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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 than the United States. Among other things, the President 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 <u>more</u> perilous. And when a President's policies bring us to the point where fighting for our oil is our <u>only</u> 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 Carter and Ronald Reagan differ. The Carter administration does not seriously believe in increased domestic energy production. A Reagan administration will repudiate this policy of despair, and establish in its place a policy of 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 every year 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 three and one-half times greater 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 own 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, 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 higher oil prices in the future. And these higher prices will make it only more 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."

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.

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 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, when energy policies have 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 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.

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 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.

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. 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 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 Mr. Carter's claims, immediate decontrol 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. Decontrol will only 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, 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 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.

Second, we must eliminate unreasonable barriers to energy production. There are three major barriers.

The most potentially damaging barrier is the new tax on oil 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 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 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.

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.

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, 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 <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.

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 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."

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 <u>can</u> 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 <u>can</u> win. Let's <u>increase</u> our domestic energy production, <u>end</u> the energy crisis, and work toward providing an energy future we can all look forward to.

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Draft #6
NATIONAL ENERGY POLICY SPEECH
Prepared by: Kevin Hopkins and Doug Bandow
Policy Development - National Headquarters
February 15, 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,~~ January, 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 ~~two~~ several weeks ago, his Energy Department announced a new set of proposals more suited to the Soviet Union than the United States. Among other things, the President has standby authority 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 <u>more</u> perilous. And when a President's policies bring us to the point where fighting for our oil is our <u>only</u> 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. There is more oil left in current wells than has yet been taken from them; and ~~The U. S. Geological Survey -- an agency of the federal government -- says that the oil reserve in Alaska alone is potentially as large as 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. There is also ~~Another government study says that as much as 1,000 years of~~ hundreds of years' worth of natural gas and geopressurized methane ~~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 Carter and I differ. The Carter administration does not seriously believe in increased domestic energy production. If elected, my 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 every year 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 three and one-half times greater 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 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 own 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, 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 higher oil prices in the future. And these higher prices will make it only more 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 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."

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 and fuel spent looking for an open gas station or waiting in a gasoline line, and the discomfort of sitting in an unheated home, are all hidden costs of the regulations. And while the energy planners in Washington may not recognize them, they are a very real part of the price the rest of us have to pay.

In sum, then, our national energy record 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.

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 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 cutbacks. In short, more of the <u>same</u> kind of policies which have brought us shortages, high prices, foreign oil imports, and big oil's prominence in the energy market.

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The big oil companies, on the other hand, are mainly the oil refiners and marketers. They learned a long time ago that federal regulations make it 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 majors do produce about half the oil in the United States, the regulations have encouraged them to reduce their production here at home, and to begin shifting even more of their 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 levels of production, instead of expanding them.

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 regulations require refiners of domestic oil to pay off refiners of foreign oil, they give any company that imports OPEC oil $2.50 a barrel for nothing. Federal energy policy thus guarantees foreign imports, regardless of their price, an increased place in the U. S. market. This 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%~~ 70% 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~~ several hundred thousand 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~~ more than 10 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 when passed on to consumers at the pump, the tax
~~-- and the administration's plan was to offer only a few~~
could raise gasoline prices as much as another 30¢ per gallon.
~~billion dollars in rebates. It is downright deceitful~~
~~It is deceitful for Carter to bleat~~ ~~energy shortages~~
~~for an administration that bleats so piously about the alleged~~
~~and high fuel prices, and then to claim that 75% approval of a~~
~~windfalls of the oil companies, to keep more than 90% of its~~
~~tax which will increase both the the shortage of~~
~~tax windfall for its own use.~~

Perhaps Carter is so happy because the tax will provide the ~~federal~~
~~But Mr. Carter has his own plan in mind to use those new~~
government with truly windfall revenues -- which he can then use to ~~[illegible]~~ fund more
~~tax revenues. He~~ wants to embark on a massive synthetic fuels production
special-interest spending programs while still pretending to balance the budget. For instance, he
scheme that promises to be one of the biggest federal boondoggles in history. Even if the fuels can be produced, they could cost

Yet when the tax was approved, a jubilant Carter proclaimed, "This is good news for the country and, I think, good news for the world." Any President who ~~[illegible]~~ believes ~~who are so distorted as to think~~ that greater shortages and higher fuel prices ~~are "good" for our people~~ must have a terribly distorted sense of values and deserves to be replaced.

