U.S. Treasury Dept.

Press Releases.

Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE January 3, 1974

TREASURY'S 52-WEEK BILL OFFERING

The Treasury Department, by this public notice, invites tenders for $1,800,000,000, or thereabouts, of 364-day Treasury bills for cash and in exchange for Treasury bills maturing January 15, 1974, in the amount of $1,803,975,000. The bills of this series will be dated January 15, 1974, and will mature January 14, 1975, (CUSIP No. 912793 VF0).

The bills will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Wednesday, January 9, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

(OVER)

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 15, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 15, 1974. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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AGENDA FOR PRESS CONFERENCE
December 27, 1973

1. Review of weekly situation report, including discussion of the revised energy shortfall forecast (Petroleum Situation Report, Dec. 14 - E-73-36)

2. Talking Points, Strategies and Gasoline Rationing

3. Gasoline coupon Rationing (Fact Sheet - E-73-37)

4. Domestic airlines (Press release E-73-38)

5. Status of regulations (Press release E-73-39)

6. Coal switching (Press release E-73-40)

7. Tankers for New England (Press release E-73-41) (Talking Points)

8. Energy conservation

   a) TV Public Service Spots (Press release E-73-42)

   b) Chamber of Commerce Campaign (Press release E-73-43)

   c) Voluntary driving restrictions by high school students (Press release E-73-44)

9. Key energy legislation needed (Press release E-73-45)

10. Talking Points, Impact of Doubling Crude Oil Price

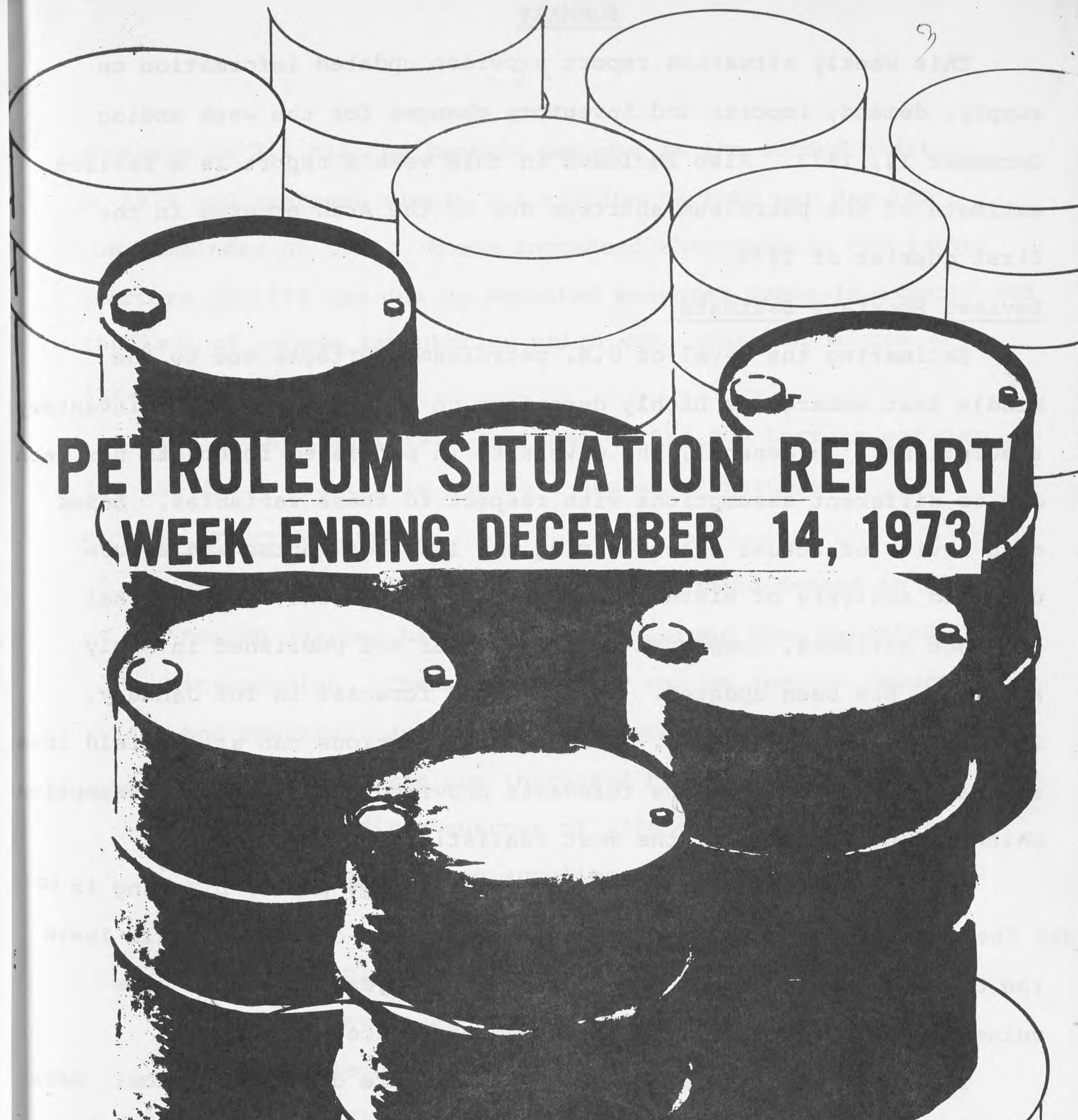
11. Economic Advisory Group appointed (Press release E-73-48)

12. Last week Press Conference follow-ups (Press release E-73-46)

   a) Iranian oil

   b) IRS sweep

   c) Additional material on 10-gallon request and Bureau of Census Report (Press release E-73-47)



PETROLEUM SITUATION REPORT
WEEK ENDING DECEMBER 14, 1973

E-73-36

FEDERAL ENERGY OFFICE

SUMMARY

This weekly situation report provides updated information on supply, demand, imports and inventory changes for the week ending December 14, 1973. Also included in this week's report is a revised estimate of the petroleum shortage due to the Arab embargo in the first quarter of 1974.

Revised Shortage Estimate

Estimating the level of U.S. petroleum shortages due to the Middle East embargo is highly dependent on supply, demand and inventory assumptions. In general, the diversity in published forecasts has been due to different assumptions with respect to these variables. Based on a review of actual events during the last two months and a more detailed analysis of historic inventory fluctuations, the original shortage estimate, completed in mid-October and published in early November, has been updated. This revised forecast is for January, February and March of 1974. Different assumptions can still yield lowe shortage estimates, but the forecasts provided below utilize assumptio which FEO believes to be the most realistic.

The responsible approach to national energy policy planning is to use the worst, but still realistic impact; to do otherwise could leave the U.S. with lower inventories later in the year and hence more vulnerable to unexpectedly high demand or reduced imports.

The results of FEO's revised forecasts are discussed below. More detailed, product by product estimates for all of 1974 and complete documentation of these forecasts will be published within a week.

The revised estimated first quarter petroleum shortage is 2.72 million barrels per day (13.6% of demand), as compared to 3.27 million barrels per day (16.3% of demand) estimated previously. It should be noted that with a continued embargo, the forecasted c

shortage is 3.1 million barrels per day in the second quarter of 1974 and averages almost 3.2 million barrels per day for the remainder of 1974. These increased shortages in the latter quarters of 1974 are due to expected seasonal drops in imports and the lack of excess inventories which were consumed in the first quarter of 1974.

The reduced shortfall estimate of 550,000 barrels per day for the first quarter is due to a number of factors.

FACTORS AFFECTING SUPPLY

- Higher than expected imports and reduced demand in the fourth quarter have resulted in larger than expected inventories. These inventories can be used to reduce the shortfall during the first quarter of next year.
- Estimated imports are increased by 180,000 barrels per day for the first quarter of 1974 to account for greater than expected foreign supplies, primarily from Venezuela.
- Greater supplies are available for consumption if inventory levels are allowed to drop to the minimum operating levels cited by the National Petroleum Council (NPC). The old forecast assumed higher inventory levels.

FACTORS AFFECTING DEMAND

Total unconstrained demand has also been recalculated using more sophisticated estimating techniques. While individual product demands show significant changes, the aggregate demand estimate remains substantially unchanged from previous figures. This demand is that which would have occurred without an embargo and does not reflect possible continuation of abnormally warm weather, conservation actions by the public, or the possible dampening effect of more rapidly rising prices. To the extent they occur, these actions would reduce the estimated petroleum shortage. The impact of demand changes are reflected in Table III, which estimates the effect of FEO's policies on expected demand.

Tables I and II summarize the original forecast and the revised estimate discussed above. Also shown is a third, more optimistic, forecast with a significantly smaller shortfall. This estimate was obtained by assuming:

- additional imports of 500,000 barrels per day
- inventory drawdowns to 5% below NPC minimum inventory levels.

The net effect of these conditions is a shortfall of 1.9 million barrels per day for the first quarter. For the next two quarters of the year, the shortfall rises to approximately 2.6 million barrels per day. The rapid rise in the shortfall is due

TABLE I

U.S. SUPPLY AND DEMAND FOR PETROLEUM PRODUCTS FOR THE FIRST QUARTER OF 1974

(thousand barrels per day)

	Original Forecast	Revised Forecast		Estimate with Increased Imports and Inventory Drawdowns	
Demand	19,966	20,006	New estimations by product - more detailed analysis	20,006	Assumed unchanged, could be reduced by conservation, weather or increased prices
Supply From domestic sources	11,216	11,186	Minor Accounting Changes	11,186	
From imports	4,755	4,932	Higher import from Carribean, based on 4th Quarter results	5,432	Imports assumed 500,000 B/D higher, they would be higher with less effective embargo.
Change in inventories	724	1,167	Higher starting inventories and inventory drawdowns to NPC minimums *	1,455	Ending inventories 5% below NPC estimated minimum
Demand/Supply Deficit (As percent of total)	3271 (16.4%)	2,721 (13.6%)		1,933 (9.6%)	

* Original forecast assumed historical levels.

TABLE II

REVISED FIRST QUARTER SHORTAGE ESTIMATES

Product	Original Forecast		Revised Estimate		Shortage Assuming Increased Imports & Inventory Draw Down	
	(000 B/D)	% demand	(000 B/D)	% demand	(000 B/D)	% demand
Gasoline	700	11%	760	11%	516	7.7%
Jet fuel	400	32%	340	-	291	-
(Kero)			(150)	(15%)	(112)	(11.9%)
(Naptha)			(190)	(52%)	(179)	(49.4%)
Distillate	900	19%	340	8%	201	4.7%
Residual	860	24%	810	23%	598	16.8%
Other	410	10%	470	11%	327	7.1%
TOTAL	3,270	16.3%	2,720	13.6%	1,933	9.6%

to our inability to continue using inventories at the same rate as in the first quarter and expected seasonal reductions in import levels. Also, the estimates do not take account of major actions which may be needed to deal with the shortages after the first quarter. Reductions in demand due to the effects of higher prices, favorable weather conditions, or unexpected conservation actions could reduce the shortfall even further.

In developing programs to deal with the shortage, the worst, but still realistic impact must be used. While inventory drawdowns and more imports might significantly reduce the expected shortfall, contingency planning should not be based on an optimistic scenario. Further, using the more optimistic estimate would leave our inventories at lower levels later in the year and hence the U.S. would be more vulnerable to unexpectedly high demand or further decreases in imports. Consequently, the shortage estimate of 2.7 million B/D is being used by FEO in planning its allocation and mandatory conservation actions.

The shortage estimate of 2.7 million barrels per day, and the changes in individual product shortages, necessitate revision of some FEO proposed programs to meet the shortfall. Allocation regulations, mandatory conservation and refinery product shifts are still needed, but the magnitude of the reductions and shifts must be modified. Table III summarizes the revisions contemplated at this time. The following changes are needed:

Table III

SHORTFALLS AND STRATEGIES, FIRST QUARTER 1974
(Quantities in thousands of barrels per day)

Product	Gross Shortage: Thous. Bbls. per Day	Gross Shortage: Percent of Unconstrained Demand	Actions Taken or Announced: Action	Actions Taken or Announced: Fuel Saving	Shift in Refinery Output[1]	Net Shortage	Potential Actions
Kerosene Jet Fuel	154	15%	Reducing airline usage to 95% of 1972 levels. (Allocation Regulations)	200	-50	--	--
Naptha Jet Fuel	187	52	--	--	187	--	--
Gasoline	759	11	15% reduction in usage (Allocation Regulations) 55 m.p.h. speed limit, Sunday[2] station closings	900 (200)	-487	346	Draw down inventories 15% below historical averages; price increase tax increase, or coupon rationing
Distillate Fuel Oils	339	8	Reduction of 6° in residential and 10° in commercial heating (Allocation Regulations)	500	-161	--	--
Residual Fuel Oil	812	23	Oil to coal switch in some power plants wheeling, base loading 6°/10° heating reduction (Allocation Regulations) Daylight Savings Time	100 100 125 50	437	--	Excessive use taxes on electricity, natural gas
Other Petroleum Products	470	11	Petrochemical feedstocks receive 100% of current needs, remaining petroleum products are allocated available supplies.	396	74	--	--
TOTAL	2,721	14		2,399	--	346	--

[1]Cost of Living Council regulations published December 4 encourage refinery shift; projected shifts remain to be validated.
[2]Actions taken to restrict demand, but impact is subsumed in supply restriction through allocation program.

- A refinery shift of 460,000 barrels per day from gasoline to other products is required, rather than the 700,000 originally estimated.
- More fuel can be allocated to commercial aviation, thereby reducing commercial flight cutbacks (a 5% reduction below 1972 use will now be required).

Several major programs still remain unchanged and are critically important.

