. to begin relying heavily on oil imports from OPEC. The result, according to a study by two MIT economists, was that by 1977, U. S. energy imports were three and one-half times greater than they would have been had there been no federal price controls.

Yet, if you listen to the administration, you'd think consumers were to blame for the fact that we import almost twice as much oil now as we did before the 1973 embargo. But that's simply not the case. U. S. consumption of oil has increased less than 20 per cent in the last seven years, compared to an increase of more than twice that much in the seven years before that. From 1973 to 1976, gasoline demand rose at less than half the rate it had in the previous two decades, and in 1978 it rose only about 3 per cent, less than in almost every other industrialized country. Moreover, the Energy Department admits that American industry has become 10 to 15 per cent more energy efficient since 1974. We import more oil now, but the blame must go to the government, not the consumer.

And now, because of our heavy dependence on oil imports, OPEC has the U. S. economy in a vice-grip. It can extract virtually any price it wants for its oil, because it knows price controls prevent the U. S. from producing enough of its own energy to allow us to say "no" to higher-priced OPEC oil. Even John O'Leary, formerly the number two man in Mr. Carter's Energy Department, concedes that the Congress and the Executive branch "have been enormously short-sighted and have placed this country at the mercy of OPEC."

What's worse, higher OPEC prices translate directly into higher prices for American consumers. Price controls, for all their vaunted value, have not held down prices. Gasoline prices have nearly tripled since 1973, and climbed 55 per cent in the first six months of this year alone, despite the existence of a complex and comprehensive set of price controls. U. S. motorists are paying considerably more for gasoline than our neighbors in Canada, who have not had the so-called "protection" of price ceilings and allocations. And natural gas prices to the consumer have risen three times as much as prices at the wellhead, in spite of two decades of price controls. In fact, the Harvard Energy Project contends that controls, by forcing the U. S. to import more oil, "could be one of the main causes of much higher oil prices in the years ahead."

Nor have the allocation rules of the Department of Energy helped soften the impact of the energy crisis. The department's own Office of Competition admits that "in almost every case... regulation has compounded any problem arising from imperfect market structures;" yet DOE continues to promulgate more such regulations. For instance, it has this many different rule books alone governing gasoline allocation. [Displays rule books.]

In fact, these allocation rules were the primary cause of the gas lines in many cities last spring. Let me repeat that. By the Department of Energy's own admission, DOE allocation formulas were chiefly responsible for the gas lines. James Schlesinger, then Secretary of Energy, conceded that "There would be no lines if there were no price and allocation controls."

These controls, Schlesinger explained, "put gasoline where the cars are not." Studies found that the agency allocated too much fuel to priority users, and too little to fast-growing urban areas. Its formulas caused such a mismatch of oil and refineries in California that refineries there were forced to operate at only 80 per cent capacity during the gasoline shortage.

But this shortage has not been DOE's only failure. The Department of Energy has so badly mishandled the Strategic Petroleum Reserve Project -- a program to store extra oil in abandoned salt mines to help meet any future oil crisis -- that it had to stop the project, several months behind schedule and only about a third finished. Among other things, the Department has provided no way to recover the oil once it is pumped into the salt mines; there will not be even any emergency pumps in place for at least several more months.

DOE also has forced heating oil prices up in the Northeast, by compelling companies to stockpile an excess of the fuel. And it has required that heating oil for the winter, and middle distillates for farmers, be kept in primary storage tanks, so DOE can keep track of the fuels, rather than distributed to the localities, where the fuels are needed. According to projections prepared by a congressional subcommittee, this policy could result in shortfalls at the local level of as much as <u>one-fifth</u> of the total stock of fuels. Such shortages are not to be taken lightly. In the winter of 1977, natural gas shortages -- resulting from an inadequate supply due to federal controls -- forced 1.2 million workers out of their jobs when gas was diverted from factories to fuel-starved homes. These workers lost more than 600 million dollars in wages.

Why have these past efforts failed so dismally? After all, they seem like they should work. If energy prices are going up, it seems like price controls would hold them down. If there are shortages of fuel, it seems like a federal allocation system would place the fuel where it's needed. If the energy crisis grows worse, it seems like a more comprehensive agency would solve it.

What seems to be right, however -- as history has forcefully demonstrated -- is not always what is right. In fact, U. S. energy policy has failed precisely because these seductive solutions have been 180 degrees opposite to those measures which would have averted the crisis. U. S. energy policy has subsidized oil imports at the expense of domestic production; it has subsidized big oil companies at the expense of small independent oil and gas producers; and it has subsidized OPEC price increases at the expense of stable U. S. prices.

Now, it's a universally accepted rule of economics that you get less of what you discourage, and more of what you subsidize. Hence, America has received lower domestic energy production, struggling independent producers, and sharply higher prices. We also have imported ever more oil from OPEC, and have ensured that the big oil companies become increasingly dominant in the energy market. We need more domestic production, more small independents, and stable fuel prices. We don't need greater oil imports and increasing energy market dominance by the big oil companies. Any policy which gives us less of what we need, and more of what we don't need, makes no sense at all and should be reversed. After nearly a decade of energy crisis, policies which offer only more of the same will not do.

Yet look at what our nation's leaders are proposing. Though they may speak of increasing domestic production and stabilizing energy prices, their rhetoric is deceiving. Look at what they are really advocating, and you'll find it's only more of the same -- more federal agencies, more controls on energy prices and producers, and more mandatory conservation. In short, more of the same policies which have brought us shortages, high prices, foreign imports, and dominance of the energy market by Big Oil.

Let's look at the administration's energy policy, starting with Mr. Carter's supposed decontrol of energy prices. Here, the administration is long on public relations, but short on substance. What they have achieved is anything but decontrol. Oil prices won't be freed from controls until 1981 under the Carter plan, but the President continually threatens "punitive action," including reimposition of controls, if Congress does not approve a windfall profits tax, which itself would effectively -- and permanently -- recontrol prices. Mr. Carter actually extended controls to the entire natural gas market, and his plan will keep them in force until 1985. And Mr. Carter has refused to use his authority to eliminate price controls on gasoline.

Yet price controls, as I have stated, are no solution to the energy crisis. Rather, they are its primary cause. Even the Harvard Energy Project -- whose report served as the basis for much of price-control advocate Sen. Edward Kennedy's own energy plan -- concedes that "the system of price regulation is highly irrational." The system is irrational because it discourages domestic production.

Further, price controls eliminate competition in the energy market by crippling small independents. The controls apply to energy produced at the wellhead, and it is the 10,000 independents who drill 90 per cent of the new exploratory wells. The major oil companies' domestic operations are largely refining and marketing, and nearly 60 per cent of all U. S. refinery runs are controlled by the eight largest oil companies. A 1977 study by the Rand Corporation found that in one year price controls transferred as much as four billion dollars from the oil producers, who include those 10,000 independents, to unaffiliated refiners. Price controls, in effect, cause many of the independents to subsidize the big oil companies.

Price controls also effectively subsidize foreign oil imports. Economist Arnold Safer points out that because of its requirement that refiners of domestic oil pay off refiners of foreign oil, "the entitlements program, in effect, gives any company that imports OPEC oil $2.50 (a barrel) for absolutely nothing." And keep in mind that since the big oil companies conduct most of the overseas oil exploration, they are again the ones being subsidized.

A second failure of federal energy policy is the tax system. U. S. companies doing business abroad -- in energy, that's mainly the big oil companies -- can deduct foreign taxes from their U. S. income tax liability. But in energy the so-called taxes are in effect royalty payments, which other companies would have to count as a regular business expense. Since most overseas exploration is undertaken by the big oil companies, this tax advantage amounts to a subsidy of 1.2 billion dollars a year for Big Oil -- a subsidy that only increases foreign imports.

Yet the administration is pinning its energy hopes on a tax revision that would have an even more devastating effect on domestic energy production and the independents -- the so-called windfall profits tax. And if you think the prospect of the tax has got Big Oil running scared, you'd better look again. It's the independents -- not Big Oil -- who are providing the most intense opposition to the tax.

It's easy to understand why. The windfall profits tax, by taxing domestic oil production at the wellhead, would reach most of the revenues of the independents, but would hardly affect Big Oil, since as much as 85 to 95 per cent of the majors' profits come from overseas operations, which would not be touched by the tax.

By taking such a large fraction of independents' income, the windfall profits tax would greatly reduce their profitability. The independents thus would find it far more difficult to secure financing for their exploratory wells, drastically reducing their oil production; in contrast, the big oil companies, which depend mainly on internal financing and established lines of credit, would not face such difficulties. Moreover, since most independents are taxed as individuals, and not as corporations like the major oil companies are, they are in a higher marginal tax bracket. The windfall profits tax thus would leave independents with only about half as much of each dollar of profits as it would leave Big Oil.

The windfall profits tax also would hurt consumers. One estimate is that it would, by reducing incentive to produce, deprive the U. S. of domestic oil production equal to one sixth of what we now import, which would cost consumers nearly 2 billion dollars for additional imported oil. Further, the tax would divert 35 billion in investments, money we need right here at home, to foreign countries.

Because the tax would take away so much of decontrol's promise of increased domestic supplies, the tax's only effect would be to raise prices to the consumer -- and keep them up. For instance, the House-approved windfall profits tax would add at least 277 billion dollars to the federal treasury over the next decade. That's an added tax of more than 1,000 dollars on every man, woman, and child in America -- and the administration is offering only a few billion dollars in rebates. It is at best hypocritical, and at worst downright deceitful, for an administration that bleats so piously about the alleged windfalls of the oil companies, to keep more than 90 per cent of its tax windfall for its own use.

And what will the government do with the proceeds from this tax on independents and the consumers? For one thing, it is embarking on a massive synthetic fuels scheme that promises to be one of the biggest federal boondoggles in history. Even by the President's own optimistic figures, it would take an investment of 35,000 dollars to produce one barrel of synthetic oil a day. And that oil, once produced, will cost at least twice the price of imported fuel.