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, since 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 perhaps one million barrels or more of oil this decade, ~~today,~~ to give us maybe half that much ~~by 1995.~~ in the next decade.

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, American~~ President Carter evidently ~~must~~ thinks so, because he has imposed a new gasoline tax. ~~Not only will the tax raise gasoline price~~ He says this 10 cents per gallon tax ~~is supposed to~~ will cure inflation, which is ~~a rather~~ strange from a man who has said all along ~~that~~ that ~~inflation~~ is caused by high energy prices. Not only that, but the tax is

structured so that oil companies are penalized if they produce gasoline. Thus, Carter's answer to gasoline shortages is still less gasoline.

because there are to be a [illegible] political packaging [illegible]

~~They~~

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, then, Mr. Carter's so-called conservation plans are designed only to further "share the shortage," and sometimes even increase it, rather than relieve it. ~~But~~ yet it is simply no energy policy to just say "use less energy." The fact is, Americans ~~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~~ ~~[illegible]~~ million barrels of oil per day.

And contrary to popular belief, immediate decontrol need not be expensive. Even the Carter administration has admitted that decontrol will cost only about 4 cents a gallon. And one Rand Corporation study concluded that there will be no price increase unique to decontrol -- that our prices will continue increasing right along with OPEC's, regardless of whether we decontrol, until we start producing more of our own energy.

In fact, decontrol's main distributional 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 producers, decontrol will increase both production and competition in the energy industry, and thus help stabilize energy prices even more quickly.

Second, we must eliminate unreasonable barriers to energy production. The most ~~potentially~~ damaging barrier is the ~~proposed~~ new windfall tax on oil production. ~~I firmly oppose it, because it will only reduce American energy production still further.~~ It should be repealed. At the very least, the tax should be removed for independent producers, and there should be no tax on oil company funds plowed back into energy exploration and production. If we intend to increase energy production, it makes no sense to arbitrarily tax away the funds ~~needed~~ necessary for that purpose.

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%~~ 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. 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 the environment.

Third, we must dismantle the Department of Energy, transferring worthwhile functions to other federal agencies. We simply do not need a $10-billion energy bureaucracy. Its continued existence only increases the opportunity for destructive interference in the energy market. The Department's own Office of Competition justified DOE's elimination when it warned that "in almost every case...regulation has compounded any problem arising" in the market.

Fourth, we must diligently work to preserve energy market competition. It is a basic fact of economics that competitive markets will produce more oil at a lower price than will noncompetitive ones.

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 Justice Department to maintain a continuing survey of the industry's structure, with special attention to possible anti-competitive practices. In cases where competition is impaired, I will vigorously pursue corrective action.

Fifth, we must ensure the safe use of coal and nuclear power. Both of these sources could add significantly to our domestic energy supplies. For instance, coal comprises about 80% of U. S. fossil fuel reserves, but currently supplies only 19% of our nation's energy needs. We can help expand coal production and use through more sensible regulatory policies, and research into clean-burning techniques. We should not permit overly restrictive regulations to deny us this potentially significant energy source.

~~no "Small is Beautiful" activists~~

Neither should we allow the ~~Clamshell Alliances~~ no-growth advocates of the nation to cripple our nuclear power industry. Nationally, about 13% of our electricity comes from nuclear power, and in some areas, such as New England, ~~35%~~ more than one-third of the electricity is nuclear-generated. To arbitrarily close down current plants or halt development of new ones would be to condemn many thousands of people~~, especially in New England,~~ to 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 at the very least, alertness requires that plant personnel have limited duty hours and sufficient down-time between shifts.

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.

Seventh, we must establish a sound dollar. The previous six 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 significantl 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.

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 their oil production.

Eight, we must develop an energy vision for the future. This vision should include the clean, abundant energy sources such as solar-powered electric plants, fusion, and hydrogen. Any of these sources could provide America with virtually unlimited energy, and that's a prospect we can all look forward to. We must first, however, solve the many technical problems which make each source either uneconomic or infeasible at present. I will therefore support 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 <u>can</u> be hopeful. And one of the most cherished goals of 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 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.