- The forecasted distillate shortage requires an allocation program to provide fuel consistent with 6° and 10° temperature reductions in homes and commercial establishments, respectively.
- The major shortfall in residual oil still requires switching powerplants from oil to coal and implementing many electricity conservation measures, including Daylight Savings Time, industry energy audits and conservation, and reduced residential electricity usage
- After the refinery shift from gasoline to other products, the gasoline shortfall of 1.2 million barrels per day will still require major actions, including reduced allocations, mandatory conservation, and possibly rationing or other stringent actions.

RESULTS FOR WEEK ENDING DECEMBER 14

Table IV summarizes the latest data on supplies, demand, imports and inventory changes for the week ending December 14, 1973. The table shows the latest week, and the latest month. While the weekly statistics are the most recent, the monthly average may be more meaningful because it is not as susceptable to major random fluctuations. As indicated in the tables:

- Consumption is 600,000 barrels per day below forecast for the current week and 900,000 B/D below for the last four weeks.
- Imports for the week are still 400,000 barrels per day above the average expected for the quarter, and 600,000 barrels per day above the forecast for the latest month.

The consumption estimates presented are really apparent demand,not actual demand. These estimates are withdrawals from primary stocks (those held by the refiners) and hence they may not truly represent actual demand, particularly on a weekly basis where movements into secondary stocks or other actions may be reflected in the statistics. Also due to logistical considerations, actual demand reductions may take time to be reflected in changes in the apparent demand numbers presented. Unfortunately, national demand changes cannot be accurately measured on a weekly basis. To do so would require a much larger

TABLE IV

ENERGY SCORECARD

ESTIMATED SHORTAGES	
Last Quarter 1973:	1.4 million B/D*
First Quarter 1974:	2.7 million B/D

*Not Reestimated

CONSUMPTION RESULTS[1/] (MILLION/BARREL/DAY)

	Forecasted	Actual	Savings
Week ending Dec. 14:	18.6	18.0	.6
Month ending Dec. 14:	18.6	17.7	.9

IMPORT RESULTS (MILLION BARRELS/DAY)

	Forecasted	Actual	Increased Imports
Week ending Dec. 14:	5.6	6.0	.4
Month ending Dec. 14:	5.6	6.2	.6

PERCENTAGE SAVINGS BY FUEL TYPE

	Latest Week	Month ending Dec. 14
Gasoline Consumption	7.9%	5.6%
Residual Fuel Oil Consumption	0.9	3.9
Distillate Fuel Oil Consumption	(9.1)[2/]	3.1
Jet Fuel Consumption	26.0	24.6
Total for four (4) Products	3.8	6.2

1/ Apparent demand, see explanation in text.
2/ Increase.

reporting system of changes in all secondary stocks, i.e., inventories held by heating oil dealers, industry and gasoline stations. However, it is possible to provide a sample of actual demand changes which are taking place, and several are presented in the main body of this report. For example:

- For 80,000 homes in Massachusetts, consumption of home heating oil ranged from 11.4% to 14.9% below last year, after adjustments for the weather.
- For Consolidated Edison in New York City, latest figures indicate that demand is 7.7% and 13% below expected levels for electricity and steam use respectively.

More comprehensive demand statistics will be provided in future situation reports.

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PETROLEUM SITUATION REPORT
Week Ending December 14, 1973

This continues a series of weekly reports on the petroleum situation. It is based on actual results for the week ending December 14, as reported by the American Petroleum Institute, compared with the Federal Energy Office forecast for the fourth quarter of 1973 and the first quarter of 1974.

The best way to assess the current situation is to see how the projected gap between demand and supply is closed. Part of the gap may be closed by importing more than forecast. Another part may be closed through increasing domestic production above the forecast. Still another part of the gap may be closed by reducing consumption below the forecast level. Finally, the remainder of the gap is closed by reducing inventories faster than forecast.

The first two charts indicate how the gap between projected demand and projected supply was closed in the week ending December 14 and in the four weeks since November 17. The first bar on each chart shows the problem: the gap of 1.4 million barrels of oil per day, as originally forecast, augmented by a failure of domestic production of crude oil to reach even the forecast level. The second and third bars in each of these charts show the effects of actions and events in closing the gap. For the current week, as shown on Chart 1, reduced demand and increased imports each closed approximately one-third of the total gap, leaving one-third to be closed by a more rapid reduction of inventories than was forecast. For the four weeks since November 17, as shown on Chart 2, the total gap was exactly closed by a combination of reduced demand and imports above the forecast. The result was that inventories were drawn down at exactly the forecast rate.

Imports

The imports situation, Chart 3, shows actual imports week by week through December 14, and two projections through the end of the fourth quarter. The projection marked "original forecast" shows the path imports would have had to follow to reach the originally forecast average level of 5.6 million barrels per day for the fourth quarter. A revised outlook, based on actual data through November 30, has been included since the report for November 30. This outlook, also shown on the chart, indicates a delay of about two weeks in the impact of the interruptions.

Imports for the week ending December 14 continued at a level far above forecast. Also, the API has revised substantially upward its report of imports for the week ending November 30. This revision is due to revised estimates provided by petroleum companies to the API. As a result, imports for the past four weeks have remained in the range of 5.9 to 6.2 million barrels per day. This is substantially below needed imports of 6.8 million barrels per day, but it is far above the level of about 4.6 million to which imports were expected to decline as the boycott became fully effective.

The demand situation

Demand for four major petroleum products was 3.8 percent below forecast for the week ending December 14, and 6.2 percent below forecast for the four-week period since November 17, as shown in Chart 4. Demand for gasoline was 7.9 percent below forecast in the latest week, and 5.6 percent below forecast for the latest four-week period. This tends to confirm the finding, first advanced in the two previous situation reports, that the conservation measures applied to gasoline have in fact taken hold, and that they are producing significant savings.

The largest difference between actual and forecast demand is in jet fuel, where demand has been running some 25 percent below forecast for the last four weeks. The principal reason is that the Defense Department request under the Defense Production Act, estimated to account for about 15 percent of total demand for jet fuel, was not yet being filled in significant quantities.

Demand for distillate fuel oils was 9.1 percent above forecast for the latest week, compared to 1.3 percent below forecast for the week ending December 7. The increase was apparently due to the colder weather experienced during the week ending December 16, when the average number of degree days, weighted to reflect use of oil heating, was only 1.7 percent below normal. This return to seasonably cold weather is a departure from the unseasonably warm weather experienced this fall to date. It is also not surprising that demand for distillate fuel oil is now above the forecast average for the fourth quarter as a whole, as this forecast encompasses the warmer months of October and November. If the forecast were made on a monthly basis, as future demand forecasts will be made, the actual demand would be at or below the forecast level. This is confirmed by a report for 80,000 homes throughout Massachusetts, where consumption of home heating oil during the first ten days of December ranged from 11.4 percent to 14.9 percent below last year, after adjustment for differences between this year's and last year's weather.

Demand for residual fuel oil continued at a level slightly below forecast. Electric utilities, which account for more than half of total demand for residual fuel oil, have been conserving it in two ways: first, by generating as much electric energy as possible in coal-fired plants instead of oil-fired plants; and second, by cooperating with efforts to reduce the use of electric energy, thus reducing the total amount of fuel needed to generate electricity. A recent energy conservation boxscore for Consolidated Edison, the utility having the Nation's largest electricity and steam sendout, appears as Chart 5. It shows that conservation efforts in electricity and in direct steam sales have had increasing impact, and that they contribute toward reducing the demand for petroleum.

Inventories

Inventories were drawn down during the week ending December 14 by 0.6 million barrels per day more than forecast. This was due to the large reduction in distillate fuel oil inventories, which resulted from the sharp increase in demand for this product, and to the continuing failure of

THE PETROLEUM SITUATION
WEEK ENDING DECEMBER 14, 1973
(Millions of Barrels per Day)

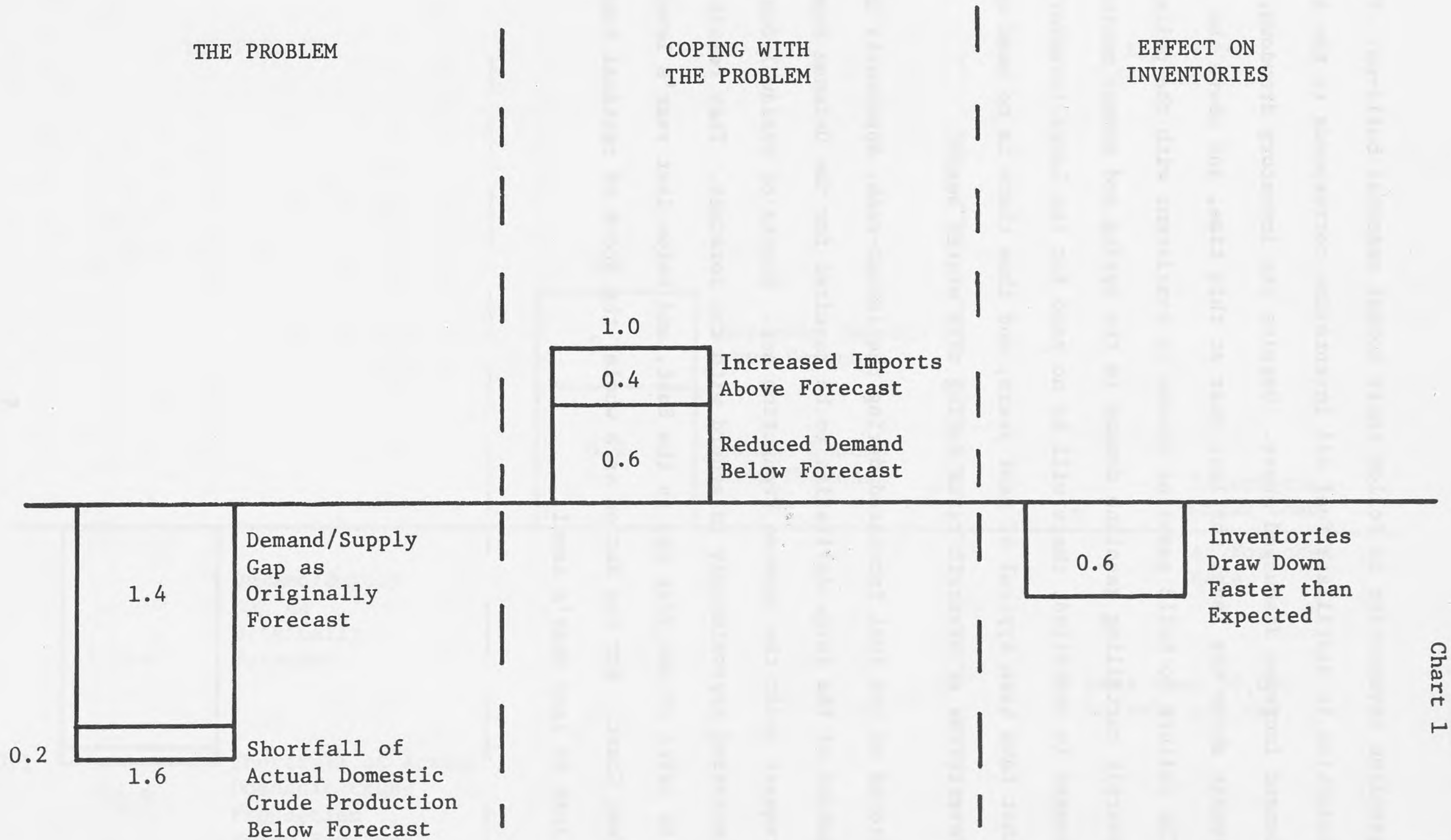


Chart 1

gasoline inventories to follow their normal seasonal build-up. The reduction in distillate fuel oil inventories corresponds to the large demand increase discussed above. Despite the inventory drawdown, stocks remain above the level for last year at this time, and above the forecast. The failure to build gasoline stocks is consistent with the policy of sharply curtailing gasoline demand in the spring and summer months. If demand is curtailed, there will be no need for the large inventory drawdowns that have been typical of past years, and thus there is no need to build inventories at historic rates during this winter season.

Stocks of jet fuel increased during the latest week, apparently in anticipation of the large deliveries to be required for the Defense Department request under the Defense Production Act. Stocks of residual fuel oil decreased approximately in accord with the forecast. They remain above the level of one year ago in the East, and below last year's level on the West Coast. For the Nation as a whole, the stock of residual fuel oil is close to last year's level.