But you can throw all your cost estimates out the window if you can't even develop the synthetic fuels. The fact is, no synthetic fuels process in the United States has yet progressed beyond the pilot stage. The President is asking us to stake our entire energy future on a fuel technology that has not even been shown to be commercially viable. In fact, the government's first attempt to build a coal liquefaction plant was stopped precisely because more pilot-plant work was needed.

An all-out push for synfuels also could wreck the environment in the West. Production of synfuels would draw huge amounts of precious water from two of the nation's most water-starved regions -- the Colorado River Basin and the Northern Great Plains. Even <u>using</u> the synfuels may not be safe. Coal-liquids are thought to contain cancer-causing agents, while shale processing would create toxic fumes. And the President's own Council on Environmental Quality warns that synthetic fuels would generate up to twice as much carbon dioxide as do conventional fossil fuels.

Thus, the synfuels program is bound to soak Americans taxpayers for billions of dollars for an unproven technology to produce little fuel at double the cost of current energy, and do great environmental damage in the process. Who would benefit from this scheme? Certainly not the energy consumer, nor the small independent who would be paying the windfall profits tax to finance the synfuels program. No, as in the case of the other federal energy regulations, it is Big Oil which would benefit from synfuels the most. Just listen to the names of some of the companies that own the resources destined to be turned into synfuels: Exxon, Gulf Oil, Conoco, Mobil, Shell, and Texaco. Again, federal policy-makers seek to benefit Big Oil at the expense of the consumer and the independent oil producers.

And to push these synthetic fuels projects through, regardless of their infeasibility, the President plans to create an Energy Mobilization Board, or EMB. But the plan's fundamental flaw -- so obvious that I'm surprised his advisers didn't see it -- is this: if some projects are pushed to the head of the line, then other, perhaps more important, projects will be even further delayed. All the EMB does is rearrange bureaucratic incompetence.

If environmental controls are arbitrarily impeding energy development, they should be eliminated or modified. But the ad hoc approach of the EMB will not solve the problem of project delays. According to John Quarles, former deputy administrator of the Environmental Protection Agency, the Energy Mobilization Board "is a short-term expedient, likely to do little good even in the limited number of cases where it is designed to apply. It leaves the serious and fundamental problems untouched." In fact, the EMB would benefit only the big oil companies, whose resources would be called into use, with federal subsidies, at the expense of the environment.

Another distressing proposal floating around in Washington is that the U. S. should station troops in the Mideast to protect the flow of oil to the West. For example, Defense Secretary Harold Brown has said that "we'll take any action that's appropriate, including the use of military force." Now there may be some conceivable justification for deploying U. S. troops in a genuine emergency, but sending in the Marines just to demonstrate the national macho certainly is not one of them.

Finally, this administration, more than any other, has promoted the idea of mandatory conservation and allocation. Mr. Carter's moralizing aside, these impotent rationing schemes are designed only to "share the shortage," rather than relieve it. Top on Mr. Carter's list is mandatory gasoline rationing. I am totally opposed to this scheme except in times of war or genuine national emergency. At any other time rationing is a cruel hoax on those who live in cities without adequate public transportation, those who live in rural areas, and the poor, who could not afford to pay two or three times the normal cost of gasoline to purchase additional ration coupons in the so-called "white market." These arguments apply just as forcefully to the ridiculous idea of imposing as additional 50-cent or one-dollar tax on every gallon of gasoline, which would provide the government with yet another tax windfall at the consumer's expense.

I disagree even more emphatically with the more restrictive mandatory conservation plans -- such as temperature controls in public or private buildings or requiring people to give up driving one day a week. The reported assertion by Agriculture Secretary Bob Bergland, that farm families should stop their "frivolous" trips to town, is a travesty. The government has no right to exercise such arbitrary controls over its people; it is hardly the place of federal bureaucrats to tell the rest of us what is "frivolous."

That doesn't mean I'm against energy conservation. Not at all. I believe that every energy consumer should use energy wisely, and should not waste it. In this sense, the Carter administration's institution of conservation tax credits for home insulation was a worthwhile innovation, because it leaves the decision as to how to conserve with the individual -- only he knows how and how much he can cut back. And this is the fundamental flaw in all forms of mandatory conservation -- federal bureaucracies in Washington, D. C., cannot intelligently adapt mandatory rules to fit the countless variations in circumstances from Los Angeles to Atlanta, or from Anchorage to New York.

The overwhelming fact is that it is no energy policy simply to say "use less energy." Yes, we can reduce our energy use temporarily through conservation -- Americans have done and are continuing to do just that. But this idea that "the cheapest barrel of oil is the one not used" is pure demagoguery. America did not conserve its way to greatness. And energy is such a vital part of our lifestyle and our economy that permanent payoffs from stringent conservation can be produced only at the expense of the jobs and the standard of living of the millions of Americans who already are struggling to meet their monthly bills. We must not blithely condemn them or their children to this fate permanently through moralistic federal policies. The NAACP has said it best: "...we cannot accept the notion that our people are best served by a policy based upon the inevitability of energy shortage and the need for government to allocate an ever-diminishing supply among competing interests." I wholeheartedly agree.

Where, then, can we turn? If price controls, windfall profits taxes, massive synthetic fuels programs, an Energy Mobilization Board, troops in the Mideast, and mandatory conservation are ineffective and counterproductive, can there be any answers? There certainly can be, and don't let anyone try to tell you otherwise. Not only are there far more <u>effective</u> solutions to the energy problem, there are far more <u>equitable</u> ones as well.

Any fair and useful national energy policy must meet five criteria: First, it must focus on oil and natural gas for the short-term. No other energy source holds out the promise of swiftly providing substantial boosts in energy supplies.

Second, a national energy policy must increase domestic production.

Third, it must offer a broad-based vision. It must provide for effective and safe use of all current energy sources, such as nuclear and coal, as well as the introduction of new energy sources, such as solar power.

Fourth, a national energy policy must ensure competition in the energy market.

Fifth, it must eliminate subsidies to foreign oil imports and foreign oil production.

Current energy policies, as I have stated, fail to meet these criteria. On the whole, they subsidize the big oil companies and foreign oil imports. They discourage the small independents, domestic production, stable prices, and prudent conservation.

The only effective answer is to adopt a Domestic Energy <u>Production</u> Policy, one that will foster competition, encourage domestic production, and discourage foreign oil imports. Greater energy production is necessary to keep our economy growing, and economic growth provides the one hope for ending inflation, for restoring America's strength in the world economy, and for providing jobs and a better standard of living for all our citizens, in particular for the poor and the unemployed.

Though there are a number of actions consonant with a Domestic Energy Production Policy, I will mention what I believe are the seven most important.

First, we must establish within the Antitrust Division of the Justice Department a special Energy Antitrust Unit. It makes no sense for a government to rail against windfall profits if it will not do what is necessary to ensure that there are no monopoly profits. The energy industry is dominated in many ways by the large oil companies. Some of this dominance is the result of efficiency, much of it is the result of perverse federal rules, and some may be a consequence of monopolistic practices.

Unfortunately, it is very difficult to determine which practices, if any, are monopolistic. In establishing a special Energy Unit, I will charge the Justice Department with a specific responsibility to investigate the energy industry. In particular, I will order an immediate and continuing survey of the industry's structure, with special attention to the possible monopolistic effects of vertical and horizontal integration, and of energy companies owning more than one kind of energy source. If the antitrust laws are found to be violated, I will pursue remedial action vigorously. There can be no solution to the energy crisis unless markets are allowed to operate competitively.

This is not to prejudge the issue. Oil companies which exercise substantial market power may or may not be anticompetitive. But we will not know until we undertake a thorough investigation.

Second, we must immediately repeal all federal energy price controls and allocation formulas. According to economists John Cogan and Michael Ward of UCLA, "(t)he least-cost strategy for reducing energy imports dramatically is the complete decontrol of the domestic crude oil and natural gas industries." They point out, for instance, that decontrol, by increasing our domestic energy supply, would produce an additional three-quarters of a million jobs a year.

The effects of decontrol on the energy market are even more dramatic. Charles Phelps and Rodney Smith of the Rand Corporation concluded that decontrol would not raise prices to the consumer because it would merely transfer income from the refineries, most of which are run by Big Oil, to the producers. Even the Carter administration admits that decontrol would add no more than 4 or 5 cents a gallon to gasoline. Moreover, as we become less dependent on OPEC oil through decontrol, prices will stabilize, something they will never do if we continue our dependence on OPEC.

But to soften the impact of any price increase that might occur from decontrol, and of past price increases which have occurred because of OPEC price boosts, I propose the following. Even without the windfall profits tax, decontrol, through higher tax collections from the regular income tax, would provide the federal government with a substantial increase in tax revenue -- one estimate says as much as 173 billion dollars over the next decade. Of course, there is no way to project accurately the amount of the government's tax windfall, but whatever its size, I propose to use this entire sum to provide across-the-board tax rate reductions to individual and business taxpayers, and grants to those who do not pay taxes. We will return all of the government's tax windfall to the people. This program will continue until energy prices begin to stabilize, and additional revenues from decontrol begin to vanish.

Decontrol will also have an important effect on fuel supplies. In the United States, there is as much as 1,000 years of natural gas remaining, and the U. S. Geological Survey estimates that on the Outer Continental Shelf alone, the U. S. oil industry should be able to recover twice as much oil as it has produced in its entire history. The key is providing the incentive to develop these supplies. Decontrol provides that incentive. One estimate, unchallenged by the Department of Energy, is that decontrol would provide an extra 2 million barrels of oil a day by 1985. According to an Interior Department study, deregulation of natural gas would increase production by about 100 per cent in a decade.

Finally, decontrol will increase competition in the energy industry, because its benefits flow mainly to the independents, whose primary source of income is the sale of oil at the wellhead. By strengthening the independents, decontrol will help stabilize prices even more quickly.