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Draft National Energy Policy Speech
SAMPLE QUESTIONS AND MODEL ANSWERS
Prepared by: Kevin Hopkins
Policy Development - National Headquarters
January 7, 1980

Decontrol
1. Prices to the Consumer
2. Inflation
3. Reimposition of Controls
4. New Oil

Windfall Profits Tax
5. Tax on Consumer
6. Phaseout
7. Return to People
8. Department Stores
9. Exemption for Independents
10. Plowback

Tax Policy
11. Fuel Cost Aid
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13. Gasoline Tax
14. Other Conservation Credits
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Conservation
16. Short-Term Solution
17. Oil Cutoff

Competition
18. Oil Industry
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20. More Agencies
21. Justice Department Failures
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Foreign Oil
25. Import Quotas
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Miscellaneous
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1. <u>Decontrol -- Prices to the Consumer</u>

Q. Since decontrol raises prices at the wellhead to the world price, how can you contend that it will not raise prices to the consumer?

A. As I noted, consumers already pay the world price for refined oil products such as gasoline and heating oil. As it is now, refiners who purchase price-controlled crude oil receive a subsidy, because they can "buy low and sell high." That is, they can buy oil at an artificially cheap price, but then sell it as refined products at the world price.

Decontrol will eliminate this subsidy, so that all refiners will have to pay the world price for the crude they use. But since refined products are traded relatively freely throughout the world, any attempt by U. S. refiners to raise the price of their products above the world price likely would bring into the U. S. an influx of cheaper foreign refined products, forcing U. S. refiners to return to the world price.

Thus, U. S. refiners would have to absorb the increased costs of crude, and could not pass them on to U. S. consumers. Hence, decontrol would not raise consumer prices.

2. Decontrol -- Inflation

Q. If decontrol does raise prices, won't that run counter to your goal of curbing inflation?

A. First, there is no consensus that decontrol would raise consumer prices; as I noted, most likely it won't. In fact, because decontrol will reduce our need for oil imports, it would tend to stabilize prices, rather than increase them.

Besides, high prices do not cause inflation; they are a result of inflation. Inflation stems primarily from the money supply growing faster than the economy's productivity. Decontrol has nothing at all to do with this.

3. Decontrol -- Reimposition of Controls

Q. If decontrol raises prices but does not significantly increase supplies, would you support a reimposition of price controls?

A. No. Whatever the supply situation is under decontrol, it would be much worse with price controls. But if the Energy Antitrust Unit were to find evidence of monopolistic practices by the oil companies which were thwarting the effect of price decontrol, then I would pursue action vigorously to eliminate these practices.

4. <u>Decontrol -- New Oil</u>

Q. Why not decontrol just new oil?

A. Costs of producing old oil are going up, too. Price controls on old oil thus may prevent much of that oil from being pumped out once it is discovered.

But more important, having price controls on old oil and not on new oil drives a wedge between the two. If the profit margin on new oil were greater than for old oil, many of the oil companies would invest in and produce new oil regardless of the cost of producing old oil. The problem is, much of that new production may well come from overseas. So price controls on just old oil still would encourage foreign oil production at the expense of domestic old oil production.

5. <u>Windfall Profits Tax -- Tax on Consumer</u>

Q. You call the windfall profits tax a tax on the consumer. Yet even without the tax, won't the consumers be paying the same price? And at least with the tax, is it not true that the consumers, through their elected representatives, get to spend the money, whereas they have no voice in oil company spending decisions?

A. The windfall profits tax is a tax on consumers because it deprives the U. S. of as many as one million barrels or more of oil each day -- oil that would be produced here if there were no tax. Reducing domestic production will increase our demand for foreign imports, thereby driving up OPEC's oil prices. The extra money consumers have to pay would not go to reinvestment and increased domestic production, but only to the OPEC and U. S. government treasuries. That, by any reasonable definition, is a tax. It's just hidden, that's all.

But more important, the question presupposes that government is better able to spend the fruits of private risk-taking than is the risk-taker. That logic could be applied to any industry. The price to the consumer would be the same regardless of whether a private firm kept its profit, or the government taxed the profit away. The difference is, in the latter case, the next time around there would be no firm to tax. While the government may have the right to impose a reasonable tax on a firm's profit, it has no more right to expropriate that profit, which is a result of risk-taking investment, than it would have to expropriate the interest from personal savings accounts.