THE PETROLEUM SITUATION
FOUR WEEKS ENDING DECEMBER 14, 1973
(Millions of Barrels per Day)

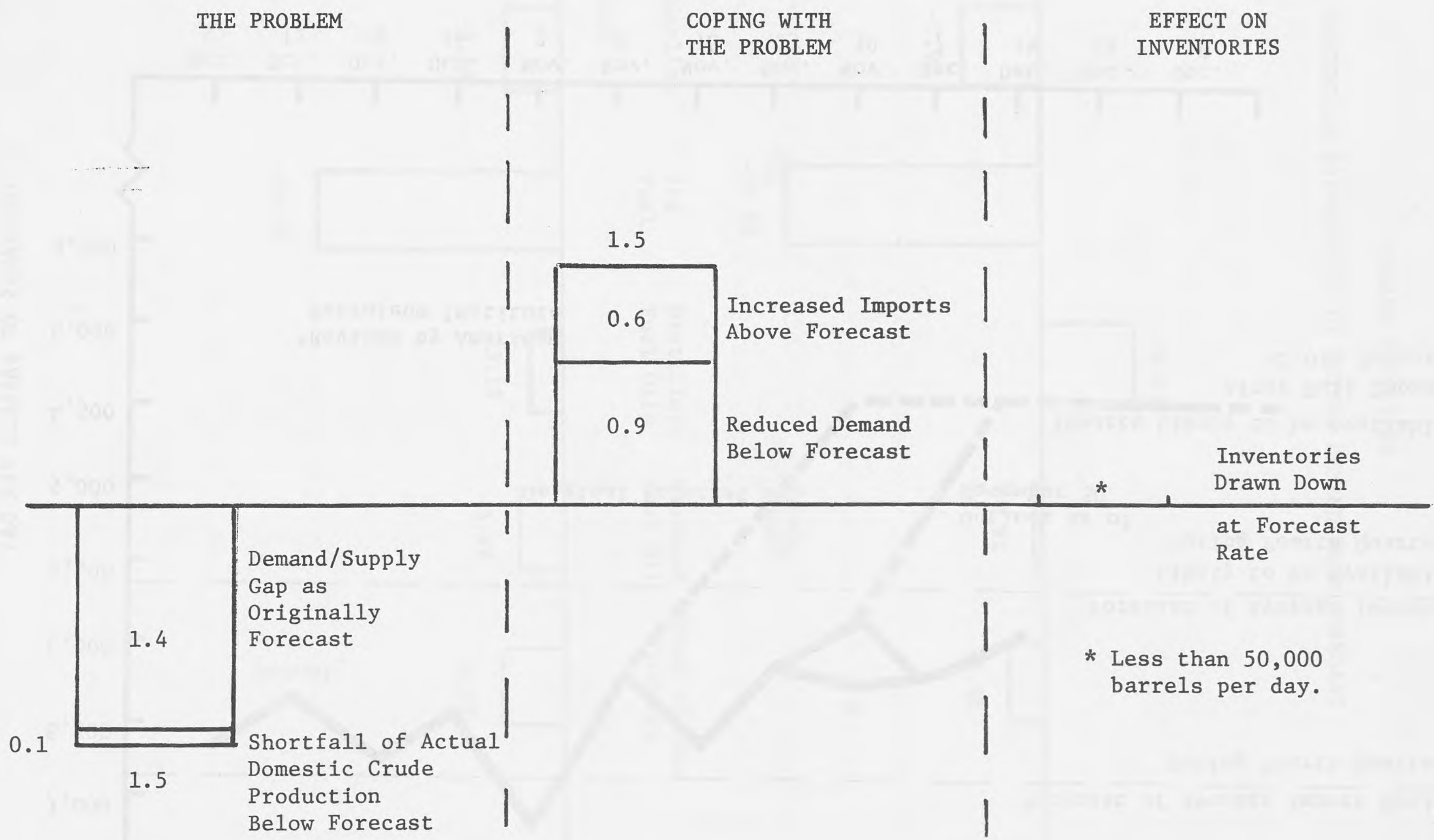


Chart 2

IMPORTS SITUATION, FOURTH QUARTER 1973

IMPORTS OF CRUDE OIL AND REFINED PRODUCTS

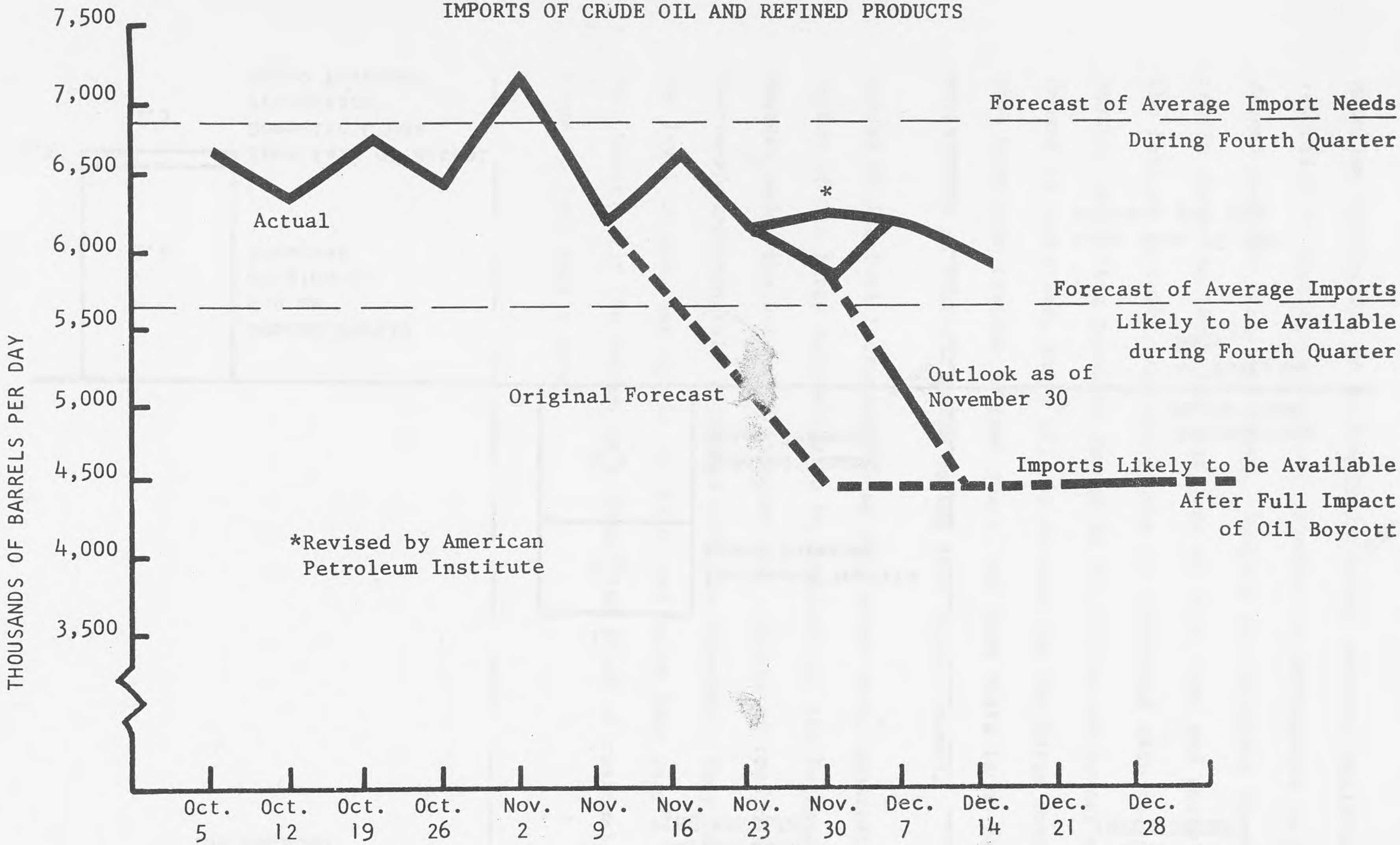
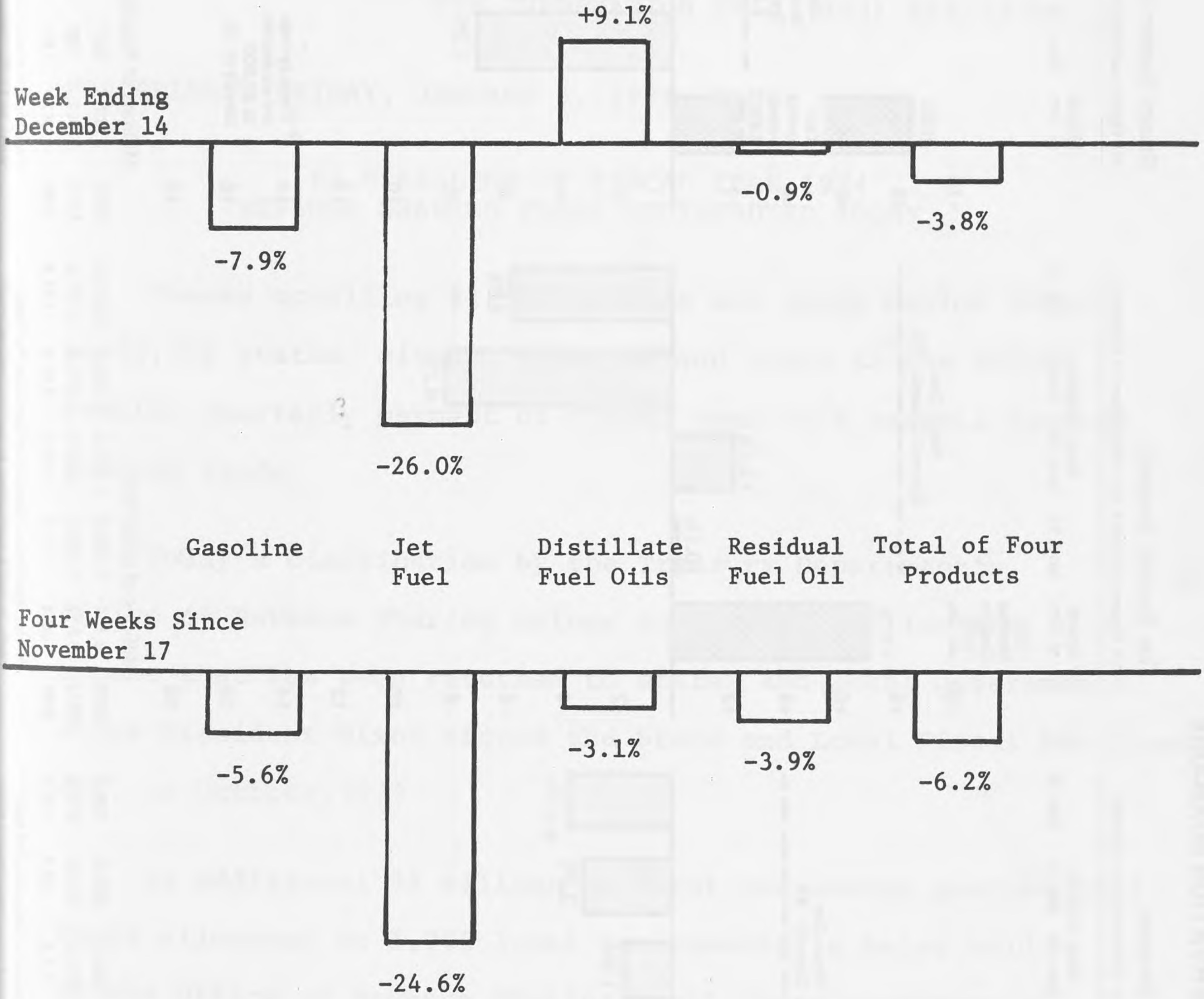


Chart 3

Chart 4 13

DEMAND SITUATION

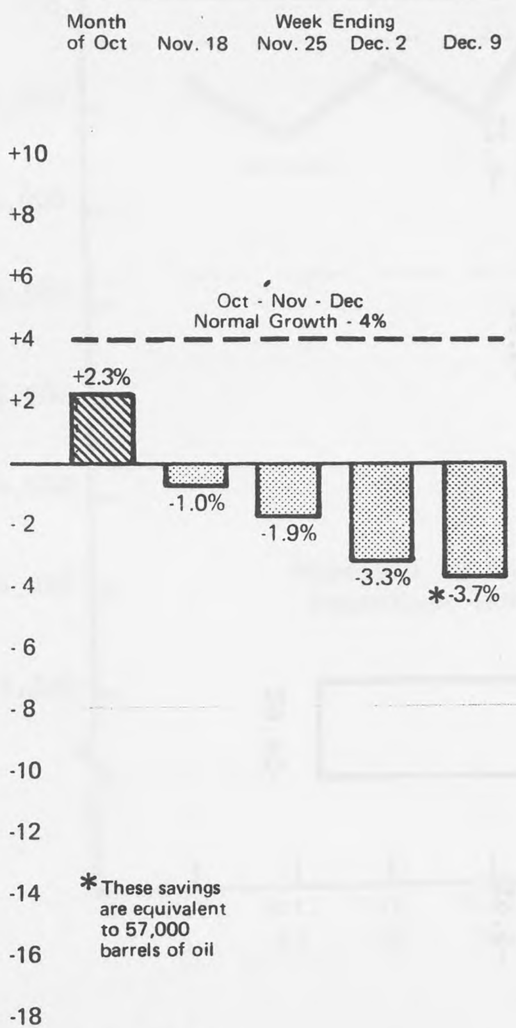
PERCENTAGE DIFFERENCES OF ACTUAL DEMAND FROM FORECAST



ENERGY CONSERVATION BOXSCORE

Electric System Sendout

All figures adjusted for differences in weather



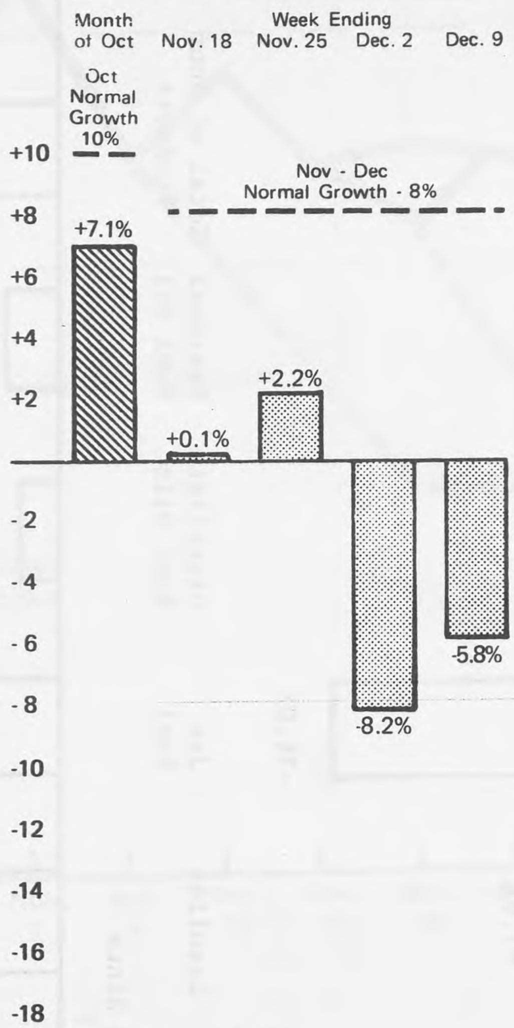
Millions of Kwh

1972	3,012	687.5	643.4	695.9	706.3
1973	3,082	680.6	631.0	672.8	679.9
Difference	+70	-6.9	-12.4	-23.1	- 26.4