Third, we must adopt a tax policy which encourages domestic energy production and conservation. This tax policy should include:

*Elimination of the foreign tax credit for big oil companies, which is a 1.2 billion dollar subsidy to them and to foreign imports.

*Opposition to the windfall profits tax, which is a tax on the independents and the consumer.

*Reductions in the tax on capital, through such methods as accelerated depreciation and further reductions in the capital gains tax. U. S. energy producers need as much as 25 billion dollars in capital in just the next three or four years to finance needed growth of domestic energy sources. Capital expansion is also necessary for conservation, for only by replacing old, fuel-guzzling plants with new, more efficient ones can many industries reduce energy use by a great deal. As Daniel Yergin of the Harvard Energy Project explained, "While low economic growth reduces absolute energy consumption in the short term, it most certainly will slow energy conservation over the longer term by retarding investment in more efficient plants."

Reduced taxes on capital will produce the needed economic growth. We've already witnessed the success of such tax reductions. Within just a few months after the capital gains tax reduction in 1978, venture capital increased <u>tenfold</u>. The main beneficiaries of the lower taxes, it should be noted, were the smaller companies. And even Treasury Secretary G. William Miller admits that accelerated depreciation would spur investment.

*We must also expand conservation tax credits for home insulation. Proper insulation can cut home energy use by as much as 50 per cent; increased tax credits can provide an effective stimulus to this kind of conservation.

The fourth objective in our Domestic Energy Production Policy is this: we must remove unreasonable barriers to energy production and conservation. First, we must accelerate leasing of federal lands for exploration. Fully 60 per cent of all federal lands are now withdrawn from use, including half of all government lands known to contain energy resources. Only five per cent of the Outer Continental Shelf has been leased. William Moffat of the Graduate School of Business at Stanford points out that failing to accelerate offshore leasing could mean giving up 3 million barrels of oil production a day by 1985 -- one third of what we now import. Of course, all leasing must be conducted in a manner which will ensure environmental protection.

Another energy production barrier we must eliminate is unnecessary and unreasonable regulation. We need a thorough review of the entire environmental regulatory system to determine which rules unduly restrict production while providing only minimal protection to the environment. For instance, in the last two decades, more than 30 attempts to build refineries on the East Coast have failed due largely to arbitrary rules.

Such rules also impede conservation. The 1978 National Energy Act specifically prohibits utilities from moving into the home insulation business, a ban which, according to the Harvard Energy Project's Daniel Yergin, "will cost the nation many hundreds of millions of barrels of oil equivalent a year." Cogeneration -- the joint production of heat and electricity -- could save over twenty per cent of industrial energy use, but complex regulations discourage potential industrial cogenerators from attempts to implement this energy-saving technique. Such rules which impede production and conservation must be examined, and if they provide insufficient offsetting benefits, eliminated.

Fifth, we must ensure the safe use of coal and nuclear power. Both these sources hold the promise of significant amounts of energy production, but they are hampered by technological problems -- coal is dirty, nuclear is theoretically dangerous. Fortunately, many of these problems can be overcome; many others, especially the radiation dangers of nuclear power, have been greatly overstated. For these reasons we must use coal and nuclear power to help close our fuel gap. But above all we must employ every effort to ensure that these fuels are used safely.

Sixth, we must eliminate the roadblocks to synthetic fuel development by private firms. We don't need a federal corporation to produce synthetic fuels. Paul Joskow and Robert Pindyck of MIT point out that "as (synthetic fuels) become economical they will be produced by private firms with or without a program of government subsidies." In fact, as of March 1979, private companies were conducting ongoing work on 26 oil shale projects, 30 oil sands projects, and 261 coal projects -- all without a government corporation.

Many of the delays in developing the technology actually have been the result of overly strict federal regulations. For instance, excess regulation reportedly killed three oil shale projects in Colorado, and federal regulatory authorities have hindered the commercialization of synthetic natural gas by refusing to let the producers charge an adequate price. But by allowing private firms to proceed at a reasonable rate, these firms can correct the technological problems of synthetic fuels, and we will be able to introduce synthetics without the environmental damage that would result from an all-out push.

Seventh, we must develop an energy vision for the long term. This vision should include the clean, abundant energy sources such as solar energy, fusion, and hydrogen. Each of these sources is beset by severe technological problems at present, but each offers the hope of unlimited clean fuel. We must eliminate whatever unreasonable barriers to the development of these technologies arise, and support research, where necessary, to move all of these exotic techniques from the drawing board to commercialization.

The policy I have presented tonight -- a Domestic Energy Production Policy -- offers what I believe to be the best hope of providing adequate domestic energy supplies at stable prices now, throughout the rest of the century, and beyond. The policy fulfills the five criteria: it focuses on oil and natural gas for the short term; it increases domestic production; it emphasizes a wide-range of future energy technologies; it ensures competition in the energy market; and it eliminates subsidies to foreign oil imports and foreign oil production. In short, this is an energy policy with which all Americans can live -- and live well.

For this policy is fair and effective. It emphasizes supply rather than sacrifice. And it promises hope rather than despair. Indeed, it provides the kind of energy future we can all look forward to.

But this policy cannot be implemented by one man; it requires your support. For a Domestic Energy Production Policy <u>can</u> be implemented by a nation committed to a bright future, rather than a despondent one.

Let's not make the same mistake we've made in the past -- of calling a war and then not attempting to win it. Our current energy policy is doomed to defeat, and can be sustained only by continued calls to sacrifice, in the face of rising prices and spreading shortages. I don't believe it's time for our national leadership to abdicate on energy when the American people are ready for a bold offensive. They want to win this time, and so do I. So let's <u>win</u> the energy war, return the country to its peacetime prosperity, and turn again to the job of providing hope for our people. Let's <u>end</u> the energy crisis, and work toward providing an energy future we can all look forward to.

Thank you and good night.

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Draft #4
DRAFT NATIONAL ENERGY POLICY SPEECH
Prepared by: Kevin Hopkins and Doug Bandow
This Draft Prepared by: Kevin Hopkins
Policy Development - National Headquarters
January 7, 1980

Ladies and gentlemen.

As we opened the 1970s, few Americans had ever heard of Iran and Afghanistan. As we begin the 1980s, these two countries command our attention in an unprecedented way.

As Americans, we stand united in wanting our people returned unharmed. For the future, we seek ways to prevent the recurrence of such traumatic events. To me, these are today our most important concerns.

There is, however, another concern -- not so obvious, but just as frightening. The instability of many oil country governments, and the aggressive advance of the Soviet military, seriously endanger our Middle Eastern oil supplies. Today, we import nearly half of our oil from foreign countries. We import almost twice as much oil now as we did right before the 1973 embargo. What will happen to those supplies this year or the next cannot be predicted. But at the very least, we begin the 1980s with a new and unpleasant reality: our access to foreign oil depends on developments which we may be unable to control.

A weak and indecisive foreign policy, the product of three years of mismanagement by the Carter administration, has severely limited the actions we can safely take to keep the oil flowing. We must, of course, maintain and expand a constructive influence in the Middle East, but we must realize that the oil flow is not the sure thing it was even a couple of years ago.

Thus, we can no longer afford the luxury of a supposed national energy policy that is no more than the moral equivalent of defeat. Since the Carter administration declared its so-called "war" on energy, fuel prices have more than doubled, oil imports have increased, and domestic energy production has fallen. If this is an energy war, my friends, we are losing.

We are losing because our national policies are misdirected. The issue in the energy crisis is not how to best punish people who use energy; it is not who profits most from the energy crisis; and it is not which exotic fuel source can provide the most energy in a decade or two. The issue in the energy crisis is how to most rapidly, most effectively, and most safely increase our domestic energy supplies now.

Yes, we must be fair. And yes, we must work to develop new fuel sources to eventually ween us from oil. But above all, our energy policy must be judged by one principal criterion: does it increase the U. S. supply of energy.

President Carter evidently does not agree with this goal. In July of last year, he said he opposed exemptions to his oil company tax. But listen carefully to his reason. "The oil companies," he admitted, "will be able to spend these new revenues ... in order to increase the production of oil and gas in our own country." But because the government would receive less in taxes, he labeled the exemptions "a great threat" to his energy program. To Mr. Carter, higher taxes evidently are more important than higher energy production.

This is the fundamental difference in energy policy. The Carter administration does not seriously believe in increased energy production. A Reagan administration will repudiate this policy of despair, and establish in its place a policy of hope.

To the Carter administration, "living with less" seems to be the only way to solve the energy crisis. A Reagan administration will strive, instead, for an optimistic energy future. Our goal will be to ensure America adequate domestic energy supplies at affordable prices.

To make this goal a reality, I will present to you tonight a Domestic Energy Production Policy. I believe production is our most potent weapon in the energy war. But first, I would like to outline where I believe energy policy has gone wrong, and discuss the Carter administration's proposed remedies to these problems.

The energy crisis actually began in 1954 when price controls were imposed on natural gas; it was intensified in 1971 when price controls were imposed on oil. These controls caused a drastic reduction in producers' ability to drill for oil and gas, and in their incentive to develop new energy sources. As a result, oil and gas output in the continental U. S. has declined <u>every year</u> that we have had oil price controls.

Thus, the U. S. was forced by the early 1970s to begin relying heavily on oil imports from OPEC. By 1977, according to a study by two MIT economists, U. S. energy imports were <u>three and one-half times greater</u> than they would have been had there been no federal price controls.

Now, because of our heavy dependence on oil imports, OPEC has the U. S. economy in a vice-grip. It can extract whatever price it wants for its oil; it knows that, because of price controls, we cannot produce enough of our <u>own</u> energy to allow us to say "no" to higher-priced OPEC oil. Even Mr. Carter's former number two energy official, John O'Leary, now admits that the Congress and the Executive branch "have been enormously short-sighted and have placed this country at the mercy of OPEC."

These higher OPEC prices translate directly into higher prices for American consumers. Price controls, for all their supposed value, do not hold down prices. For instance, gasoline prices have nearly tripled since 1973; they climbed 55% in the first half of last year alone -- all this despite the existence of price controls. In fact, by forcing the U. S. to import more oil, the controls could be one of the main causes of much higher oil prices in the future.