6. <u>Windfall Profits Tax -- Phaseout</u>

Q. The Senate windfall profits tax bill provides for a phaseout of the windfall profits tax. Isn't that sufficient to allay your fears that the tax would be made permanent?

A. Hardly. Let me remind you first that the Federal Energy Office was originally created as a temporary agency, and now, seven years later, it has grown into the $11-billion, 20,000-employee Department of Energy. There is no assurance that even a tax specifically designed to be temporary would ever be eliminated, especially when Congress finds out how magical a "money machine" it would be.

In fact, the Senate bill's provision for phaseout provides little assurance that the tax would be eliminated. The bill says the tax will be phased out when net receipts reach 90 per cent of their projected levels. If the tax severely impedes domestic production -- and there is every likelihood that it would -- then the tax may not raise the expected revenue until well beyond the expected 1990, if then. All the while, the production disincentives of the windfall profits tax would continue unabated.

7. Windfall Profits Tax -- Return to People

Q. The Senate windfall profits tax bill provides various types of tax credits, and establishes a Taxpayer Trust Fund and a Trust Fund for rebates to the poor? Isn't this returning the money to the people?

A. No, it is not. Many of the tax credits are of such limited application -- the one for wood stoves comes to mind -- that they will benefit only those few with houses having easily convertible heating systems, or those wealthy enough to pay for the cost of conversion not covered by the credit. Even the Congressional Budget Office says the credits will benefit mainly the middle- and upper-income households, so certainly a large segment of the population would be excluded.[1]

The Low Income Assistance Trust Fund is just a grab bag for doling out tax money at the whim of the Congress. And the so-called Taxpayer Trust Fund is specifically to be held in reserve for when the the government needs extra revenue for supposedly tax relief schemes that are often politically motivated.

Besides, all these programs will suffer from the federal government's extracting its administrative expenses first, which could reduce dramatically the amount actually returned.

How much better to return all of any tax windfall resulting from decontrol or higher world prices, directly back to all the people in the form of tax rate reductions and increased assistance payments.

1. CONGRESSIONAL BUDGET OFFICE, THE WINDFALL PROFITS TAX: A COMPARATIVE ANALYSIS OF TWO BILLS, November 1979, pp. 60-61.

8. <u>Windfall Profits Tax -- Department Stores</u>

Q. How can you ensure that oil companies will not just spend their windfall buying department stores?

A. Oil companies have historically reinvested about 93 per cent of their earnings in petroleum-related areas.[1] There is no reason to expect that percentage to fall under decontrol. In fact, since decontrol increases the profitability of producing oil, it is likely that oil companies would reinvest even more of their profit in exploration and development.

1. Rep. Dan Marriott, Weekly Column, July 2, 1979, p. 2.

9. Windfall Profits Tax -- Exemption for Independents

Q. Would you support a windfall profits tax if it included an exemption for the independents?

A. No, I would not. Once the tax were approved, it would likely become a permanent part of the tax system. When a future Congress is strapped for revenue, one of the easiest -- and least politically offensive -- actions it could take would be to close the exemption for the independents -- by then it will be called a "tax loophole" -- and keep it closed. The independents realize this, and may well keep production at the level they would operate if they already were subject to the tax. At the very least, they likely would not engage in any long-term drilling projects that might suffer heavily if the exemption were eventually closed.

Of course, even with the exemption, the windfall profits tax still would inhibit domestic production, it still would be a tax on the consumer, and it still would encourage foreign oil production. Remember, the big oil companies could escape the tax. All they would have to do is reduce drilling in the United States and increase their foreign operations. That is not going to help the U. S. energy shortage.

Finally, there's the exemption in the Senate bill for the first 1,000 barrels of oil per day produced by independents. As of now, this will cover most of the independents. In the future, though, their capacity to produce may well increase, but there would be a terribly strong incentive for them to limit the output of their wells to qualify for the exemption. And limiting domestic oil production is no way to solve the energy crisis either.

10. Windfall Profits Tax -- Plowback

Q. Would you support a windfall profits tax with a plowback provision?

A. No, I would not. Once the tax were approved, it likely would become a permanent part of the tax system. When a future Congress is strapped for revenue, one of the easiest -- and least politically offensive -- actions it could take would be to close the exemption for reinvestment in domestic production -- by then you'll hear it called a "tax loophole" -- and keep it closed. Thus, you would have a full-blown windfall profits tax, with all its disincentive effects.