Percentages show increase or decrease for each week in 1973, compared to corresponding week

Gas System Sendout

All figures adjusted for differences in weather



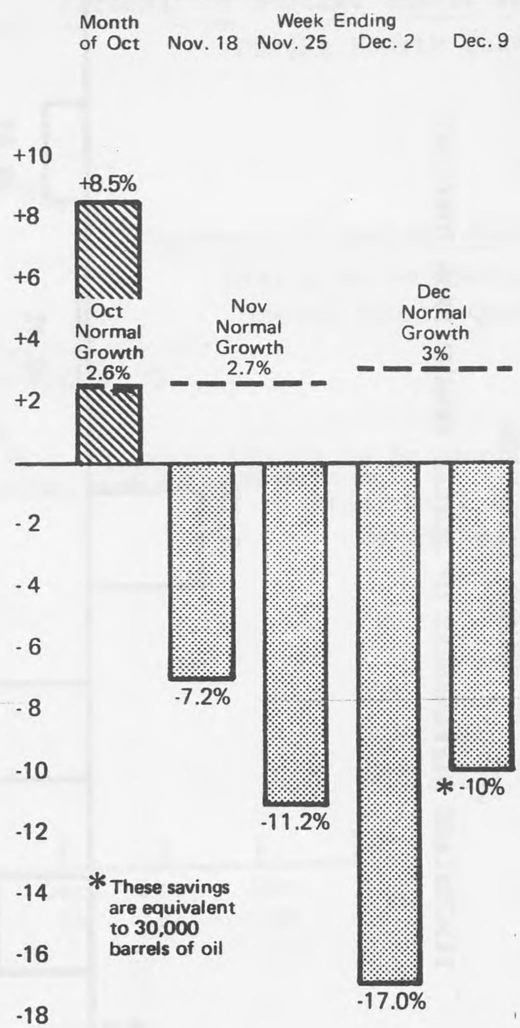
Millions of cubic feet

1972	5,153	1,756.9	1,809.5	2,096.0	2,315.6
1973	5,517	1,758.2	1,849.0	1,923.5	2,181.2
Diff.	+36.4	+1.3	+39.5	-172.5	- 134.4

Percentages show increase or decrease for each week in 1973, compared to corresponding week

Steam System Sendout

All figures adjusted for differences in weather



Millions of Pounds

1972	2,900	847	919	1039	1,105
1973	3,147	786	816	862	995
Diff.	+ 247	- 61	-103	-177	- 110

Percentages show increase or decrease for each week in 1973, compared to corresponding week

Chart 5

Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220
NEWS
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FOR INFORMATION CALL (202) 634-5248

FOR RELEASE FRIDAY, JANUARY 4, 1974, A.M.

$1.5 BILLION OF FISCAL YEAR 1974 REVENUE SHARING FUNDS DISTRIBUTED TODAY

Checks totalling $1.531 billion are being mailed today to 35,512 states, cities, counties and towns as the second regular quarterly payment of fiscal year 1974 general revenue sharing funds.

Today's distribution by the Treasury Department's Office of Revenue Sharing brings to $11.199 billion the amount that has been returned to states and local governments since President Nixon signed the State and Local Fiscal Assistance Act, in October,1972

An additional $9 million in first and second quarter 1974 funds allocated to 1,962 local governments is being held by the Office of Revenue Sharing until these governments' reports on uses of the money have been filed. One or more of three report forms that were required to be filed with the Office of Revenue Sharing prior to mid-September of 1973 were still missing for each of these places when today's checks were prepared. The law requires that each recipient government report to its citizens and to the Treasury Department its plans for use of the money and, subsequently, how the funds were actually spent.

"The governments which had not reported will not forfeit their first and second quarter funds because the reports are late," Graham W. Watt, Director of the Office of Revenue Sharing explained. "Their money is being held for them," he said.

Watt announced that a special task force has been set up in the Office of Revenue Sharing to contact governments that have not been heard from or that require special assistance in order to participate in the general revenue sharing program. About 9,000 governments reported too late for the payment made on October 5. Over 7,000 of these have now met reporting requirements and have been paid. Several hundred more have recently submitted their reports and will be paid in the next quarterly payment on April 5, 1974.

Adjustments to entitlements for the fourth entitlement period (fiscal year 1974) will be computed for all recipients in April, based on the best, most accurate data available at that time. Any adjustments that are required as a result of this recomputation will be added to or substracted from fifth entitlement period (fiscal year 1975) payments. Fifth entitlement period amounts also will be calculated in April when each government will be informed of its estimated entitlement for fiscal year 1975.

The State and Local Fiscal Assistance Act of 1972 authorizes the distribution of $30.2 billion over a five-year period extending through 1976. More than 38,000 states and local governments receive the funds in quarterly payments issued in October, January, April and July. Over $6 billion is to be distributed in fiscal year 1974.

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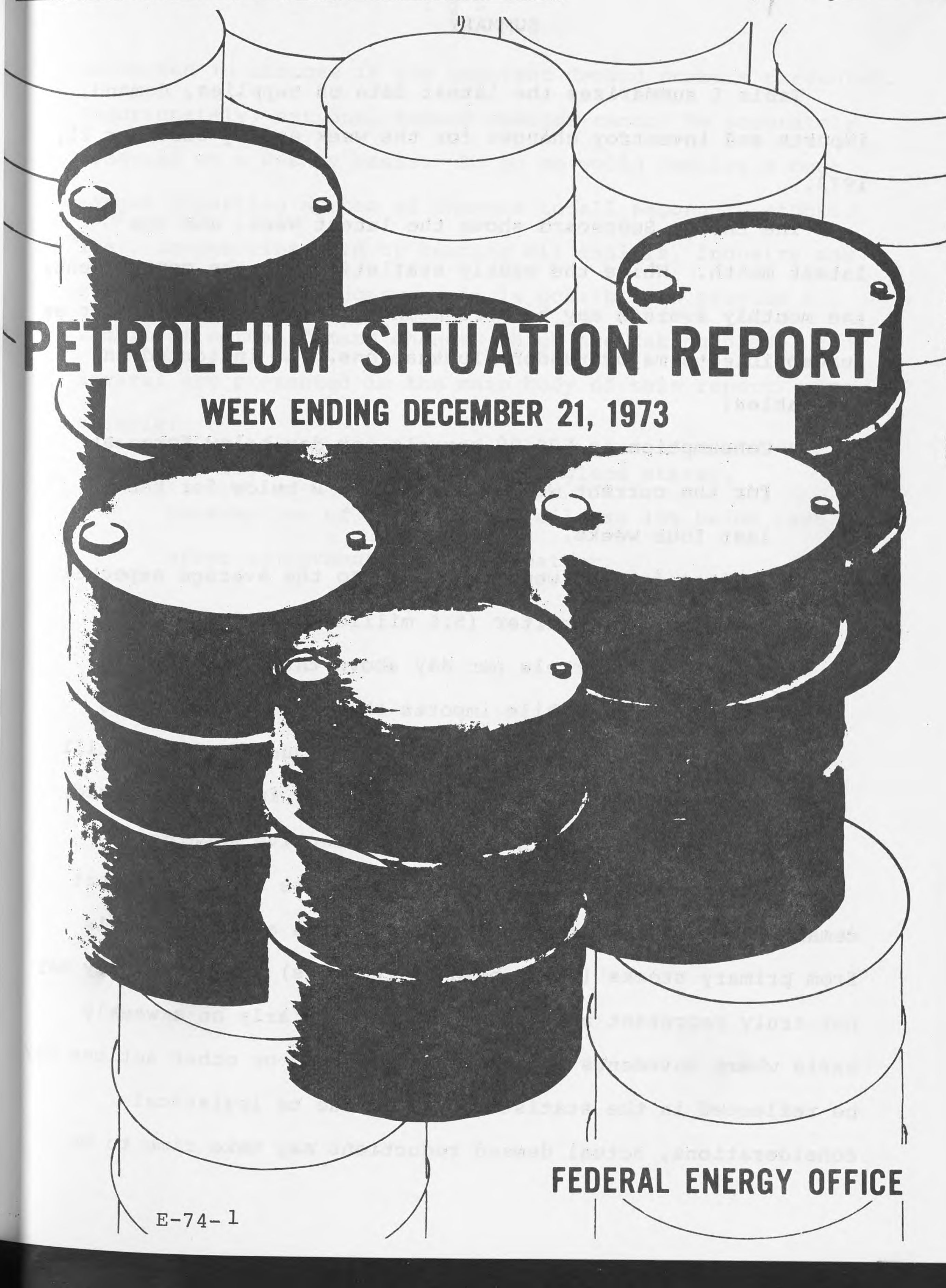
EMBARGOED FOR RELEASE UNTIL
11:00 A.M., EST, THURSDAY, JANUARY 3, 1974



PETROLEUM SITUATION REPORT

WEEK ENDING DECEMBER 21, 1973

FEDERAL ENERGY OFFICE

E-74-1

SUMMARY

Table I summarizes the latest data on supplies, demand, imports and inventroy changes for the week ending December 21, 1973.

The Energy Scorecard shows the latest week, and the latest month. While the weekly statistics are the most recent, the monthly average may be more meaningful because it is not as susceptible to major randon fluctuations. As indicated in the tables:

- Consumption is 500,00 barrels per day below forecast for the current week and 800,00 B/D below for the last four weeks.
- Imports for the week are equal to the average expected level for the quarter (5.6 million barrels per day) and 400,000 barrels per day above this level for the latest month. While imports thus show a decline to the average level expected for the quarter, they still are substantially above the level of imports expected, when measured against a fully effective embargo.

The consumption estimates presented are really apparent demand, not actual demand. These estimates are withdrawals from primary stocks (those held by refiners) and hence they may not truly represent actual demand, particularly on a weekly basis where movements into secondary stocks or other actions may be reflected in the statistics. Also due to logistical considerations, actual demand reductions may take time to be reflected in changes in the apparent demand numbers presented. Unfortunately, national demand changes cannot be accurately measured on a weekly basis. To do so would require a much larger reporting system of changes in all secondary stocks, i.e., inventories held by heating oil dealers, industry and gasoline stations. However, it is possible to provide a sample of actual demand changes which are taking place, and several are presented in the main body of this report. For example:

- For 19,000 homes in six New England states, consumption of home heating oil was 19% below last year, after adjustments for the weather.

TABLE 1

ENERGY SCORECARD

ESTIMATED SHORTAGES	
Current period	1.4 million B/D
First Quarter 1974:	2.7 million B/D

CONSUMPTION RESULTS 1/ (MILLION/BARREL/DAY)			
	Forecasted	Actual	Savings
Week ending Dec. 21	18.6	18.1	.5
Month ending Dec. 21	18.6	17.8	.8

IMPORT RESULTS (MILLION BARRELS/DAY)			
	Forecasted 2/	Actual	Increased Imports
Week ending Dec. 21	5.6	5.6	0.0
Month ending Dec. 21	5.6	6.0	.4

PERCENTAGE SAVINGS BY FUEL TYPE			
	Latest Week	Prior Week	Month ending Dec. 21
Gasoline Consumption	7.7	7.9	7.8
Residual Fuel Oil Consumption	(3.3) 3/	0.9	1.4
Distillate Fuel Oil Consumption	(4.1) 3/	(9.1)	0.3
Jet Fuel Consumption	12.7	26.0	21.2
Total for four (4) Products	3.0	3.0	5.7

1/ Apparent demand, see explanation in text.

2/ Assumes the average level of imports expected during the fourth quarter and not a fully effective embargo.

3/ Increase.

PETROLEUM SITUATION REPORT
Week Ending December 21, 1973

This continues a series of weekly reports on the petroleum situation. It is based on actual results for the week ending December 21, as reported by the American Petroleum Institute, compared with the Federal Energy Office forecast for the fourth quarter of 1973.

The best way to assess the current situation is to see how the projected gap between demand and supply is closed. Part of the gap may be closed by importing more than forecast. Another part may be closed through increasing domestic production above the forecast. Still another part of the gap may be closed by reducing consumption below the forecast level. Finally, the remainder of the gap is closed by reducing inventories faster than forecast. Significant week to week variations in actual results will occur due to weather changes, possible bunching in ship arrivals, fluctuations in secondary stocks and other factors.

As shown in Chart 1, imports were expected to decline to 4.6 million barrels per day in December -- the level of imports expected to result from a fully effective embargo. This compares to a forecast of 5.6 million barrels per day average imports for the fourth quarter as a whole, which includes the pre-impact imports of October and the transitional import levels in November. This 4.6 million barrel per day import level is consistent with the imports forecast of 4.9 million barrels per day in the first quarter of 1974, as published in last week's report. As seen in Chart 1, imports decline further during the latest week to the average expected for the quarter, but they remain substantially above the level expected to result from a fully effective embargo.

The Demand Situation

Demand for four major petroleum products was 3.0 percent below forecast for the week ending December 21, and 5.7 percent below forecast for the four-week period since November 24, as shown in Chart 2. Demand for gasoline was 7.7 percent below forecast in the latest week, and 7.8 percent below forecast for the latest four-week period. This represents a savings of about 500,000 barrels per day, resulting from the impact of the gasoline conservation measures already in effect.

The largest difference between actual and forecast demand is in jet fuel. Demand was 12.7 percent below forecast in the latest week, compared to 21.2 percent below forecast for the last four weeks. The increase in demand is apparently due to increased use during the winter holiday period. A substantial part of the increase is in imports of kerosine-type jet fuel, which presumably is a higher rate of withdrawals of jet fuel from bond, for use by international carriers.