Nor have the Department of Energy's allocation rules made the energy crisis any better. The Department even admits that "in almost every case ... regulation has compounded any problem arising" in the energy market.

These allocation rules, in fact, were the primary cause of last spring's gasoline lines. Let me repeat that. By the Department of Energy's own admission, DOE allocation formulas were the main reason we had to sit in those gas lines. James Schlesinger, then the Secretary of Energy, conceded that "There would be no lines if there were no price and allocation controls," because it was these controls, he said, which "put gasoline where the cars are not."

But this shortage has not been DOE's only failure. There's the Strategic Petroleum Reserve Project -- a program to store extra oil in abandoned salt mines to help meet any future oil crisis. The Department of Energy has so badly mishandled this project, that it had to stop it altogether, several months behind schedule and only about a third finished. Among other things, the Department provided no way to pump the oil out once it was pumped into the salt mines.

DOE has also pushed up heating oil prices in the Northeast, by forcing companies to stockpile too much fuel. And by requiring that heating oil and agricultural fuels be kept in storage tanks at refineries, where DOE can keep track of the fuels, rather than distributed to the localities, where the fuels are needed, the DOE could cause local fuel shortages of as much as 21%. These shortages should not be taken lightly. In the winter of 1977, natural gas shortages caused by federal controls forced more than a million workers out of their jobs. These workers lost more than $600 million in wages.

Our national energy record, then, has been dismal. It is almost as if the federal programs had been designed specifically to <u>cause</u> an energy crisis. In fact, if someone had set out to do just that, he could not have come up with a much more destructive set of policies. It's easy to see why this is true. U. S. energy policy has failed precisely because it has subsidized oil imports at the expense of domestic production; it has subsidized OPEC price increases at the expense of stable U. S. prices; and it has subsidized big oil companies at the expense of small independent oil and gas producers. The result has been less energy and higher prices for U. S. consumers.

Simply stated, you get less of what you discourage, and more of what you subsidize. Is it any wonder, then, that energy production in the United States has fallen, when U. S. energy policy has in effect punished domestic production? Or that imports have grown, when those same policies have subsidized foreign imports. Or that the big oil companies have grown more dominant, when energy policies have helped the majors at the expense of the independents?

We need more domestic production, more small independents looking for new sources of fuel, and stable energy prices. We don't need increased dependence on foreign oil and greater control of the energy market by the major oil companies. Any policy which gives us less of what we need, and more of what we don't need, is destructive. After a decade of energy crisis, policies which offer only more of the same will not do.

Yet look at what the Carter administration is proposing -- only more of the same -- more federal agencies, more controls on energy prices and producers, and more mandatory cut backs. In short, more of the same kind of policies which have brought us shortages, high prices, foreign imports, and big oil's dominance of the energy market.

Let me take just a minute to explain the difference between the independent oil producers and the big oil companies. The independents are the oil and gas explorers and producers. They do one job -- they go out and find new oil and gas and produce it. And they do that job well. In fact, the independents drill 90% of all new U. S. exploratory wells.

The big oil companies, on the other hand, are the oil refiners and marketers. They learned a long time ago that it is a lot more profitable for them to refine and market oil that has already been discovered, rather than to look for new sources of oil themselves. The majors do produce about half the oil in the United States, but by and large, they do little exploration here at home. And recently, the big oil companies have begun shifting even more of their oil production activities overseas, too.

The Carter administration's policies will not reverse this trend. Instead, they will benefit the major oil companies at the expense of the independents, and they will encourage more foreign production instead of increased domestic production. The Carter policies threaten to worsen, rather than improve, the energy crisis.

Let's look first at his supposed decontrol of energy. What Mr. Carter has implemented is far short of real decontrol. Oil price controls won't be fully lifted until 1981. But he recently halted part of even this limited process, and has threatened to "punish" the oil industry -- perhaps by reimposing controls -- if Congress does not approve a stiff windfall profits tax. The tax, incidentally, would effectively continue controls, only under a different name. And Mr. Carter actually extended natural gas price controls, and will keep them in force until 1985.

Thus, Mr. Carter will maintain the policies which have been the main reason energy production has declined. Extending these policies will cause production to fall further. Because the price controls apply only to energy produced at the wellhead, they penalize the 10,000 independents who search for oil and gas. But the major oil companies, which can then buy this artificially cheap oil for their refineries, will reap a benefit at the independents' expense. The price controls thus cause many of the independent producers to subsidize the big oil company refiners. Federal energy policy should not subsidize the big oil companies; they should be required to pay the full cost for any oil they use.

Price controls also subsidize foreign oil imports. Because the federal entitlements system requires refiners of domestic oil to pay off refiners of foreign oil, it gives any company that imports OPEC oil $2.50 a barrel for nothing. Federal energy policy thus guarantees foreign imports, regardless of their price, a place in the U. S. market. This only encourages the big oil companies to move their production operations overseas to take advantage of this subsidy. Federal energy policy should not subsidize foreign imports.

But Mr. Carter will only worsen this problem with his so-called windfall profits tax. With Mr. Carter constantly criticizing the oil companies for their profit increases last year, he built up a good deal of support for the tax. But amid all his fiery rhetoric, he forgot to tell us the whole truth.

First, 85 to 95% of many major oil companies' profits -- the profits he was complaining about -- come from overseas. These profits would not be touched by the windfall profits tax.

Second, the tax has nothing at all to do with profits anyway. It is a sales tax on each barrel of oil produced in the United States. In other words, for every barrel of oil a company produces here in the U. S., it has to give the government as much as 75% of its additional income. If the same company produces that barrel of oil overseas, it won't have to pay any additional tax at all. Now just where do you think an oil company is going to produce its oil? Certainly not in the United States. In fact, the tax could divert to foreign countries as much as $35 billion in investment. Energy policy should not unfairly encourage oil investment overseas. What's wrong with keeping that money right here at home to produce oil in the United States?

Even the most optimistic forecasters concede that the tax could reduce domestic oil production by nearly one million barrels per day below what it would be without the tax. Other estimates of lost domestic energy production go much higher. Thus, the so-called tax on profits is actually a tax on energy production.

And, because the tax would so drastically reduce domestic production, its lasting effect would be to raise consumer prices -- and keep them up. The tax bill now in conference committee would add at least $227 billion to the federal treasury over the next decade. That's an added tax of more than $1,000 on every man, woman, and child in America -- and the administration is offering only a few billion dollars in rebates. It is downright deceitful for an administration that bleats so piously about the alleged windfalls of the oil companies, to keep more than 90% of its tax windfall for its own use.

But Mr. Carter has his own plan in mind to use those new tax revenues. He wants to embark on a massive synthetic fuels scheme that promises to be one of the biggest federal boondoggles in history. Even if the fuels can be produced, they could cost twice as much as imported oil.

But you can throw all your cost estimates out the window if you can't even develop the fuels. The fact is, no synthetic fuels process in the United States has yet progressed beyond the pilot stage. The President is asking us to stake our entire energy future on a fuel technology that has not even been shown to be commercially workable. In fact, the government halted its own first attempt to build a coal liquefaction plant precisely because more pilot-plant work was needed.

More important, the government will get the money for its synthetics scheme from the windfall profits tax. Thus, every dollar that goes toward fuels production for a decade or two later, is a dollar taken from oil and gas production now. The Carter plan would cost us production of one million barrels or more of oil today, to give us maybe half that much by 1995.

And who will benefit? Certainly not the energy consumer. Nor the independent producer who would pay the tax. No, as in the case of the other federal energy regulations, the big oil companies would actually benefit the most. Just listen to the names of some of the companies the federal government will likely pay to develop synfuels: Exxon, Gulf Oil, Conoco, Mobil, Shell, and Texaco. Again, federal energy policy would subsidize the big oil companies at the expense of the independents, and would subsidize some theoretical future production at the expense of production right now.

Let me add that I do favor synthetic fuels development. But today, an all-out push could severely damage the environment. Synfuels production would draw huge amounts of precious water from the nation's most water-parched farming and ranching areas in the West. Coal-liquids are thought to cause cancer. And the President's own Council on Environmental Quality has warned that synthetic fuels would produce twice as much carbon dioxide as do current fuels.

These problems can be worked out, but it will take time. In fact, these are among the major problems being attacked by private companies. These firms are now conducting ongoing work on 26 oil shale projects, 30 oil sands projects, and 261 coal projects -- all without the involvement of a federal corporation. I agree with economists Paul Joskow and Robert Pindyck of MIT, who point out that "as (synthetic fuels) become economical they will be produced by private firms with or without a program of government subsidies." We simply do not need an $88-billion federal corporation.

Finally, this administration, more than any other, has promoted the idea of mandatory sacrifice. We have to cut back, the President tells us. "Too many of us now worship self-indulgence and consumption," he lectures us. And besides, he says, we are running out of energy.

I disagree. I don't think struggling to buy enough gas just to get to work is "worshiping self-indulgence." The fact is, Americans, on the whole, do not waste energy. Yes, we use one-third of the world's fuel. But we also produce one-third of the world's products. And as prices have risen, Americans have been uniquely willing to conserve. From 1973 to 1976, U. S. gasoline demand rose at less than half the rate it had in the previous two decades. In 1978, it rose less than in almost <u>every other</u> industrialized country. And in 1979, while the European countries were <u>increasing</u> their oil use by about 3%, Americans <u>reduced</u> their oil consumption by 5%, and their gasoline consumption by 8%. Moreover, the Energy Department admits that American industry uses less fuel now than it did in 1973, even though it produces 12% more products.

Neither are we running out of fuel. The U. S. Geological Survey estimates that on the Outer Continental Shelf alone, the U. S. oil industry can recover twice as much oil as it has produced in its <u>entire history</u>. We have as much as 1,000 years of natural gas remaining in the U. S. And the Harvard Energy Project calls the United States a "Persian Gulf of coal."