With the plowback provision, however, the windfall profits tax may become even more slanted toward the big oil companies than it already would be without the provision. Of course, all the majors would have to do to avoid the tax is shift their investment overseas. If the big oil companies wanted to make non-oil investments, they could do so out of their foreign profits which would not be touched by the tax. Even domestically, they could easily alter their balance sheets: just reinvest all retained earnings in exploration -- they already reinvest 93 per cent anyway[1] -- and escape the tax, but use capital from their loan proceeds to make non-oil investments.

But the plowback actually could hurt the independents, since they depend on individual investors for most of their capital.[2] If investors see that they may be subject to the windfall profits tax if one year they decide not to reinvest their earnings in oil, they may well not invest in oil in the first place. A lot of the independents' sources of capital would dry up.

Finally, I don't like the idea of the federal government telling private companies where to invest their money. It sets a very dangerous precedent. If the government can tell the oil industry where to invest its money, then why not steel, or automobiles, or any other industry? Karl Marx would have loved that idea.

1. Rep. Dan Marriott, weekly column, July 2, 1979, p. 2.

2. Jude Wanniski (President, Polyconomics, Inc.), "Why Big Oil Is Caving In," WALL STREET JOURNAL, June 18, 1979.

11. Tax Policy -- Fuel Cost Aid

Q. Do you favor special aid packages to help the poor meet the high cost of energy?

A. Rising fuel bills are a burden on all Americans, especially the poor and the elderly. I support increases in current federal assistance payments to help these people meet their higher fuel costs. This can best be accomplished by raising the cost of living adjustments in current programs to reflect the significance of energy in recipients' overall cost of living.

As I noted, I will dedicate all increases in federal tax collections resulting from real per-unit increases in oil company revenues to helping alleviate the impact of higher fuel costs. One part of that return of money to the people involves just such increases in assistance payments.

12. Tax Policy -- Return of Additional Taxes

Q. Just what does your program to return taxes to the people involve and how long will you keep it in effect?

A. Oil company revenues over the next few years could increase for two reasons -- decontrol, which is unlikely to increase revenues, and increases in world oil prices, which probably will increase oil company revenues. On these increased revenues, the oil companies will pay increased federal taxes. After adjusting such tax collections for inflation, there will be an amount left over -- how much will depend on the inflation rate and the amount of increase in world oil prices -- which will represent a real increase in federal tax collections. This entire amount will be returned to the people through across-the-board tax rate reductions and proportional increases in assistance payments.

Oil company revenues, of course, may also increase because the oil industry produces more domestic oil. Additional tax collections from this source of revenue will not be counted except to the extent that oil prices increase faster than the inflation rate.

I would keep the tax return program in effect at least throughout my first term.

13. <u>Tax Policy -- Gasoline Tax</u>

Q. Just why do you oppose a 50¢ per gallon gasoline tax?

A. I believe that rapidly rising prices are one of the most devastating effects of the energy crisis. Yet the stated purpose of the gasoline tax is to raise those prices still further to force people to sacrifice even more. It does not make any sense for the government to mandate significantly higher prices <u>now</u> in order to achieve some theoretical price advantage a long time in the future.

Of course, people should conserve, and as I pointed out, they are doing just that. But there is widespread doubt among economists that higher taxes would substantially reduce consumption too much further -- certainly not enough to compensate for the economic loss to the poor and urban dwellers who have no choice but to drive, and to the economy as a whole. Europe has gasoline taxes ranging up to $1.50 and more, yet their oil use <u>increased</u> by 3% last year, while oil use in the U. S. <u>fell</u> by 8%. Granted, the Europeans start from a lower level of consumption, but they live on average closer to their work, have more developed mass transit systems, and a lower standard of living.

Finally, the gas tax would do nothing to increase domestic energy production, and thus would not help solve our long-term energy crisis. It would only institutionalize high gasoline prices, and provide the government with an unearned $50 billion per year tax windfall.

14. Tax Policy -- Other Conservation Credits

Q. If you support a tax credit for insulation, what about tax credits for heat pumps, coal furnaces, wood stoves, and the like?