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Demand for distillate fuel oils was 4.1 percent above forecast for the latest week, compared to 9.1 percent above forecast for the week ending December 14. The decrease occurred despite the colder weather experienced during the week ending December 23, when the average number of degree days, weighted to reflect use of oil heating, was 10.1 percent above normal. One report for approximately 19,000 accounts in six New England states indicates that energy conservation is still having a strong effect. This report shows the deliveries in the latter part of December to be about 19 percent below the expected deliveries, after adjustment for the weather.

Demand for residual fuel oil moved to 3.3 percent above the forecast level for the week ending December 21, and this is the first week it has been above the forecast. This is to be expected, as the demand for this fuel oil normally rises during the winter season and is higher than demand in October and November. Averaging the last four weeks, demand has been below forecast.

Inventories

Inventories were drawn down during the week ending December 21 by 0.9 million barrels per day more than forecast. About one-third of this was due to larger than expected reduction in crude oil inventories. These drawdowns were needed to maintain domestic refinery production in the face of decreased crude oil imports. Larger than forecast reductions in gasoline and residual fuel oil inventories accounted for most of the additional drawdowns in excess of the forecast. The reduction in stocks of fuel oil was a major factor in meeting increased demand for that product, as imports were far below the forecast need.

In gasoline, the inventory reduction results from the decreased yield of this product. The failure to build stocks at a normal rate for this period is consistent with the policy of sharply curtailing gasoline demand in the spring and summer months. If demand is curtailed there will be no need for the large inventory drawdowns that have been typical of past years, and thus there is no need to build inventories at historic rates during this winter season.

Stocks of distillates were drawn down at about the forecast rate. Stocks of jet fuel again increased during the week, apparently in anticipation of the large deliveries to be required for the Defense Department request under the Defense Production Act, and also in anticipation of the peak demands of the Christmas and New Year's weekends.

Weather

As shown in Chart 3, the heating degree days for the week ending December 23 were above normal for the East and most of the Midwest. Degree days weighted by oil consumption were 10.1 percent above normal for the U.S. However, for the period since July 1, degree days are still 8.2 percent below normal.

IMPORTS SITUATION, FOURTH QUARTER 1973

IMPORTS OF CRUDE OIL AND REFINED PRODUCTS

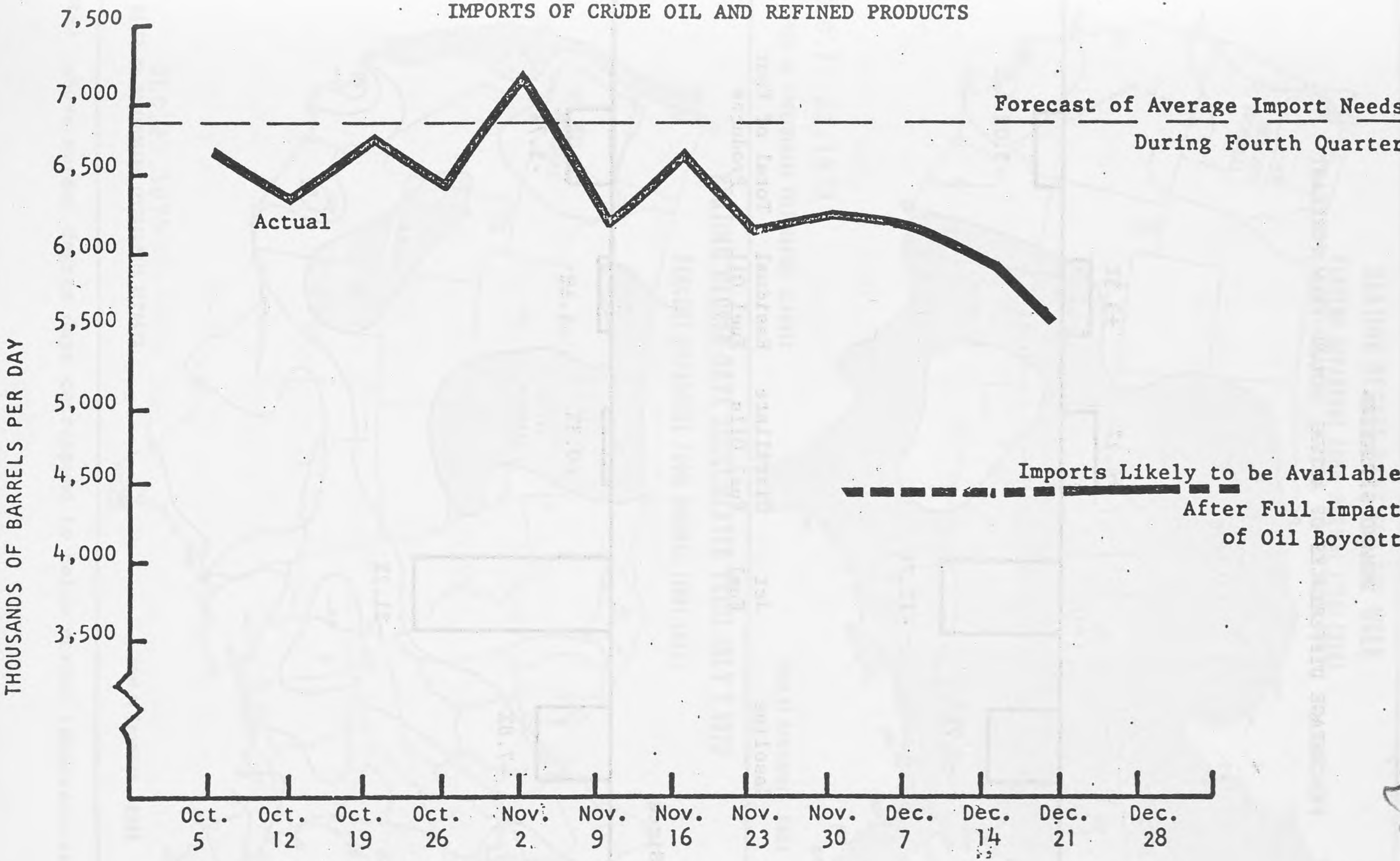

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CHART 1

Chart 2

DEMAND SITUATION

PERCENTAGE DIFFERENCES OF ACTUAL DEMAND FROM FORECAST

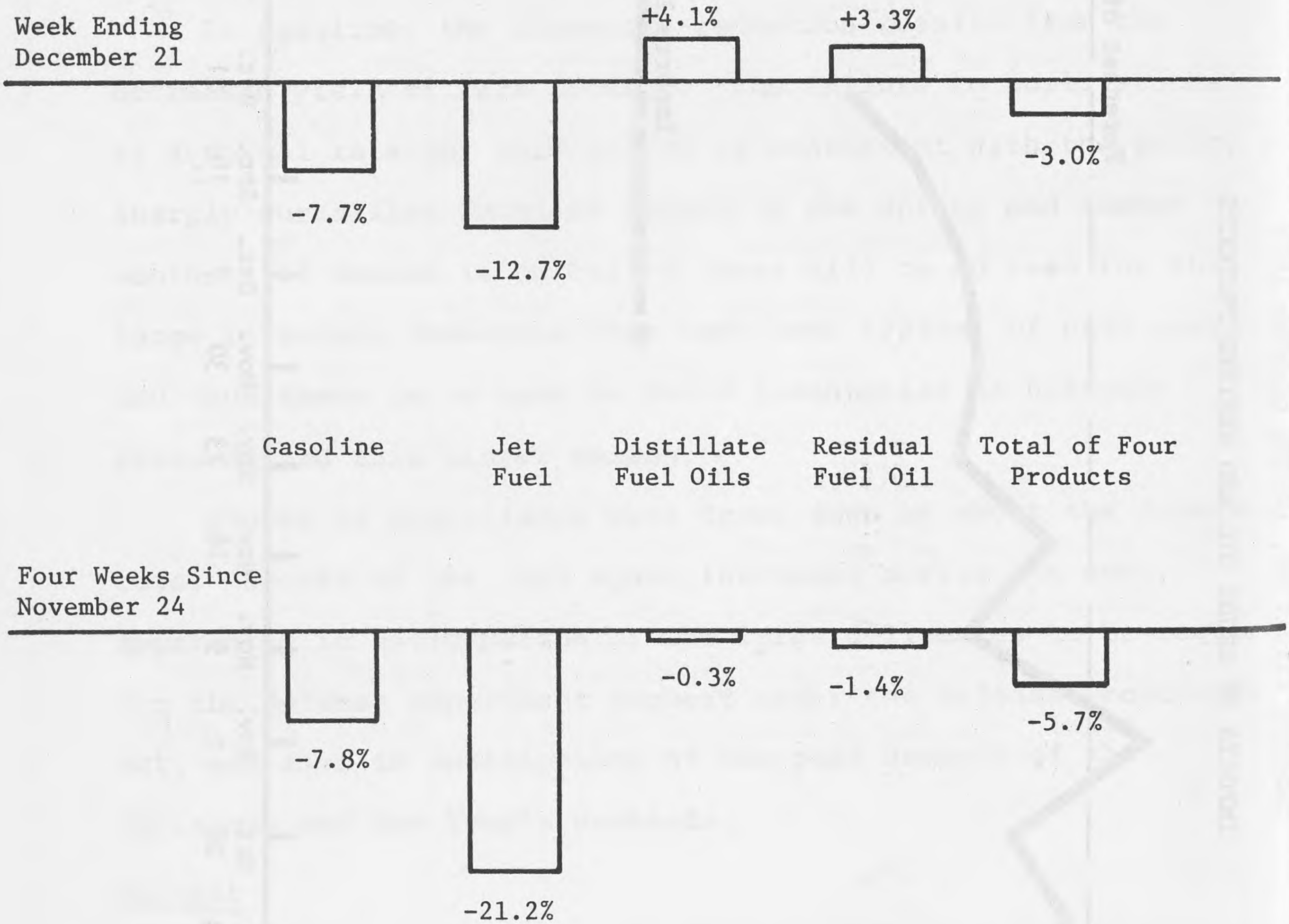
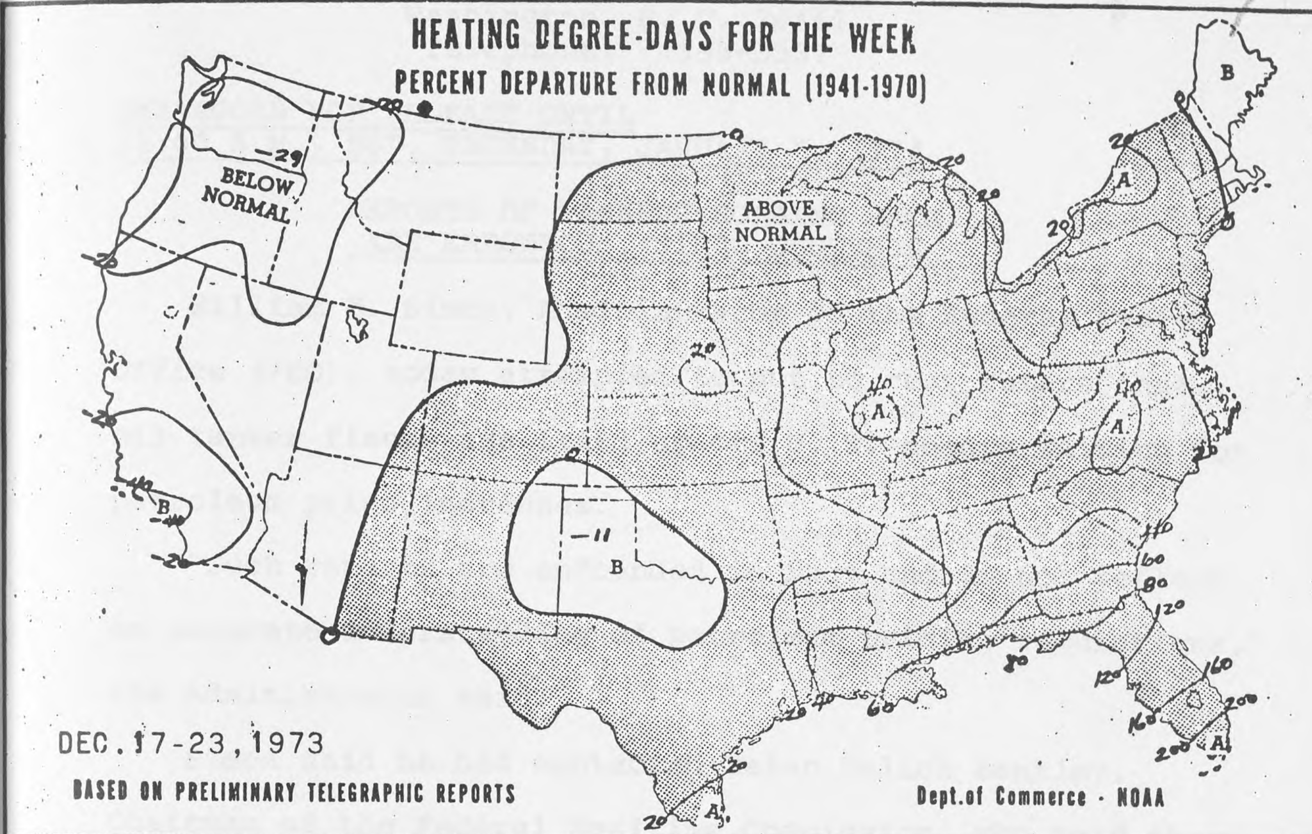
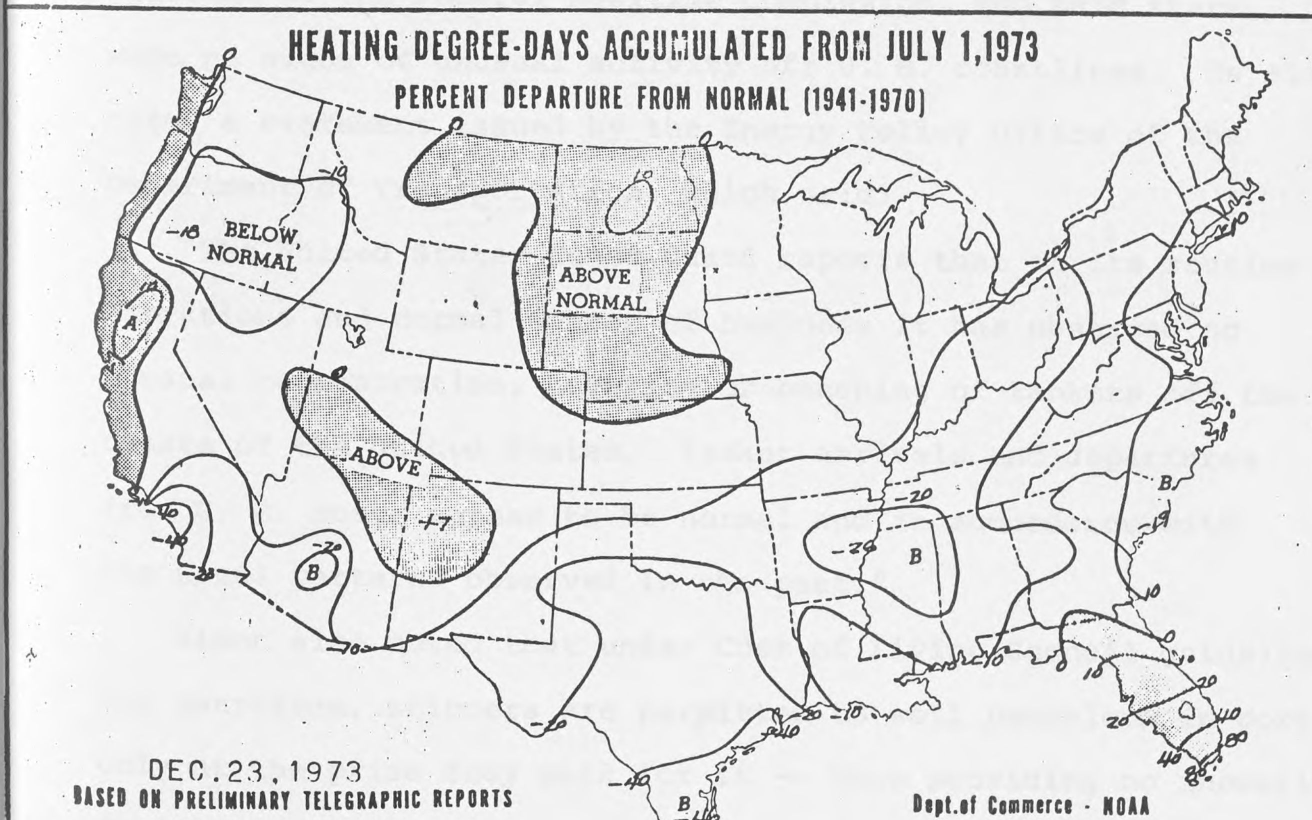