Thus, all moralizing aside, Mr. Carter's so-called conservation plans are designed only to further "share the shortage" rather than relieve it. And now he wants to impose gasoline rationing every time we have a 5% oil shortage. I am totally opposed to this scheme except in times of war or genuine national emergency. At any other time, rationing is a cruel hoax on those who live in cities without adequate public transportation, on those who live in rural areas, and on the poor, who could not afford to pay two or three times the normal cost of gasoline to purchase ration coupons in a rationing "white market." For the same reason, I oppose the ridiculous idea of putting a 50¢ or $1 per gallon tax on gasoline. This would only provide the government with another tax windfall at the consumer's expense, without producing a drop of additional energy.

That doesn't mean I'm against conservation. Not at all. All of us should use energy wisely, and government policies can help promote prudent conservation, as I will explain shortly. But the fundamental flaw in Mr. Carter's mandatory sacrifice schemes is that no federal bureaucrary in Washington, D. C., can account for all the countless differences in circumstances from Los Angeles to Atlanta, or from Des Moines to New York.

It is simply no energy policy to just say "use less energy." Yes, we can reduce our energy consumption temporarily through conservation -- Americans have done and are continuing to do just that. But this idea that "the cheapest barrel of oil is the one not used" is pure demogoguery. America did not conserve its way to greatness. And energy is such a vital ingredient in our lifestyle, that we can make drastic, arbitrary cutbacks only if we destroy the jobs and reduce the standard of living of the millions of Americans who are already struggling to meet their monthly bills. We must not blithely condemn them or their children to such a permanent, desperate fate through moralistic federal policies. I think the NAACP has said it best: "...we cannot accept the notion that our people are best served by a policy based upon the inevitability of energy shortage and the need for government to allocate an ever-diminishing supply among competing interests." I wholeheartedly agree.

Only with adequate energy supplies at stable prices can the low- or middle-income citizen afford to travel to work each day to provide an income for his family, can the businessman open up a new factory to provide jobs for the unemployed, or can the farmer sew his grain to provide food for Americans and the world.

Energy is important. And we must produce more of it. It is to this goal -- increasing domestic energy production -- that I will now turn.

Any fair and useful national energy policy must meet four criteria: It must increase domestic energy production. It must focus on our major present sources, oil and gas. It must, however, also be broad-based, to provide for effective and safe use of all current sources, and for introducing new energy sources as they become available. And it must ensure competition in the energy market.

There is an energy policy which will meet these goals. It includes no gimmicks, and there will be few surprises to those who understand our nation's energy needs. When a nation's energy policy has been as badly managed as ours has, it is no time for gimmickry. Energy policy must get back to basics.

Therefore, I propose the following Domestic Energy Production Policy:

First, we must immediately repeal all federal energy price and allocation controls. This action alone could dramatically increase U. S. energy supplies. For instance, one-third of the oil wells in California have been closed down because of the controls; most could be reopened and start pumping again within a short time if the controls were removed. One estimate of the total effect nationwide is that decontrol would increase domestic oil production by 2 million barrels per day by 1985. According to an Interior Department study, deregulation of natural gas could double gas production.

And contrary to Mr. Carter's claims, immediate decontrol would not be costly. According to economists John Cogan and Michael Ward, "the least-cost strategy for reducing imports dramatically is the complete decontrol of the domestic crude oil and natural gas industries." They point out, for example, that decontrol, by increasing our domestic energy supply, would create an additional three-quarters of a million jobs per year.

In fact, decontrol should not even raise consumers' energy prices. Because of OPEC's control over the world energy market, U. S. consumers already pay the world price for the oil products they buy. The only reason gasoline prices in Europe are so much higher than they are in the U. S., for instance, is that European gasoline taxes are as much as ten to fifteen times as high.

Only the big oil companies benefit from price controls, because they can buy the artificially cheap oil for their refineries. Decontrol will transfer income from the big oil company refiners to the independent producers. By strengthening the independents, decontrol will increase competition in the energy industry, and help stabilize energy prices even more quickly.

However, to the extent that either decontrol or OPEC price increases cause real per-unit oil industry revenues -- and hence federal individual and corporate income tax collections -- to increase, I will use the entire amount of additional federal taxes to provide Americans with across-the-board tax rate reductions and proportionate increases in federal assistance payments. The Carter idea of protecting consumers from high energy prices is to impose a $227 billion tax, and then keep 90% of the revenues for government's own use. A Reagan administration will return <u>all</u> of the government's tax windfall to the people. That is <u>real</u> protection against high energy prices.

Second, <u>we must eliminate unreasonable barriers to energy production</u>. There are three major barriers.

The most potentially damaging barrier is the windfall profits tax, which is only a per-barrel tax on domestic production. I will propose its immediate elimination.

Another energy production barrier is restrictive leasing of federal lands. The government prohibits energy exploration on 60% of its lands, and this includes half of all government lands known to contain energy resources. Further, only 5% of the Outer Continental Shelf has been leased. Failing to accelerate this leasing could mean giving up oil production equal to more than one-third of what we now import. I will seek to accelerate leasing, at the same time helping to ensure environmental protection.

A final energy production barrier is unnecessary and unreasonable regulation. We need a thorough review of every environmental rule. I will work to eliminate those rules which unduly restrict production, but provide little real protection to the environment.

Third, <u>we must establish within the Antitrust Division of the Justice Department a special Energy Antitrust Unit</u>. It makes no sense for a government to rail against windfall profits, if it will not do what is necessary to ensure that there <u>are</u> no monopoly profits. The energy industry is dominated in many ways by the large oil companies. Some of this dominance is the result of efficiency, much of it is the result of perverse federal rules, and some may be a consequence of monopolistic practices.

Unfortunately, it is very difficult to determine which practices, if any, are monopolistic. In establishing a special Energy Unit, I will charge the Justice Department with a specific responsibility to investigate the energy industry. In particular, I will order an immediate and continuing survey of the industry's structure, with special attention to the possible monopolistic effects of vertical and horizontal integration, and of oil companies owning more than one kind of energy source. If the antitrust laws are found to be violated, I will vigorously pursue remedial action. There can be no solution to the energy crisis unless markets are allowed to operate competitively.

This is not to prejudge the issue. Oil companies which exercise substantial market power may or may not be anticompetitive. But we will not know until we undertake a thorough investigation.

Fourth, we must ensure the safe use of coal and nuclear power. Both of these sources could add significantly to our domestic energy supplies, for many of their technical problems are either overstated or solvable. My administration will encourage the increased use of both coal and nuclear power. At the same time, I will require that these fuels be used only within strict safety standards.

Fifth, we must establish government policies which will encourage prudent conservation by our citizens. Conservation does not mean just using less energy; it means using energy more efficiently. However, most improvements in energy efficiency require changes in industry or home design which can be made only if the money is available. For instance, many industries can conserve energy only by replacing old, fuel-guzzling plants with new, more energy-efficient ones; but high tax rates make the cost of replacing their plants too expensive. Homeowners can reduce their home energy use by as much as 50% with proper insulation, but again that takes money. To help stimulate these energy-saving improvements, I support reductions in tax rates on capital, and continuation of the tax credit for home insulation.

Unnecessary government rules also impede conservation. For example, the 1978 National Energy Act specifically prohibits utilities from installing home insulation; this ban will cost us many hundreds of millions of barrels of oil per year. Other rules discourage industries from adopting a process known as co-generation, or the joint production of heat and electricity. Yet co-generation could save 20% of the energy that industries now use. As President, I will examine these and similar regulations, and work toward ending those whose primary effect is to impede conservation.

Sixth, <u>we must establish a sound dollar</u>. The previous five steps will greatly reduce our oil imports over the next few years. We must realize, however, that such a striking turnaround in U. S. energy production <u>will</u> take time, and that for the first half of the decade anyway, we will probably still depend somewhat significantly on oil imports. We should do everything we can to ensure the continued flow of that oil.

Some steps I've already mentioned elsewhere. We must rebuild our national defense. We must establish a closer relationship with our nearest neighbors, Canada and Mexico. But we must also re-establish a sound dollar.

The truth is, high energy prices do not cause inflation. Inflation causes high energy prices. In inflated dollars, the world price of oil has nearly doubled in the past five years. Adjusted for inflation, however, the world price of oil in dollars <u>now</u> is virtually the same as it was at the end of 1973. In fact, the dollar price of gold compared to the dollar price of oil is actually <u>less</u> than it was half a decade ago.

All this should come as no surprise. The oil producing countries, like any traders, want something of value in return for their product. As long as our government continues to inflate the dollar, the oil producing countries will raise the price of their oil.

If the U. S. establishes a sound dollar, we will reduce the incentive of these countries to raise the price of their oil. More important, if we are offering them something of value -- a stable dollar -- they will be much less likely to cut off their oil shipments.

To re-establish a sound dollar, I will announce upon my inauguration as President that six months hence, on July 21, 1981, the U. S. will fix the dollar at the price of gold prevailing at that time. The intervening period will allow for economic adjustments to take place. In the months and years following, both the world oil price and supply should be much more stable.

Seventh, <u>we must develop an energy vision for the future</u>. This vision should include the clean, abundant energy sources such as solar energy, fusion, and hydrogen. Though they all face severe technical problems at present, when these problems are overcome, each source will offer the hope of unlimited, clean fuel. I will support, where necessary, research to move all of these exotic techniques from the drawing board to commercialization.

The policy I have presented tonight -- a Domestic Energy Production Policy -- offers what I believe to be the best hope of providing adequate domestic energy supplies at affordable prices now, throughout the rest of the century, and beyond. In this respect, it offers a clear contrast to the Carter administration's policy of "living with less."

As Americans, we now have the ability to determine our energy future. But as I listened the the Carter administration's dire predictions throughout the past three years -- that all we can do is drive less, pay more, tighten belts, turn down our thermostats, and wear cardigan sweaters -- I must confess that I was a bit concerned. And Americans have a right to be concerned when they see their lifestyle and standard of living being so dangerously threatened.