A. Home insulation is a certain energy-saver because it reduces the absolute need for heat -- that is, for the output of an energy process. But the tax credits you mention -- those in the Senate windfall profits tax bill -- subsidize different energy-producing technologies -- that is, the input of the heating process. The absolute heat requirement for a house would be unchanged; it would just be produced by a different source. And I'm not convinced that these other input technologies would be that much more energy efficient.

Moreover, increasing insulation is something virtually every homeowner can do to improve his home's energy efficiency, so the tax credit is equitable. But only a limited number of people have homes which are easily converted from their current method of heating to, say, wood-burning stoves. The tax thus would be a subsidy to only those few fortunate enough to own such a house, or those wealthy enough to have the cash on hand to pay for that part of the heating-system overhaul not covered by the tax credit.

15. Tax Policy -- Production Credits

Q. Would you support production tax credits, such as for synthetic fuels?

A. No, I would not support production tax credits. As the two MIT professor point out, when the technology is ready, private producers will develop it, regardless of the existence of a federal program. And if the federal production credits artificially speed production before the technology is ready -- which is likely, given the purpose of the credits is to speed production beyond what the private companies at present consider is reasonable -- then you likely would face all the environmental problems I mentioned.

Besides, as I indicated, big oil companies would be doing most of the production of synthetic fuels, and so would be receiving most of the tax credits. I do not think it is fair for taxpayers to subsidize the big oil companies for things the oil companies already are doing with their own money. It is at best hypocritical for an administration that bleats so piously about the so-called windfall profits of the big oil companies to offer these same companies an outright federal subsidy.

16. Conservation -- Short-Term Solution

Q. You have ridiculed conservation, but some authorities, including the Harvard Energy Project -- contend that conservation is the only short-term policy that can forestall energy shortages. If you don't force conservation, what would you do?

A. First, let me note that I don't agree that conservation is the only short-term answer to energy shortages. For instance, as of May 1979, about a third of the oil wells in California were closed down because the Department of Energy could not calculate the proper gravity differential on which to base the oil price. But the independents in California say that more than three-fifths of the closed-down wells -- 15,000 out of the 23,000 that have been closed -- quickly could be redrilled or fixed if only DOE price regulations were eliminated.[1] So the market can respond quickly.

But with regard to conservation, let me emphasize that I am wholeheartedly in favor of conservation. I believe people should use energy wisely, and should not waste it. But the individual should be the one to make the choice, according to how and how much he can afford to cut back. There is no way mandatory government restraints on energy use, such as gasoline rationing, can possibly account for individual circumstances, such as the inner city worker who has to drive 50 miles a day to a suburban job. Mandatory federal restraints, by their very nature, will be arbitrary, and thus can be quite harmful.

Also, if markets are allowed to properly function, prices will adjust to supply and people will eliminate their least necessary uses of energy, according to how they can best do so. And people do conserve. As I said, gasoline demand rose half as fast from 1973 to 1976 -- after the significant gasoline price increases began -- as it had in the two previous decades.[2] And since 1974, industry has become 10 to 15 per cent more energy-efficient.[3]

Finally, as the Harvard Energy Project notes, some government policies actually inhibit conservation. Among those I mentioned were tax structures which discourage investment, the 1978 National Energy Act's ban on more utilities getting into the insulation business, and the complex rules which discourage industrial cogeneration. Eliminating or modifying some of these barriers also could speed conservation.

1. WALL STREET JOURNAL, May 16, 1979, p. 20.

2. Paul McCracken (former Chairman, Council of Economic Advisers), WALL STREET JOURNAL, May 16, 1977.

3. Unnamed DOE official quoted in WALL STREET JOURNAL, January 17, 1979.

17. <u>Conservation -- Oil Cutoff</u>

Q. If there is another oil cutoff, would you not need to allocate the scarce supplies?

A. No. If the price system is allowed to work, people would cut back their consumption to the extent they could, and would do so automatically as the price rose. It is better to have nearly adequate supplies at higher prices, than to have significantly insufficient supplies at a price almost equally as high. Yet this is what we saw last spring. Allocation controls prevented neither shortages nor higher prices. In fact, they were an important <u>cause</u> of the shortages.