Chart 3





Note: above normal degree days correspond to below normal temperatures.

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EMBARGOED FOR RELEASE UNTIL
11:00 A.M., EST, THURSDAY, JANUARY 3, 1974

REPORTS OF TANKERS HOLDING BACK ARE ERRONEOUS, SIMON CONTENDS

William E. Simon, Administrator of the Federal Energy Office (FEO), today attempted to put to rest rumors that oil tanker fleets are lined up off U. S. coasts waiting for petroleum price increases.

"Such reports are unfounded in fact and do not reflect an accurate understanding of petroleum pricing regulations," the Administrator said.

Simon said he had contacted Helen Delich Bentley, Chairman of the Federal Maritime Commission, who said there were no signs of unusual activity off U. S. coastlines. He also cited a statement issued by the Energy Policy Office of the Department of Transportation, which said:

"The United States Coast Guard reports that in its routine operations and normal course of business it has observed no unusual concentration, hovering or bunching of tankers off the coasts of the United States. Tanker arrivals and departures from U. S. ports appear to be normal and in accordance with the usual patterns observed in the past."

Simon also noted that under Cost of Living Council guidelines for petroleum, shippers are permitted to sell petroleum in port only at the price they paid for it -- thus providing no incentive for shippers to hold cargoes offshore to await possibly higher prices later in the winter.

E-74-3 -FEO-

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EMBARGOED FOR RELEASE UNTIL
11:00 A.M., EST, THURSDAY, JANUARY 3, 1974

SIMON COMMENDS FEDERAL ACTION AGAINST GASOLINE "PROFITEERS" OVER NEW YEAR'S WEEKEND

William E. Simon, Administrator, Federal Energy Office (FEO), today praised as "swift and appropriate" the action taken over New Year's weekend by the Internal Revenue Service (IRS) and the Department of Justice against those service stations that illegally overpriced customers.

"Such action protects American drivers, who are already carrying a heavy burden of the fuel shortage, against those who would profiteer in a time of national emergency," Simon said.

Simon noted that 379 IRS agents were on duty last weekend in 17 district offices throughout the Nation, mostly in the Northeast and mid-Atlantic States.

More than 2,300 service stations were checked as a result of 3,658 telephoned complaints. Of the 409 subsequent violations noted, there were 124 price rollbacks and 15 cases in which refunds were ordered. The remaining 270 cases are pending further action.

Refunds to motorists so far total $8,094. Dealers have three options to make refunds: dispensing free gas to the general public, reducing prices to a margin sufficient to make up the excess, or by specifically identifying and making refunds to customers who were overcharged.

Some stations were charging as high as $2 a gallon for regular gas. The highest amount asked for premium gas was $1.04 a gallon. Both of these exhorbitant amounts were asked for in the Chicago area. Chicago also had the dubious distinction of having one service station closed by order of a Federal judge, based on evidence submitted by an Assistant U. S. Attorney.

Acting Attorney General Robert Bork sent telegrams to 94 U. S. Attorneys last week advising them to seek restraining orders against gasoline price-gougers. The attorneys remain on call for further action as appropriate. The Justice Department said it is relying on its own investigations as well as those of the IRS.

Other devices spotted by the IRS included "gimmicks" such as a 25¢ service charge, a $10 ticket good for several services over a period of time, and high fees charged for other goods coupled with an offer of "free" gasoline.

"The swift response of the IRS and the Justice Department in dealing with these violations is entirely appropriate and I commend them for their handling of these cases," Simon added.

-FEO-

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EMBARGOED FOR RELEASE UNTIL
11:00 A.M., EST, THURSDAY, JANUARY 3, 1974

NEW ENERGY CONSERVATION MEASURES ANNOUNCED BY FEDERAL OFFICIALS

New actions to curtail energy consumption were announced today by two Cabinet Officers and Administrator William E. Simon of the Federal Energy Office (FEO).

Simon announced a business and commercial program and said he and Commerce Secretary Frederick Dent are sending joint letters to 43,000 business leaders outlining conservation measures.

In addition, letters signed by Simon and Caspar Weinberger, Secretary of Health, Education and Welfare will be sent to high school and college officials requesting that they discourage use of automobiles by faculty and students wherever practical.

Simon also announced agreement with major oil companies and independent distributors and retailers to encourage the 10-gallons-per-customer limit at service stations. Compliance with federal lighting and temperature guidelines will be sought in all new federal contracts, he added.

The complete list of actions to date, new, and proposed energy conservation measures is attached.

E-74-4

(more)

ENERGY CONSERVATION MEASURES

JANUARY 3, 1974

Measures	Actions to Date	New and Proposed Actions
Outdoor and Ornamental Lighting	President requested curtailment of outdoor advertising and ornamental lighting, including gas yardlights. Federal program includes banning of such lighting with the exception of several national monuments in Washington, D. C.	1. Public education program to drastically reduce use of yardlights, decorative lighting. 2. Request state regulatory authorities to advise utilities to hasten programs to assist customers in lighting reduction programs. 3. Joint FEO and DOC letter to 43,000 major business persons.
Temperature Levels in Buildings and Facilities, including Homes	Sixty-five to 68 degree heating levels in buildings and facilities, cooling levels of 80-82 degrees; petroleum allocation program facilitates objectives; advertising and publicity program since October.	Federal contractors will be required to meet Federal program objectives in the near future.
Gasoline Sales Limits	Voluntary reductions in purchases (10 gallons a week); limits on refinery gasoline production; coupon printing in the event a rationing system becomes necessary; obtained cooperation of U. S. Chamber and AAA on member gasoline curtailment programs.	Independent gasoline distributors and retailers have agreed to FEO's request to help institute the 10 gallon limit; major oil companies have been ordered to do the same, they agreed to enforce the 10 gallon limit in the company-owned stations and urge their brand name outlets to support the program.
Vehicle Speed Limits	President signed bill to establish maximum 55 mph speed limit. Federal limit is 50 mph.	
Gas Station Closings	Voluntary nationwide ban on retail sales of gasoline from 9:00 p.m. Saturday to midnight Sunday.	
Indoor Lighting Standards (50-foot candles at work stations, 30-foot candles in work areas, 10-foot candles in corridors, stairways, etc.)	Total Federal compliance, some voluntary adoption in business and industry.	1. Compliance will be sought in all new and renegotiated Federal contracts. 2. Develop model municipal code and send all mayors. 3. Joint letter from DOC and FEO to 43,000 business firms.

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Measures	Actions to Date	New and Proposed Actions
Highway Lighting (Discontinuance or severe reduction in such lighting other than exit and entrance ramps, exit signs, hazardous locations such as busy intersections)	Announcement made of intention to institute program.	Detailed proposal placed in the Federal Register on reductions in highway lighting; interested parties are given seven days to comment. Work with governors to achieve voluntary compliance.
Limits on Student Driving	Requested students to use public transportation, school buses, carpools in place of private cars.	Letters from FEO and HEW to college and high school officials requesting that they discourage use of cars by students and faculties unless such use is vital to get to and from school and after-school employment.
Electric Space Heaters	Banned in Federal offices	New public education program on their proper use; capacities and efficiencies for specific purposes.
Commercial and Industrial Buildings	Voluntary program to reduce heating and cooling requirements; petroleum allocation program facilitates compliance.	Joint letter from FEO and DOC to 43,000 major business firms.
Federal Programs	Interim report and energy conservation strategy; first quarter (FY '74) results indicate 20 percent energy savings; ornamental lighting ban (exteriors, grounds, monuments) interior lighting standards 50/30/10 or equivalents in Federal facilities; ban on space heaters in offices. Federal program to emphasize reduced driving, less travel, carpooling, automobile purchases to emphasize fuel economy, trade-ins of heavy sedans and limousines, parking space priority system.	

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FOR IMMEDIATE RELEASE January 3, 1974

FEDERAL ENERGY OFFICE CHEERS PROFESSIONAL BASEBALL CONSERVATION PLAN

Deputy Administrator John C. Sawhill today congratulated Baseball Commissioner Bowie K. Kuhn for the comprehensive energy conservation plan developed by the big leagues for next year's season. "The great American game of baseball has recognized the true dimensions of our current energy crisis and voluntarily planned a program that will benefit the entire American public," Sawhill said.

During the meeting held this afternoon, Commissioner Kuhn reviewed the baseball program designed to produce an overall energy saving of at least 25 percent. Some 30 sports and recreation organizations were represented at the meeting. Representatives discussed measures that they could adopt to conserve energy in their operations.

Speaking for Administrator William E. Simon and the entire Federal Energy Office staff, Sawhill endorsed the baseball program and asked the other recreation groups to prepare similar energy conversation programs. He also expressed his hope that local authorities and baseball fans would offer their support and cooperation to help the major leagues accomplish their energy-saving goal.

"The ball clubs will need assistance from local mass transit operators, utilities, and especially their fans to carry out this program," he pointed out, "and I can assure Commissioner Kuhn that the Federal Energy Office will do everything it can to support this important effort."

The statement of Baseball Commissioner Bowie K. Kuhn and a list of those attending today's meeting are attached.

-FEO-

Attachments

January 3, 1974

STATEMENT OF BASEBALL COMMISSIONER
BOWIE K. KUHN ON BASEBALL'S VOLUNTARY
ENERGY CONSERVATION PROGRAM

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Last month Professional Baseball initiated an in-depth study of its energy consumption to develop a conservation program which would be responsive to the call of the Federal Government for voluntary cooperation by the American public.

We have now developed, in general outline, a Baseball Program which, in our judgment, will produce an overall energy saving of at least 25%. At the same time, I can say that under this Program we will be able to maintain our present employment levels. This Program consists of five elements.

First. Among the significant uses of energy by Baseball is jet fuel for air transportation. In 1973, over 60% of our team air travel was by charter. In 1974, we propose to reduce charter flights by one-half or perhaps more. This will be done by using regularly scheduled flights whenever possible.

Second. Another significant energy use is electrical power for the illumination of night games. Approximately 20% of this power consumption is attributable to the use of lights before the game begins. We expect that this usage can be eliminated or substantially curtailed in most of our parks.

<u>Third</u>. We will endeavor to start night games at times which will present the least problem taking into consideration local utility peak load factors.

<u>Fourth</u>. We will develop a series of public service messages by players and other Baseball personalities urging energy economy measures by the public. These would be used on radio and television, including broadcasts of our games.

<u>Fifth</u>. We will explore other ways of substantially reducing energy consumption, including:

(a) working with local government and transportation authorities to increase the use of mass transit to parks;

(b) encouraging car pooling; and

(c) reducing the general use of lights throughout parks and the use of lights at parks on days when Baseball is not played.

We expect to confer with the Federal Energy Office, local authorities, and our Players Association in order to develop a definitive program in advance of the 1974 season. Naturally, some variations in the Program will be necessary for particular clubs because of different local energy supply situations. However, this will not prejudice our goal of achieving at least a 25% reduction in Baseball's energy consumption.