But it does not have to be that way. Rationing is not the wave of the future; it is a decadent remnant of some desperate past. And less is not more, as our national leadership would tell us. Less is less.

We must reverse this philosophy of despair. And I believe the Domestic Energy Production Policy is the way we can do just that. The 1980s can be hopeful. And one of the most cherished goals of the Reagan administration will be to turn that hope into reality. We will be committed to providing the energy necessary to fuel a growing economy, thereby opening up more and better jobs, bringing inflation under control, and increasing the standard of living for all Americans.

I don't believe it's time for our national leadership to give up on energy when the American people are ready for a bold offensive. They want to win this time, and so do I. The good news is that we can win. Let's increase our domestic energy production, end the energy crisis, and work toward providing an energy future we can all look forward to.

Thank you and good night.

Draft #5
NATIONAL ENERGY POLICY SPEECH
Prepared by: Kevin Hopkins and Doug Bandow
Policy Development - National Headquarters
February 11, 1980

What I have to say today involves a somewhat complicated subject. But the problem of energy affects all of us, and if we are to provide genuine answers, we must search beyond simplistic generalities and emotional moralisms.

Unfortunately, the President has not done this. In his State of the Union message last month, Jimmy Carter outlined the two major facets of his national energy policy, neither of which will end the American energy crisis.

First, he told Americans that "an attempt by any outside force to gain control of the Persian Gulf region," upon which the United States, Western Europe, and Japan depend for most of their imported oil, "will be repelled by use of any means necessary, including military force."

Second, he told us that "the American people are making progress in energy conservation....Now we must do more...We must sacrifice" our comfort and our ease.

In short, Jimmy Carter's energy policy is one of threatening war in the Middle East, and threatening war on the American people. But his so-called moral equivalent of war is, in reality, no more than the moral equivalent of surrender.

For instance, just three years ago, the need for the U. S. to send its young men and women into war to protect the Middle East oil lanes was a remote possibility -- an option to be found only in military planners' esoteric war games. Today, it has become America's number one policy refuge -- virtually our last line of defense. And the mere threat that we will "do something" if the Soviets take control of the oil flow is supposed to hold the Russians at bay. But President Carter took great pains in the days following his speech to tell the world that we don't really have the capability to defend the Persian Gulf region after all.

His whimsical war talk is counterbalanced on the other hand by a very serious threat to Americans' personal freedom to travel, their right of privacy, and their ability to work and earn a living. Mr. Carter has long favored gasoline rationing and temperature controls in public buildings. But last week his Energy Department announced a new set of proposals more suited to the Soviet Union the the ~~than the~~ United States. Among other things, the President has standby authority ~~wants~~ to totally ban driving by each family on one to three days per week, to prevent persons from working more than four days per week, and possibly to reduce the national speed limit still further. The Energy Department is now considering additional plans to cut back the school week by one-fifth, and to impose mandatory temperature settings in individuals' private homes.

Now let no one mistake our resolve to strengthen our capability to defend our vital interests abroad. But this President's failure to stimulate domestic energy development, thus making us more dependent upon foreign oil, has made our international position more perilous. And when a President's policies bring us to the point where fighting for our oil is our only choice, that my friends is a sign of national weakness, not of national strength.

And let no one think that Americans condone energy waste. More so that any other industrialized country, the U. S. has conserved its energy in these past few years.

But Mr. Carter's policies are based on the mistaken notion that America is an energy-poor nation. We are not. We are an energy-rich nation. The U. S. Geological Survey -- an agency of the federal government -- says that the oil reserve in Alaska alone is larger than that of Saudi Arabia, and that there is more oil waiting to be drilled on our Outer Continental Shelf than has been produced on land in our nation's entire history. Another government report says that as much as 1,000 years of natural gas is recoverable within our boundaries. And we possess more than one-quarter of the world's coal reserves.

Yet if there is so much energy out there, why is it that since Jimmy Carter became President, fuel prices have more than doubled, oil imports have increased, and continental U. S. oil production has fallen?

The answer is that our national energy policies have been sadly misdirected. And this is where Jimmy ~~Jimmy~~ Carter and I ~~Ronald Reagan~~ differ. The Carter administration does not seriously believe in increased domestic energy production.

If elected, my ~~A Reagan~~ administration will repudiate this policy of despair, and establish in its place a policy of greatly increased national energy self-sufficiency at affordable prices.

To make this goal a reality, I will present to you today a Domestic Energy Production Policy. But first, I would like to outline where I believe energy policy has gone wrong, and discuss the Carter administration's proposed remedies to these problems.

The energy crisis actually began in 1954 when price controls were imposed on natural gas; it was intensified in 1971 when price controls were imposed on oil. These controls caused a drastic reduction in producers' ability to drill for oil and gas, and in their incentive to develop new sources of fuel. As a result, oil and gas output in the continental U. S. has declined <u>every year</u> that we have had oil price controls.

Thus, the U. S. was forced by the early 1970s to begin relying heavily on oil imports from OPEC. By 1977, according to a study by two MIT economists, U. S. energy imports were <u>three and one-half times greater</u> than they would have been had there been no federal price controls.

Now, because of our heavy dependence on oil imports, OPEC has the U. S. economy in a vice-grip. It can extract ~~whatever~~ almost any price it wants for its oil; it knows that, because of price controls and other energy regulations, we cannot produce enough of our <u>own</u> energy to allow us to say "no" to higher-priced OPEC oil. Even Mr. Carter's former number two energy official, John O'Leary, now admits that the Congress and the Executive branch "have been enormously short-sighted and have placed this country at the mercy of OPEC."

These higher OPEC prices translate directly into higher prices for American consumers. Price controls, for all their supposed value, do <u>not</u> hold down prices. For instance, gasoline prices have nearly tripled since 1973, and they climbed 55% in the first half of last year alone. And heating oil prices have soared to over $1.00 per gallon. All this despite the existence of price controls. In fact, by forcing the U. S. to import more oil, the controls could be one of the main causes of much <u>higher</u> oil prices in the future. And these higher prices will make it only <u>more</u> difficult for Americans to drive to work, to heat their homes, or to run a business.

Nor have the Department of Energy's allocation rules made the energy crisis any better. These ~~allocation~~ rules, in fact, were the primary cause of last spring's gasoline lines. James Schlesinger, then the Secretary of Energy, conceded that "there would be no lines if there were no price and allocation controls," because it was these controls, he said, which "put gasoline where the cars are not." ~~hidden costs~~

And because of federal controls and misallocation of fuel, Americans find gasoline stations closed more frequently, restrictions on what days they can buy gas, and spot shortages of heating oil. The ~~time~~ time and effort spent looking for an open station or waiting in a gasoline line, and the discomfort of sitting in an unheated home, are all hidden costs of the regulations which the energy planners in Washington may not recognize.

~~But this shortage has not been DOE's only failure. For instance, the Energy Department has also pushed up heating oil prices in the Northeast, by forcing companies to stockpile an excess of the fuel.~~

Our national energy record~~, then,~~ has been dismal. It is almost as if the federal programs had been designed specifically to cause an energy crisis. In fact, if someone had set out to do just that, he could not have created a much more destructive set of policies.

Then in ~~their~~ ~~price~~ ~~calculations~~ they are very real ~~costs to~~ ~~the rest~~ of us, part of the price the rest of us have to pay.

U. S. energy policy has failed precisely because it has subsidized oil imports at the expense of domestic production; it has subsidized OPEC oil price increases at the expense of stable U. S. prices; and it has subsidized many big oil companies at the expense of small independent oil and gas producers. The result has been less energy at higher prices for U. S. consumers.

Simply stated, you get less of what you discourage, and more of what you subsidize. Is it any wonder, then, that energy production in the United States has fallen, when U. S. energy policy has in effect punished domestic production? Or that imports have grown, when those same policies have subsidized foreign imports. Or that the big oil companies have grown more ~~dominant,~~ prominent, when energy policies have in many ways helped the majors at the expense of the independents?

Yet look at what the Carter administration is proposing -- only more of the same -- more federal agencies, more controls on energy prices and producers, and more mandatory cut backs. In short, more of the <u>same</u> kind of policies which have brought us shortages, high prices, foreign imports, and big oil's ~~dominance of~~ prominence in the energy market.

Let me take just a minute to explain the difference between the independent oil producers and the big oil companies. The independents are the oil and gas <u>explorers</u> and <u>producers</u>. They do one job -- they go out and find new oil and gas and produce it. And they do that job well. In fact, the independents drill 90% of all new U. S. exploratory wells.

The big oil companies, on the other hand, are the oil refiners and marketers. They learned a long time ago that federal regulations make it ~~is~~ a lot more profitable for them to refine and market oil that has already been discovered, rather than to look for new sources of oil themselves. And while ~~The~~ the majors do produce about half the oil in the United States, ~~but~~ the regulations have encouraged them to reduce their production here at home, and ~~have encouraged them~~ to ~~by and large, they do little exploration here at home. And recently, the big oil companies have~~ begin shifting even more of their ~~oil production~~ production activities overseas.

The Carter administration's policies will not reverse this trend. Instead, they will benefit the major oil companies at the expense of consumers and the independent producers, and they will encourage foreign imports instead of increased domestic production.

Let's look first at Mr. Carter's phased decontrol of energy. By telling producers that in two to seven years they will receive a much higher energy price than they do now, Carter encourages producers to maintain their current level of production, instead of expanding it.

And by keeping these controls on for at least the next few years, Mr. Carter is doing the big oil companies a favor. Because the price controls apply only to energy produced at the wellhead, they penalize the 10,000 independents who search for oil and gas. But the major oil companies, which can then buy this artificially cheap oil for their refineries, reap a great benefit. The price controls thus cause many of the independent producers to subsidize the big oil company refiners.