But look at how well in contrast the price system would handle an oil cutoff. Take a particular example: the Arab oil embargo of 1967. This embargo did not get the headlines that the 1973 embargo received. One of the reasons was that the price of oil was free to rise. During the Arab-Israeli war, the Arabs embargoed Europe. Some oil destined for the U. S. was shifted to Europe in response to the higher price, and consequently the price in the U. S. rose. The result? The market cleared with a lower supply. No shortages, no lines.[1]

1. David Henderson (Assistant Professor of Economics, University of Rochester), "Government Intervention In Energy: Savior or Villain?" THE LIBERTARIAN REVIEW, July/August 1979, p. 19.

18. <u>Competition -- Oil Industry</u>

Q. Is the oil industry competitive?

A. My impression is that the industry is at least fairly competitive. But that's the purpose of the Energy Antitrust Unit -- to determine <u>how</u> competitive the industry is, and then to take swift and effective action to correct any anticompetitive practices in violation of the antitrust laws.

19. Competition -- Too Much Profit

Q. Are the big oil companies making too much profit?

A. Saying a company is reaping "excess profits" is equivalent to saying that a worker is making "excess wages" -- neither concept makes sense because there is no fixed standard for profits or wages. The fact is, of course, that the oil industry's profit margin on sales is not exceptional. In fact, for 1977, 1978, and the most recent quarter of 1979, oil's profits as a percentage of sales have been below the average for all manufacturing.[1]

The one instance when "excess profits" has any meaning at all is when these profits are earned through monopolistic or anticompetitive practices in violation of the antitrust laws. That's the purpose of the new Energy Antitrust Unit -- to focus efforts to determine whether the major oil companies are violating the antitrust laws or if new antitrust standards are required. If in either case the Energy Antitrust Unit's answer is affirmative, I will take swift and forceful action. It is crucial that energy markets be allowed to operate competitively.

1. "Embarrassment of Riches," TIME, November 5, 1979, p. 36.

20. <u>Competition -- More Agencies</u>

Q. You say more agencies are no answer to the energy crisis, yet isn't your Energy Antitrust Unit just another agency?

A. No. Creation of an Energy Antitrust Unit involves simply an internal reorganization of the Justice Department's Antitrust Division, to establish a specific line of authority for monitoring competition in the energy industry. The Energy Antitrust Unit is not another superstructure agency like the Department of Energy, or an independent agency like the recently-approved Energy Mobilization Board. Rather, the Energy Antitrust Unit would be similar in form to the current Consumer Affairs Section of the Justice Department's Antitrust Division.

21. Competition -- Justice Department Failures

Q. Can you cite instances where the Justice Department has not been able to adequately prosecute energy antitrust cases, and where your Energy Antitrust Unit would be able to do a better job?

A. The point is, we do not at present have a continuing survey of oil industry structure, a specific mechanism to produce the facts about any potential monopolistic practices in the energy industry, or an antitrust unit with sole responsibility for prosecuting cases in the energy industry.

The Energy Antitrust Unit would do two things. First, it would make more effective any ongoing or future Justice Department investigation of the energy industry, by centering such functions in a single entity. Second, it would help cut through the muddle and confusion to provide reliable data so the public would know what really is taking place in the energy industry.

22. Competition -- New Laws

Q. If current antitrust laws prove insufficient to preserve competition in the energy industry, would you support enactment of additional antitrust laws?

A. I will support new antitrust laws if I feel they are justified on the basis of evidence produced by the new Energy Antitrust Unit. In fact, one of the special strengths of the Unit is that it will provide ongoing investigations of the energy industry's structure, so that we will be rapidly notified of the emergence of any monopolistic practices. We can more easily correct these problems -- either administratively or legislatively -- if we do so early, rather than if we allow them to fester.

23. <u>Competition -- Merger Ban</u>

Q. Do you support Sen. Kennedy's measure to ban oil company acquisitions of firms with assets over $100 million?

A. No, I don't. The $100 million figure is purely arbitrary, and that's a very poor way to make policy. If bans on mergers are undertaken, they must be done so on a specific finding of fact that such mergers truly have monopolistic effects. The purpose of the new Energy Antitrust Unit would be to determine just those facts.

24. <u>Competition -- Divestiture</u>

Q. Would you break up the big oil companies, or divest them of non-oil holdings?

A. I can't rule either action in or out. The important factor is that neither action -- nor any similar one -- be undertaken arbitrarily and without the support of facts. That's the purpose of the Energy Antitrust Unit -- to secure the facts upon which to base a fair and reasoned decision in these matters.