Attachment

ATTENDEES AT THE FEDERAL ENERGY OFFICE MEETING ON ENERGY CONSERVATION IN SPORTS AND RECREATION, THURSDAY, JAN. 3, 1974:

Representatives	Organization
Joseph M. Cohen	Madison Square Gardens, Inc.
Edward Bruno	National Industrial Recreation, Assn.
Ollan Cassell	Amateur Athletic Union
Mike Storen	American Basketball Assn.
Albert Matzelle	American Bowling Congress
Michael Nolan	American Horse Council
Steve Sharp	American Power Boat Association
E.M. Erickson	Ladies Professional Golf Assn.
Bowie Kuhn	Major League Baseball
Jack Valenti	Motion Picture Assn. of America
A.O. Duer	National Assn. of Inter-collegiate Athletics
Simon Gourdine	National Basketball Association
Walter Byers	National Collegiate Athletic Association
Clifford Fagan	National Federation of State High School Athletic Assn.
William Ray	National Football League
Donald V. Ruck	National Hockey League
Bill France	National Motorsports Committee
William Strausbaugh	Professional Golfers Association
Bob Ragsdale	Rodeo Cowboy Assn, Inc.
P.J. Boatwright	United States Golf Assn.
Walter Elcock	U.S. Lawn Tennis Assn.
Michael Davies	World Championship Tennis
James Browitt	World Hockey Assn.
Matthew Kaufman	Boating Industry Assn.
Bob Blundred	International Assn. of American Parks and Amusements
Peter Siebert	National Ski Areas Assn.
Charles Byrnes	International Assn. of Fairs and Expos.
George Killian	National Jr. College Athletic Assn.
Henry Minor	American Assn. for Water Skiers

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FOR RELEASE 6:30 P.M. January 7, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on January 10, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 11, 1974		26-week bills maturing July 11, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	98.092a/	7.548%	96.198b/	7.520%
Low	98.067	7.647%	96.174	7.568%
Average	98.075	7.615% 1/	96.178	7.560% 1/

a/ Excepting 2 tenders totaling $35,000 b/ Excepting 1 tender of $500,000

Tenders at the low price for the 13-week bills were allotted 72%.
Tenders at the low price for the 26-week bills were allotted 98%

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 49,620,000	$ 38,620,000	$ 23,590,000	$ 10,090,000
New York	2,878,745,000	1,984,785,000	2,859,575,000	1,525,435,000
Philadelphia	26,305,000	26,305,000	34,195,000	9,195,000
Cleveland	39,580,000	39,580,000	56,470,000	35,810,000
Richmond	26,855,000	26,785,000	23,365,000	16,365,000
Atlanta	28,710,000	28,710,000	22,965,000	22,165,000
Chicago	238,445,000	112,645,000	279,465,000	83,535,000
St. Louis	38,820,000	35,820,000	37,435,000	22,925,000
Minneapolis	20,905,000	15,785,000	15,585,000	5,235,000
Kansas City	37,005,000	36,205,000	31,620,000	28,080,000
Dallas	30,090,000	24,810,000	25,585,000	15,385,000
San Francisco	202,115,000	130,115,000	184,730,000	34,130,000
TOTALS	$3,617,195,000	$2,500,165,000c/	$3,594,580,000	$1,808,350,000 d/

c/ Includes $374,495,000 noncompetitive tenders accepted at the average price.
d/ Includes $228,355,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.87 % for the 13-week bills, and 7.97 % for the 26-week bills.

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FOR IMMEDIATE RELEASE January 8, 1974

SECRETARY SHULTZ
CONGRATULATES W. J. USERY

Secretary of the Treasury George P. Shultz today hailed the decision of Mr. W. J. Usery to remain with the government both as head of the Federal Mediation Conciliation Service and in his new role as Special Assistant to the President. Secretary Shultz said, "His decision to stay on is a plus, not only for labor but also for all Americans who he will continue to serve with his extraordinary ability. His work will be particularly important in the energy area, where industrial peace will be of critical importance".

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FOR IMMEDIATE RELEASE January 8, 1974

TREASURY ANNOUNCES TENTATIVE MODIFICATION OF DUMPING FINDING ON POTASH FROM CANADA

Assistant Secretary of the Treasury Edward L. Morgan announced today a tentative determination to modify the dumping finding on potassium chloride from Canada with respect to five companies. Notice of this action will appear in the Federal Register of Wednesday, January 9, 1974.

The Federal Register notice reads, in part, that:

> ...three exporters, Kalium Chemicals, Limited; Potash Company of Canada Limited; and Potash Company of America, and two importers, International Minerals and Chemical Corporation and CF Industries, Inc., who are related to their Canadian suppliers within the meaning of section 207 of the Antidumping Act, are no longer selling, or likely to sell, potassium chloride in the United States at less than fair value within the meaning of the Antidumping Act, 1921, as amended. From January 1970 to date, sales of each of these firms have been at not less than fair value and each has given assurances that future sales of potassium chloride to the United States will not be made at less than fair value.
>
> Accordingly, notice is hereby given that the Department of the Treasury intends to modify the finding of dumping to include potassium chloride, otherwise known as muriate of potash, from Canada produced and sold by Kalium Chemicals, Limited; Potash Company of Canada Limited; Potash Company of America; International Minerals and Chemical Corporation; and CF Industries, Inc., from this finding.

Interested persons will be given an opportunity to present oral and written views on this decision before Treasury takes final action.

During calendar year 1972, imports of potassium chloride from these five firms were valued at approximately $64.6 million, while total potash imports from Canada were valued at $106.5 million.

# # #

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FOR IMMEDIATE RELEASE January 8, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 17, 1974, in the amount of $4,302,825,000 as follows:

91-day bills (to maturity date) to be issued January 17, 1974, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated October 18, 1973, and to mature April 18, 1974 (CUSIP No. 912793 TH9) originally issued in the amount of $1,802,095,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated January 17, 1974, and to mature July 18, 1974 (CUSIP No. 912793 UF1).

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, January 14, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own

(OVER)

account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 17, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 17, 1974. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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Public Affairs
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EMBARGOED FOR RELEASE UNTIL
6:30 P.M., EDT, MONDAY, JANUARY 7, 1974

ADMINISTRATOR SIMON APPOINTS DR. WEINBERG TO HEAD NEW ENERGY R & D OFFICE

Administrator William E. Simon of the Federal Energy Office (FEO) today appointed Dr. Alvin M. Weinberg, 58, as Director of the new Energy Research and Development Office. This office will permanently remain in the FEO as part of the Executive Office of the President.

Dr. Weinberg is a renowned authority on nuclear energy and a leading spokesman for the scientific community on the problems posed to society by the rapid growth of science and technology.

As head of the Office of Energy Research and Development, Dr. Weinberg will report directly to Administrator Simon. His major responsibilities will be to:

- Formulate energy research and development policies and plans to implement them;
- Ensure that research and development priorities are consistent with overall energy policy;
- Assist the Administrator in evaluating new research and development programs;
- Work with the Atomic Energy Commision, the Environmental Protection Agency, the National Science Foundation, and the Department of the Interior to ensure that

(more)

research and development programs are coordinated and balanced throughout the Federal Government; and

- Work with the Office of Management and Budget, the Council on Environmental Quality, and other Executive Office agencies in presenting research and development alternatives to the President.

Prior to this appointment, Dr. Weinberg had just been named Director of the newly established Institute for Energy Analysis at Oak Ridge, Tennessee (January 1, 1974), and has taken leave of absence from the Institute to assume his FEO post. He served as Research Director of the Oak Ridge National Laboratory from 1948 to 1955, and was Director of the Laboratory from 1955 through 1973.

During his career, Dr. Weinberg has been accorded many honors and awards. He is a member of the National Academy of Sciences and has served on the Academy Council as well as its Committee on Science and Public Policy. He served as a member of the President's Science Advisory Committee from 1960 to 1963, and in 1969-1970 served as a member of President Nixon's Task Force on Science Policy. In 1972 he served as a member of the National Cancer Plan Evaluation Committee. In 1960 he received the Atomic Energy Commission's E. O. Lawrence Award, and the Atoms for Peace Award, for his contributions to reactor development.

Dr. Weinberg was born April 20, 1915 in Chicago, and earned his B.S., M.S., and Ph.D. degrees at the University of Chicago; he has also received numerous honorary degrees.

-FEO-

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FOR IMMEDIATE RELEASE January 7, 1974

ADMINISTRATOR SIMON URGES MAJOR OIL COMPANIES TO AID INDEPENDENT DEALERS

Federal Energy Office Administrator William E. Simon today sent telegrams to 26 major oil companies, urging them to help small, independent fuel dealers obtain more low-cost domestic fuel supplies.

"We must do everything possible to ensure that those smaller dealers who are threatened by the current price structure have available to them a greater percentage of the lower cost domestic product than many of them are currently able to purchase," his telegram read in part.

"Recent increases in the price of foreign products appear to threaten the very existence of this segment of the industry," Simon pointed out. "If small fuel oil companies are required to purchase a significant proportion of their products from foreign sources, they will not be able to compete and remain in business."

In his telegram, Administrator Simon "strongly urged" the major oil companies to take immediate action in several areas. These actions are spelled out in the telegram, copy attached.

Attachments: Copy of Administrator Simon's telegram and list of addressees.

E-74-9 -FEO-

Telegram from William E. Simon to Presidents of the Major Oil Companies (January 7, 1974):

In recent days, we at the Federal Energy Office, have been meeting with a wide variety of groups concerning the difficulties they face as a result of the current energy shortage. Yesterday, we met with a group representing small fuel oil distributors from New York City and Long Island who, historically, have been supplied imported product at competitive prices. In the past, these companies have successfully competed with other market participants.

Recent increases in the price of foreign products appear to threaten the very existence of this segment of the industry. If small fuel oil companies are required to purchase a significant proportion of their products from foreign sources, they will not be able to compete and remain in business. In addition, I am particularly concerned when I hear reports that some companies with comparatively large supplies of lower cost domestic products are aggressively exploiting the current situation at the expense of their competitors.

We simply cannot permit today's energy situation to disadvantage the small independent businessmen who provide healthy competition. The President and the Congress have made it clear that they expect the fuel allocation system to be managed fairly for all our citizens.

We must do everything possible to ensure that those smaller dealers who are threatened by the current price structure have available to them a greater percentage of the lower cost domestic product than many of them are currently able to purchase.

I recognize that compliance with the rules in the allocation programs establishes relationships between suppliers and purchasers based on historical periods, usually 1972. To provide some order in allocating fuels, we must insist that these rules be followed. However, there is sufficient flexibility within the allocation rules to adjust base period volumes or assign new suppliers. We expect to utilize this flexibility to offset imbalances in supply prices between independent and affiliated dealers.

I strongly urge you to undertake immediately the following actions within the general provisions of the allocation programs:

1. Increase the level of imported petroleum products whenever possible, and within your overall price structure, average these higher cost imports with your lower cost domestic supplies;
2. Whenever your company has volumes of petroleum products exempt from allocation (as defined in the regulations), these exempt volumes should be made available on a voluntary basis to independent dealers who are currently receiving a high percentage of their supplies from high cost imports. Concurrently, I strongly urge you to discourage activities that take advantage of exempt volumes to disadvantage the small business community.
3. Where feasible, the Federal Energy Office will assign new customers (at the dealer level) and allocate increased supply volumes, associated with valid adjustments to base period volumes, to suppliers with comparatively

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larger supplies of low cost domestic fuels. I expect rapid compliance with these FEO adjustments.

I am asking that you take these steps to help us fill a mutual need. It is certainly most desirable that the private sector work through its own distribution system to resolve this and other discrepancies.

In the few weeks that I have been head of the Federal Energy Office we have received outstanding cooperation and assistance from major oil companies as well as other segments of the petroleum industry. With the continuation of this valuable support we can resolve all the problems that now confront us. I know I can count on you.

I would be pleased to meet with you if you feel that such a meeting could be helpful.