Price controls also subsidize foreign oil imports. Because the federal entitlement~~s system~~ regulations require~~s~~ refiners of domestic oil to pay off refiners of foreign oil, it gives any company that imports OPEC oil $2.50 a barrel for nothing. Federal energy policy thus guarantees foreign imports, regardless of their price, a place in the U. S. market. This ~~only encourages the big oil companies to move their production operations overseas to take advantage of this subsidy.~~ dangerously heightens our dependence on uncertain supplies of foreign oil.

But Mr. Carter will only worsen this problem with his so-called windfall profits tax. With Mr. Carter constantly criticizing the oil companies for their profit increases last year, he built up a good deal of support for the tax. But amid all his fiery rhetoric, he forgot to tell us the whole truth.

First, 85 to 95% of many major oil companies' profits -- the profits he was complaining about -- come from overseas. These profits will not be touched by the windfall profits tax.

Second, the tax has nothing at all to do with profits anyway. It is a sales tax on each barrel of oil produced in the United States. In other words, for every barrel of oil a company produces here in the U. S., it has to give the government as much as 75% of its additional income. If the same company produces that barrel of oil overseas, it won't have to pay any additional tax at all. Now just where do you think an oil company is going to produce its oil? Certainly not in the United States. In fact, the tax could divert to foreign countries enough investment to drill as many as 175,000 oil wells in our own country. What's wrong with keeping that money right here at home to produce oil in the United States?

Even the most optimistic forecasters concede that the tax could reduce domestic oil production by nearly one million barrels per day below what it would be without the tax. Thus, Mr. Carter's tax could deprive the U. S. of enough energy to fuel 17 million cars. And all Mr. Carter can say is that Americans should drive less.

And because the tax would so drastically reduce domestic production, its lasting effect would be to raise consumer prices -- and keep them up. The tax bill would add at least $227 billion to the federal treasury over the next decade. That's an added tax of more than $1,000 on every man, woman, and child in America -- and the administration's plan was to offer only a few billion dollars in rebates. It is downright deceitful for an administration that bleats so piously about the alleged windfalls of the oil companies, to keep more than 90% of its tax windfall for its own use.

But Mr. Carter has his own plan in mind to use those new tax revenues. He wants to embark on a massive synthetic fuels scheme that promises to be one of the biggest federal boondoggles in history. Even if the fuels can be produced, they could cost twice as much as imported oil.

But you can throw all your cost estimates out the window if you can't even develop the fuels. The fact is, no synthetic fuels process in the United States has yet progressed beyond the pilot stage. The President is asking us to stake our entire energy future on a fuel technology that has not even been shown to be commercially workable.

More important, the government will get the money for its synthetics scheme from the windfall profits tax. Thus, every dollar that goes toward fuels production for a decade or two later, is a dollar taken from oil and gas production now. The Carter plan would cost us production of one million barrels or more of oil today, to give us maybe half that much by 1995.

And who will benefit? Certainly not the energy consumer. Nor the independent producer who would pay the tax. No, as in the case of the other federal energy regulations, the big oil companies would actually benefit most from the Carter plan. Just listen to the names of some of the companies the federal government likely will pay to develop synfuels: Exxon, Gulf Oil, Conoco, Mobil, Shell, and Texaco. Again, federal energy policy would subsidize the big oil companies at the expense of the independents, and would subsidize some theoretical future production at the expense of production right now.

Finally, this administration, more than any other, has promoted the idea of mandatory sacrifice. We have to cut back, the President tells us. "Too many of us now worship self-indulgence and consumption."

But is it self-indulgent to struggle to buy enough gas just to get to work, or enough fuel to heat one's home? The fact is, Americans, on the whole, do not waste energy. Yes, we use one-third of the world's fuel. But we also produce one-third of the world's products. And as prices have risen, Americans have been uniquely willing to conserve. In fact, we reduced our oil consumption by 5% last year, and we cut our gasoline consumption by 8%. Moreover, the Energy Department admits that American industry uses less fuel now than it did in 1973, even though it produces 12% more products.

Thus, all moralizing aside, Mr. Carter's so-called conservation plans are designed only to further "share the shortage" rather than relieve it. But it is simply no energy policy to just say "use less energy." Energy is such a vital ingredient in our lifestyle, that we can make drastic, arbitrary cutbacks only if we destroy the jobs and reduce the standard of living of millions of Americans who are already struggling to meet their monthly bills. And it is the poorest Americans who would suffer the most. I think the NAACP has said it best: "...we cannot accept the notion that our people are best served by a policy based upon the inevitability of energy shortage and the need for government to allocate an ever-diminishing supply among competing interests." I wholeheartedly agree.

Only with adequate energy supplies at stable prices can the low- or middle-income citizen afford to travel to work each day to provide an income for his family, can the businessman open up a new factory to provide jobs for the unemployed, or can the farmer sew his grain to provide food for Americans and the world. Energy <u>is</u> important. And we must produce more of it. It is to this goal -- increasing domestic energy production -- that I will now turn.

Any fair and useful national energy policy must meet four criteria: It must increase domestic energy production. It must <u>focus</u>

on our major present sources, oil and gas. It must, however, also be flexible, to provide for effective and safe use of all current sources, and for introducing new energy sources as they become available. And it must ensure competition in the energy market.

There is an energy policy which will meet these goals. It includes no gimmicks, and there will be few surprises to those who understand our nation's energy needs. When a nation's energy policy has been as badly managed as ours has, it is no time for gimmickry. Energy policy must get back to basics.

Therefore, I propose the following Domestic Energy Production Policy:

First, we must immediately repeal all federal energy price and allocation controls. This action alone could dramatically increase U. S. energy supplies by the equivalent of several million barrels of oil per day. ~~For instance, one-third of the oil wells in California have been closed down because of the controls; most could be reopened and start pumping again within a short time if the controls were removed.~~

And contrary to popular belief, ~~Mr. Carter's claims,~~ immediate decontrol need ~~would~~ not be costly. ~~Because of OPEC's chokehold over the world energy market, U. S. consumers already pay the world price for gasoline and heating oil.~~ our prices will increase along with OPEC's, regardless. In fact, Decontrol's ~~will only~~ main effect will be to transfer income from the big oil company refiners, who benefit from the artificially low crude oil prices, to the independent producers. By strengthening the ~~independents,~~ producers, decontrol will increase both production competition in the energy industry, and thus help stabilize energy prices even more quickly.

However, to the extent that either decontrol or OPEC price increases cause real per-unit oil industry revenues -- and hence

Even the Carter administration admits that decontrol will cost only about 4 cents a gallon. One ~~study at the~~ Rand Corporation study concludes that there will be no price increase unique to decontrol -- that

~~federal individual and corporate income tax collections -- to increase, I will use the entire amount of additional federal taxes to provide Americans with across-the-board tax rate reductions and proportionate increases in federal assistance payments. The Carter idea of protecting consumers from high energy prices is to impose a $227 billion tax, and then keep the revenues for government's own use. A Reagan administration will return all of the government's tax windfall to the people. That is real protection against high energy prices.~~

~~Elim. Dept. of Energy (defense related)~~

Second, we must eliminate unreasonable barriers to energy production. ~~There are three major barriers.~~ The most potentially damaging ~~barrier~~ barrier is the proposed new windfall tax on oil production. ~~This tax should not be approved.~~ ~~I will propose its immediate elimination.~~ I firmly oppose it, because it will reduce American energy production still further

Another energy production barrier is restrictive leasing of federal lands. The government prohibits energy exploration on 60% of its lands, and this includes half of all government lands known to contain energy resources. Further only 3% of the Outer Continental Shelf has been leased. Failing to accelerate this leasing could mean giving up oil production equal to more than one-third of what we now import. And the Carter administration has closed off from exploration more than 250,000 square miles of land in Alaska, which otherwise could be used to triple Alaskan oil production. I will seek to accelerate leasing, while at the same time striking a fair balance with environmental needs.

A final energy production barrier is unnecessary and unreasonable regulation. We need a thorough review of every environmental rule. I will work to eliminate those rules which unduly restrict production, but provide little real protection to

Third, we must dismantle the Department of Energy, transferring worthwhile ~~programs~~ functions to other federal agencies. ~~The Department's budget is~~ ~~The taxes we pay to run the Department amounts to a 10¢ tax on each gallon of gasoline.~~ We simply do not need a ~~massive~~ multi ~~$10~~ billion dollar energy bureaucracy. ~~budget,~~ ~~and~~ Its continued existence only increases the ~~likelihood~~ opportunity for destructive interference in the energy market. The Department's own Office of Competition, justified ~~the Departm~~ DOE's elimination when it warned that "in almost every case... regulation has compounded any problem arising" ~~from~~ in the ~~imperfect~~ market. ~~structures.~~

competition

diligently preserve ~~competition in the energy~~ market

~~T~~ Fourth, we must ~~establish a Special Energy Investigator. It makes~~ ~~XXXXXXXXXfXXXx~~
~~xxxkxx no sense for a government to rail against windfall profits, if it will not do what is necessary to ensure that there are no monopoly profits. And~~ It is a basic fact of economics that competitive markets will produce more oil at a lower price than will ~~tightly controlled markets.~~ noncompetitive ones.

~~The energy market is xdominated in many ways by the large oil companies. Some of this dominance is the result of efficiency, much the result of counterproductive federal rules, and some perhaps of anti-competitive practices. We need to determine which practices, if any, are anti-competitive, and which federal rules, whether related directly to energy companies or not, impair competition in the energy maxrket.~~

~~I will charge the Special Energy Investigator with a specific responsibility for examining both the energy xxxxgyxxxx industry and federal rules which xfaffect it. In particular, I will order an immediate~~

I will, therefore, order an immediate review of all federal rules which affect the energy industry, to determine any anti-competitive effects. And I will instruct the Antitrust Division of the Justice Department to maintain a continuing survey of the industry's structure, with special attention to ~~the~~ possible ~~monopolistic~~ anti-competitive practices. ~~If competition is impaired~~ ~~affects of vertical and horizxontal integration, and of oil compxanies owning more than one kind of energy source. If the antitrust laws are found to be violated, xxxifxxxxxcompetitionxis~~ In cases where competition is impaired, I will vigorously pursue corrective action.