25. Foreign Oil -- Import Quotas

Q. If you oppose foreign oil imports, then why would you not support the Carter administration's oil import quota?

A. The oil import quota is, in effect, just another form of mandatory conservation. What we have now is a government bleating about the admittedly damaging consequences of energy shortages, and then threatening to actually aggravate the shortage by refusing to let Americans purchase the necessary foreign oil. In fact, as long as price controls remain on domestic oil, the shortage would worsen, since oil import quotas would do absolutely nothing to spur domestic production.

But if you have the Carter "decontrol" plan, then by 1985, according to a Library of Congress study,[1] the oil import quota could cost U. S. consumers more than $100 billion due to prices artificially inflated by the quota.

Government policies which are designed specifically to produce shortages and artificially raise prices to the consumer -- which is what the oil import quota will do -- are the last kind of energy program this country needs. For these reasons, I oppose the oil import quota.

1. Library of Congress report, July 16, 1979, cited in SEN. PAUL LAXALT, CURRENT ENERGY LESISLATION, November 1979.

26. Foreign Oil -- Investment

Q. If you oppose investment by the majors in foreign oil, why not just prohibit their investment in foreign exploration?

A. I don't oppose investment in foreign oil exploration per se. What I do oppose are federal energy policies which subsidize foreign oil exploration at the expense of domestic production. There are, for example, the proposed windfall profits tax and the disincentive effect of price controls, which I mentioned. Another example: while the federal government is holding down domestic oil prices, it has loaned money -- at half the prime interest rate -- to Venezuela, an OPEC member. That money is being used to finance oil exploration in Venezuela. Such subsidies of foreign oil exploration are bad enough in themselves, but in the context of growing U. S. dependence on foreign oil imports, they only accelerate this trend and should be eliminated.

27. Foreign Oil -- Import Fee

Q. Since you disapprove of foreign imports, would you favor an oil import fee to discourage such imports?

A. Until we are able to become energy self-sufficient, we will retain a very real need for foreign oil imports. The question we must ask of the import fee is whether it will increase domestic production. Because the fee will raise the price at which domestic crude will sell, it may have somewhat of a production incentive. However, that incentive is likely to be substantially more than offset by one of two factors. If the fee permits refiners to raise their refined product price above the world level, then prices to consumers are going to rise significantly -- up to $2.5 billion per year[1] for every $1/barrel import fee imposed. That's going to be a drag on the economy, and reduce all productivity, including that of the energy industry.

More likely, the refiners won't be able to pass along the increased cost of their crude, since consumers already pay the world price for refined products. This means the refiners are going to get sqeezed, and many may have to close or reduce their production. Thus, we will either have shortages, or will become dependent on imports of refined products, neither of which is a desirable alternative.

Therefore, I oppose the oil import fee.

1. $1/barrel equals approximately $0.02½ cents/gallon. This amounts to a tax per gallon on refined products. Even if only gasoline were affected, a 1¢ increase in the gasoline tax increases costs about $1 billion. Since all product prices would be affected, the $2.5 billion figure is a conservative estimate.

28. <u>Miscellaneous -- Department of Energy</u>

Q. Would you eliminate the Department of Energy?

A. Yes. Any worthwhile functions in the agency should be returned to other federal departments.

29. Miscellaneous -- Leasing

Q. You favor accelerated leasing of federal lands. Are you willing to override environmental protections and risk another oil spill similar to that off the coast of Santa Barbara?

A. Of course, we don't want another oil spill such as that, but it is important to remember that oil spills can be caused by an accident involving the collision of an oil tanker carrying imported oil, too.

The point is, there are some environmental rules which are very necessary to the protection of the environment, and certain ones prescribing proper procedures for offshore drilling may well be among them. But the entire energy-environment interface is so complex that we must undertake a thorough review of all environmental rules, rather than make ad hoc judgments on one or two of them out of context and without due scientific consideration.

When we do so, we'll find that some requirements should be maintained as is, and that the application of others should be narrowed. Small facilities probably should be exempted from all but the most limited review. And duplicate review should be eliminated where it is not essential.
By striking a fair balance between energy and the environment, we can ensure adequate production of the former, and sufficient protection of the latter.