~~This is not to prejudge the issue. Oil companies which exercise substantial market power may or may not be anti-competitive. But we will not know unkless we maintain a continuing survey.~~

INA CORPORATION

INSURANCE COMPANY OF NORTH AMERICA
LIFE INSURANCE COMPANY OF NORTH AMERICA
PACIFIC EMPLOYERS GROUP

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SAMBO'S RESTAURANTS, INC.

LOSS ANALYSIS for PERIOD Jan 01, 1979 to Jan 01, 1980 EVALUATION as of Aug 01, 1979

NAME NOT ON FILE

WORKERS' COMPENSATION ACCOUNT

CLAIMANT AND ACCIDENT DESCRIPTION	FILE NUMBER STATE COV. RES DATE OF LOSS	PAID LOSSES	PAID ALLOCATED LOSS EXPENSE	NET OUTSTANDING LOSS RESERVE	INCURRED LOSSES	STATUS
GOODBRED,Dominie CLEANING DEEP FAT FRYER GREASE BURON ON LOWER LEG	002 187756A NY COMP R/S Mar 24, 79	436.02		145.98	582.00	
GOODBRED,Dominie CLEANING DEEP FAT FRYER GREASE BURON ON LOWER LEG	002 187756B NY MED. R/S Mar 24, 79	1,934.50		1,565.50	3,500.00	
TOTAL FOR CLAIM	002 187756 NY R/S Mar 24, 79	2,370.52		1,711.48	4,082.00	

SUMMARY

LINE OF BUSINESS	CLAIM COUNT	PAID LOSSES	PAID ALLOCATED LOSS EXPENSE	NET OUTSTANDING LOSS RESERVE	INCURRED LOSSES
Workers Compensation Reserve Claims	1	2,370.52		1,711.48	4,082.00
TOTAL	1	2,370.52		1,711.48	4,082.00

18282

the environment.

~~Third, we must establish a Special Energy Investigator. It makes no sense for a government to rail against windfall profits, if it will not do what is necessary to ensure that there are no monopoly profits. The energy industry is dominated in many ways by the large oil companies. Some of this dominance is the result of efficiency, much the result of perverse federal rules, and perhaps some of monopolistic practices.~~

Better off w/ competition

~~Unfortunately, it is very difficult to determine which practices, if any, are monopolistic, and which federal rules are anti-competitive. I will charge the Special Energy Investigator with a specific responsibility for examining the energy industry. In particular, I will order an immediate and continuing survey of the industry's structure, with special attention to the possible monopolistic effects of vertical and horizontal integration, and of oil companies owning more than one kind of energy source. If the antitrust laws are suspected of being violated, or if new competition laws are required, I will vigorously pursue corrective action. There can be no solution to the energy crisis unless markets are allowed to operate competitively.~~

~~This is not to prejudge the issue. Oil companies which exercise substantial market power may or may not be anticompetitive. But we will not know until we undertake a thorough investigation.~~

Expand operator safety

~~Fourth~~, we must ensure the safe use of coal and nuclear power. Both of these sources could add significantly to our domestic energy supplies. ~~for many of their technical problems are either overstated or solvable. My administration will encourage the increased use of both coal and nuclear power. At the same time, I will require that~~

Revised Issue Statement
January 21, 1980
Washington, D.C.

~~COAL~~

The fundamental question on coal as an energy source is how the utilization of coal can be expanded while preserving the ~~environment~~. for instance, Coal ~~reserves~~ comprises about 80 percent of U.S. ~~domestic energy~~ fossil fuel reserves ~~resources, yet coal~~ but currently supplies only 19 percent of the nation's energy needs. ~~At current consumption rates, the nation has enough coal to last about 300 years.~~

While increased use of coal is in the national interest, so too is public health. The biggest problem with coal is that it is environmentally "dirty". We should not minimize this problem, but neither should we allow it to prevent the use of coal from helping to close the energy gap. Several techniques exist for cleaning coal, the most common of which are "scrubbers". One promising area for additional research is fluidized bed combustion, which could possibly clean coal more effectively and economically than scrubbers.

Moreover, we must examine the barriers and deterrents to coal production: federal unwillingness to lease land (at least 60 percent of all Western coal lies on federal lands, development on which is frequently prohibited); over-regulation of industry; and further tinkering with environmental standards.

The most serious problems for producing and using more coal are solvable.

We can help expand coal production and use through more sensible regulatory ~~leasing and environmental policies~~, and research into clean-burning techniques ~~methods, such as fluidized bed~~ ~~Since coal's most serious~~ ~~We~~ We should not permit overly restrictive regulations to deny us this potentially significant energy resource.

Neither should we allow the Clamshell Alliances of the nation to cripple our nuclear power ~~power~~ industry. Nationally, about 13% of our electricity comes from ~~ele~~ nuclear power, and in New England, 35% of the electricity is nuclear-generated. To arbitrarily close down current plants or halt development of new ones would be to condemn ~~New Englanders~~ many thousands of ~~persons~~ people, especially in New England, to ~~industrial~~ disruption of their lives and jobs.

At the same time, we must ensure that nuclear plants operate within strict safety standards, and that means effective, continuous monitoring of conditions in all plants. Three Mile Island taught us that ~~to remain alert,~~ at the very least, alertness requires that plant personnel ~~to their length of shifts be limi~~ have limited duty hours and sufficient down-time between shifts.

~~these fuels be used only within strict safety standards.~~

~~Fifth~~ Sixth, we must establish government policies which will encourage prudent conservation by our citizens. Conservation does not mean just using less energy; it means using energy more efficiently. However, most improvements in energy efficiency require changes in industry or home design which can be made only if the money is available. For instance, many industries can conserve energy only by replacing old, fuel-guzzling plants with new, more energy-efficient ones; but high tax rates make the cost of replacing their plants too expensive. Homeowners can reduce their home energy use by as much as 50% with proper insulation, but again that takes money. To help stimulate these energy-saving improvements, I support reductions in tax rates on capital, and continuation of the tax credit for home insulation.

Unnecessary government rules also impede conservation. For example, the 1978 National Energy Act specifically prohibits utilities from installing home insulation; this ban will cost us many hundreds of millions of barrels of oil per year. Other rules discourage industries from adopting a process known as co-generation, or the joint production of heat and electricity. Yet co-generation could save 20% of the energy that industries now use. As President, I will examine these and similar regulations, and work toward ending those whose primary effect is to impede conservation.

~~Sixth~~ Seventh, we must establish a sound dollar. The previous five steps will greatly reduce our oil imports over the next few years. We must realize, however, that such a striking turnaround in U. S. energy production will take time, and that for the first half of the decade anyway, we will probably still depend somewhat significantly on oil imports. We should do everything we can to ensure the continued flow of that oil.

Some steps I've already mentioned elsewhere. We must rebuild our national defense. We must establish a closer relationship with our nearest neighbors, Canada and Mexico. But we must also re-establish a sound dollar.

The truth is, high energy prices do not cause inflation. Inflation causes high energy prices. In inflated dollars, the world price of oil has nearly doubled in the past five years. Adjusted for inflation, however, the world price of oil in dollars now is virtually the same as it was at the end of 1973. In fact, the dollar price of gold compared to the dollar price of oil is actually less than it was half a decade ago.

~~All~~ This should come as no surprise. The oil producing countries, like any traders, want something of value in return for their product. As long as our government continues to inflate the dollar, the oil producing countries will raise the price of their oil.

If the U. S. establishes a sound dollar, we will reduce the incentive of these countries to raise the price of their oil. More important, if we are offering them something of value -- a stable dollar -- they will be much less likely to cut off their oil shipments.

Eighth
~~Seventh~~, we must develop an energy vision for the future.

This vision should include the clean, abundant energy sources such as
solar-powered electric plants, Any of these sources ~~could~~ ~~and~~ provide
~~solar energy,~~ fusion, and hydrogen. ~~Though they all face severe~~
America with virtually unlimited energy, and that's a prospect we can all look forward to
~~technical problems at present, when these problems are overcome, each~~
We must first, however, solve the many technical problems which make ~~these~~ each source Therefore
~~source will offer the hope of unlimited, clean fuel.~~ I will, support
~~fuel sources~~ either uneconomic or infeasible at present. ~~while~~

~~Looking forward to the future~~

research to move all of these exotic techniques from the drawing board to commercialization. The sooner they become ~~both~~ technologically feasible and economic, the better off all of us will be

The policy I have presented tonight -- a Domestic Energy Production Policy -- offers what I believe to be the best hope of providing adequate domestic energy supplies at affordable prices now, throughout the rest of the century, and beyond. In this respect, it offers a clear contrast to the Carter administration's policy of "living with less."

We now have the ability to determine our energy future. But as I have listened to the Carter administration's dire predictions throughout the past three years -- that all we can do is drive less, pay more, tighten belts, turn down our thermostats, and wear cardigan sweaters -- I must confess that I have been concerned. And Americans have a right to be concerned when they see their lifestyle and standard of living being so dangerously threatened.

But it does not have to be that way. Rationing is not the wave of the future; it is a decadent remnant of some desperate past. And less is not more, as our national leadership would tell us. Less is less.

We must reverse this philosophy of despair. And I believe the Domestic Energy Production Policy is the way we can do just that. The 1980s can be hopeful. And one of the most cherished goals of the ~~Reagan~~ my administration will be to turn that hope into reality. We will be committed to providing the energy necessary to fuel a growing economy, thereby opening up more and better jobs, bringing inflation under control, and increasing the standard of living for all Americans.

I don't believe it's time for our national leadership to give up on energy when the American people are ready for a bold offensive.

They want to win this time, and so do I. The good news is that we <ins>can</ins> win. Let's <ins>increase</ins> our domestic energy production, <ins>end</ins> the energy crisis, and work toward providing an energy future we can all look forward to.

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