Sincerely,

William E. Simon
Administrator
Federal Energy Office

Attachment 2

LIST OF ADDRESSEES :

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COMPANY	EAST COAST
Amerada Hess 51 W. 51st Street New York, NY 10019	Leon Hess 51 W. 51st Street New York, NY 10019 212/581-2910
Ashland Oil 1401 Winchester Ave. Ashland, Ky. 41101	Orin E. Atkins 1409 Winchester Ave. Ashland, Ky. 41101 606/329-3333
Cities Service Co. 60 Wall Street New York, NY 10005	Roland V. Sellers 70 Pine Street New York, NY 10005 212/422-1600
Continental High Ridge Park Stanford, Conn. 06904	John G. McLean High Ridge Park Stanford, Conn. 06904 203/359-3500
Mobil Oil Corp. 150 East 42nd Street New York, NY 10017	Rawleigh Warner 150 East 42nd Street New York, NY 10017 212/883-2405
Shell Oil 1 Shell Plaza Houston, Texas 77001	Harry Bridges 1 Shell Plaza Houston, Texas 7701
Sun Oil 240 Radnor - Chester Rd. St. Davids, PA. 19087	Robert Dunlop 240 Radnor - Chester Rd. St. Davids, PA. 19087 215/985-1600
Texaco 135 East 42nd Street New York, NY 10017	Maurice F. Granville 135 East 42nd Street New York, NY 10017 212/953-6444

COMPANY	CENTRAL
Champlin Petroleum 5301 Camp Bowie Blvd. Forth Worth, Texas 76107	Frank Barnett Union Pacific Corp. 345 Park Avenue New York, NY 10022 212/593-1700
Exxon Corporation 2151 Avenue of America New York, NY 10020 212/974-4751	J. K. Jamieson 2151 Avenue of America New York, NY 10020 212/974-4751
	M. A. Wright Exxon Company Box 2180 Houston, Texas 77001 713/221-6883
Gulf Box 1166 Pittsburgh, PA. 15230	B. R. Dorsey Box 1166 Pittsburgh, PA. 15230 412/391-2400
Kerr McGee Kerr McGee Tower Oklahoma City, Okla. 73125	Dean McGee Box 25861 Oklahoma City, Okla. 73125 405/236-1313
Koch Industries, Inc. 4111 East 37th Street N. Wichita, Kansas 67201	Charles Koch Box 2256 Wichita, Kansas 67201 316/838-7741
Marathon Oil Company 539 S. Main Street Findley, Ohio 45840	J. C. Donnell, II 539 S. Main Street Findley, Ohio 45840 419/422-2121
Murphy Oil Corporation 200 N. Jefferson Ave. El Dorado, Arkansas 71730	Charles H. Murphy, Jr. 200 N. Jefferson Ave. El Dorado, Arkansas 71730 501/862-6411
Pennzoil Company 900 S.W. Tower Houston, Texas 77002	J. Hugh Liedtke 900 S.W. Tower Houston, Texas 77002 713/228-8741

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COMPANY	CENTRAL
Phillips Petroleum Co. Bartlesville, Okla. 74004	John M. Houchin Bartlesville, Okla. 74004 918/661-6600
Skelly Oil Box 1650 Tulsa, Okla. 74102 (Sub-Mission Corp. Sub of Getty Oil)	Harold Berge Box 1650 Tulsa, Okla. 74102 918/584-2311
St. Oil of Indiana 200 East Randolph Drive Chicago, Illinois 60601	John E. Swearingen 200 East Randolph Drive Room 1929 Chicago, Illinois 60601 312/856-6300
St. Oil of Ohio 101 West Prospect Ave. Cleveland, Ohio 44115	Charles Spahr 101 West Prospect Avenue Midland Bldg. - Room 1750 Cleveland, Ohio 44115 216/575-5450
Tenneco Box 2511 Houston, Texas 77001	N. W. Freeman Box 2511 Houston, Texas 77001 713/229-4454
	PACIFIC
Atlantic Richfield - L.A. 515 South Flower Street Los Angeles, CA. 90071	Robert A. Anderson 515 South Flower Street Los Angeles, CA. 90071 213/486-2537
Getty Oil 3810 Wilshire Blvd. Los Angeles, CA. 90010	J. Paul Getty 3810 Wilshire Blvd. Los Angeles, CA. 90010 213/381-7151
Occidental 10889 Wilshire Blvd. Suite 1500 Los Angeles, CA. 90024	Dr. Armand Hammer 10889 Wilshire Blvd. Suite 1500 Los Angeles, CA. 90024 213/879-1700 Ext. 1111
St. Oil of California 225 Bush Street Room 1766 San Francisco, CA. 94104	O. N. Miller 225 Bush Street Room 1766 San Francisco, CA. 94104 415/894-3232
Union Oil of California 461 S. Boylston Street Los Angeles, CA. 90017	Fred Hartley Box 7600 Los Angeles, CA. 90051 213/486-7000

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January 8, 1974

NOTE TO CORRESPONDENTS:

The Treasury Department has issued the following statement in response to a report on some issues of international monetary reform released today by the Subcommittee on International Economics of the Joint Economic Committee:

> We have not yet studied the report in detail, nor are detailed comments appropriate. We would point out the Subcommittee report does not cover the whole range of monetary reform.
>
> In the immediate situation, we believe there is wide agreement both here and abroad that the more flexible exchange rate arrangements now in effect are appropriate. At the same time, we welcome the emphasis of the Subcommittee on developing appropriate guidelines or rules for exercising surveillance of such practices. We also welcome the support for the Administration's efforts to remove controls on capital flows.
>
> As long ago as his IMF speech in September 1972, Secretary Shultz, while assuming par values would provide a "center of gravity" in the exchange rate system, suggested the importance of a new monetary system incorporating in a realistic way an option for countries to float. This has remained the U.S. position.

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FOR IMMEDIATE RELEASE JANUARY 9, 1974

OCTOBER AND 3rd QUARTER 1973 RESIDUAL FUEL OIL PRICES RELEASED

The average price of East Coast tanker, pipeline and barge quantities of residual fuel oil delivered to purchasers for resale went from $4.39 a barrel in September to $4.76 in October, according to William E. Simon, Administrator of the Federal Energy Office.

The average price of residual fuel oil picked up by purchasers for resale increased from $2.43 to $2.49. This oil averaged a lower price than others because of sulfur content and other characteristics. Tanker and pipeline deliveries to East Coast electric utilities averaged $5.04 a barrel in October, an increase of 61 cents from September.

For tanker, pipeline and barge quantities, East Coast marketers paid an average of $5.04 a barrel for residual fuel oil with sulfur content of one percent maximum, an increase of 33 cents from September; $4.52 a barrel for oil with sulfur content of 1.5 percent through 2.2 percent, an increase of 64 cents; and $3.80 a barrel for oil with sulfur content over 2.2 percent, a 41-cent increase.

The survey is part of the surveillance under the Presidential Proclamation on oil imports. This report is limited to No. 6 residual fuel oil, both domestic and imported. Excluded are intracompany business, sales to the Department of Defense, and sales outside the U.S. These results are obtained from the summation of individual company submissions and include business on contracts of various vintages and spot transactions.

Attachment

-FEO-

E-74-11

FEDERAL ENERGY OFFICE SURVEY OF NO. 6 RESIDUAL FUEL OIL

EAST COAST SALES 1/, REVENUE AND COSTS PER BARREL 2/, BY REGIONS 3/

OCTOBER 1973

PART I. SALES	All Regions		Region A		Region B		Region C		Region D	
	(1) Delivered to Purchaser	(2) Picked up by Purchaser	(3) Delivered to Purchaser	(4) Picked up by Purchaser	(5) Delivered to Purchaser	(6) Picked up by Purchaser	(7) Delivered to Purchaser	(8) Picked up by Purchaser	(9) Delivered to Purchaser	(10) Picked up by Purchaser
A. To resellers:										
1. Tanker, pipeline or barge	$4.76	$2.49	$4.67	$--	$5.55	$NR 4/	$5.60	$4.50	$NR	$NR
2. Truck or tank car	4.85	4.75	5.36	4.69	5.21	5.67	4.96	4.41	4.06	3.71
B. To electric utilities:										
1. Tanker or pipeline	5.04	5.12	5.35	NR	5.65	--	3.24	--	3.90	NR
2. Barge	4.98	5.02	NR	NR	6.03	NR	4.31	5.36	4.74	NR
3. Truck or tank car	4.92	--	NR	--	--	--	--	--	NR	--
C. To other consumers:										
1. Barge	4.37	3.75	5.24	NR	5.33	NR	4.27	3.32	3.36	3.72
2. Truck or tank car	5.15	4.12	5.35	4.27	5.69	5.22	4.90	4.19	4.10	3.75

PART II. PURCHASES BY MARKETERS Tanker, Pipeline or Barge	All Regions	Region A	Region B	Region C	Region D
Sulfur content:					
A. 1% maximum	$5.04	$4.99	$5.71	$4.48	$NR
B. Over 1% thru 1.5%	--	--	--	--	--
C. Over 1.5% thru 2.2%	4.52	NR	NR	--	NR
D. Over 2.2%	3.80	NR	NR	NR	3.67

SEPTEMBER 1973

PART I. SALES	All Regions (1) Delivered to Purchaser	(2) Picked up by Purchaser	Region A (3) Delivered to Purchaser	(4) Picked up by Purchaser	Region B (5) Delivered to Purchaser	(6) Picked up by Purchaser	Region C (7) Delivered to Purchaser	(8) Picked up by Purchaser	Region D (9) Delivered to Purchaser	(10) Picked up by Purchaser
A. To resellers:										
1. Tanker, pipeline or barge	$4.39	$2.43	$NR[4/]	$NR	$--	$NR	$NR	$3.66	$NR	$NR
2. Truck or tank car	5.02	4.19	4.88	4.45	5.79	5.28	NR	4.18	NR	3.10
B. To electric utilities:										
1. Tanker or pipeline	4.43	4.70	4.59	NR	4.95	--	3.51	NR	3.84	NR
2. Barge	4.55	4.79	NR	NR	5.19	NR	3.95	5.00	4.26	NR
3. Truck or tank car	4.68*	--	NR	--	NR*	--	--	--	NR	--
C. To other consumers:										
1. Barge	4.17	3.52	5.02	4.67	4.86	4.04	3.94	3.13	2.98	3.46
2. Truck or tank car	4.74	3.85	4.96	3.71	5.23	4.90	4.51	3.82	3.70	3.56

PART II. PURCHASES BY MARKETERS Tanker, Pipeline or Barge	All Regions	Region A	Region B	Region C	Region D
Sulfur content:					
A. 1% maximum	$4.71	$5.11	$5.19*	$4.37	$NR
B. Over 1% thru 1.5%	--	--	--	--	--
C. Over 1.5% thru 2.2%	3.88	NR	4.12	--	NR
D. Over 2.2%	3.39	NR	--	NR	NR

*Revised

3rd QUARTER 1973

PART I. SALES	All Regions (1) Delivered to Purchaser	All Regions (2) Picked up by Purchaser	Region A (3) Delivered to Purchaser	Region A (4) Picked up by Purchaser	Region B (5) Delivered to Purchaser	Region B (6) Picked up by Purchaser	Region C (7) Delivered to Purchaser	Region C (8) Picked up by Purchaser	Region D (9) Delivered to Purchaser	Region D (10) Picked up by Purchaser
A. To resellers:										
1. Tanker, pipeline or barge	$4.22	$2.69	$4.15	$NR 4/	$5.21	$NR	$4.41	$4.60	$4.16	$NR
2. Truck or tank car	4.61	4.07	4.77	4.28	4.79	5.19	4.63	4.06	NR	3.07
B. To electric utilities:										
1. Tanker or pipeline	4.18	4.59	4.55	NR	4.52	--	3.57	NR	3.62	NR
2. Barge	4.27	4.77	NR	NR	4.84	NR	3.89	4.88	4.07	NR
3. Truck or tank car	4.50	--	NR	--	NR	--	--	--	4.43	--
C. To other consumers:										
1. Barge	4.09	3.43	4.84	4.53	4.72	3.89	4.02	3.09	3.01	3.36
2. Truck or tank car	4.58	3.68	4.83	3.49	5.11	4.74	4.34	3.83	3.58	3.27

PART II. PURCHASES BY MARKETERS Tanker, Pipeline or Barge	All Regions	Region A	Region B	Region C	Region D
Sulfur content:					
A. 1% maximum	$4.52	$4.72	$4.91	$4.40	$NR
B. Over 1% thru 1.5%	NR	--	NR	--	--
C. Over 1.5% thru 2.2%	3.67	3.62	4.02	--	NR
D. Over 2.2%	3.20	NR	NR	NR	3.78

1/ Excludes intracompany transactions in which exchanges of goods and/or services are significant, sales to the Department of Defense, and sales outside the United States.
2/ Reflects all allowances and charges, including delivery charges of vendor.
3/ Regional classification by destination. Regions consist of: A, New England; B, New York and New Jersey; C, Pennsylvania, Delaware, Maryland, District of Columbia, and Virginia; and D, North Carolina, South Carolina, Georgia and Florida.
4/ NR - not released in order to avoid possible disclosure of individual company information.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE 6:30 P.M. January 9, 1974

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $ 1.8 billion of 52-week Treasury bills to be dated January 15, 1974, and to mature January 14, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

High	-	93.038	Equivalent annual rate	6.885%
Low	-	92.905	Equivalent annual rate	7.017%
Average	-	92.975	Equivalent annual rate	6.948% 1/

Tenders at the low price were allotted 63%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 26,870,000	$ 10,870,000
New York	2,422,845,000	1,278,925,000
Philadelphia	26,215,000	1,215,000
Cleveland	18,280,000	3,230,000
Richmond	56,180,000	46,430,000
Atlanta	25,275,000	9,975,000
Chicago	178,445,000	87,945,000
St. Louis	31,305,000	15,295,000
Minneapolis	36,930,000	31,930,000
Kansas City	21,695,000	16,695,000
Dallas	23,910,000	7,910,000
San Francisco	351,630,000	289,630,000
TOTALS	$3,219,580,000	$1,800,050,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 7.44%.

2/ Includes $ 55,460,000 noncompetitive tenders accepted at the average price.

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FOR IMMEDIATE RELEASE January 10, 1974

FEDERAL AGENTS AUDIT OIL REFINERS PRICES AND SUPPLIES

Administrator William E. Simon today announced that a joint task force of Federal Energy Office (FEO) and Internal Revenue Service (IRS) investigators has begun auditing price, profit, and supply records of every petroleum refiner in the country.

The task force will conduct continual field reviews of the major refiners -- those refiners controlling approximately 90 percent of the refinery capacity in the United States. Other refiners will be subject to ongoing desk audits in Washington. Authority to conduct these audits comes under provisions of the Economic Stabilization Act and the Emergency Petroleum Allocation Act.

"The Refinery Audit and Review Program is designed to ensure that petroleum product price increases are justified and reflect only increased costs to refiners for imported and domestic petroleum supplies and not increased profits. The program will also give FEO means to verify the accuracy of refiner reports on crude oil and product supplies and is a major step toward establishing an independent reporting and information system on refinery inventories at FEO," Simon said.

E-74-12 (more)

The audit task force will be divided into teams that will be conducting continuing audits in corporate offices, visiting individual firms as often as four times a year. The teams consist of FEO cost analysts and IRS agents who have been trained in FEO petroleum regulations and are experienced in refinery accounting practices. The initial audit team will include 35 agents.

The overall program will cover all 140 refiners in the U.S. Desk audits of the smaller refiners will be expanded to field reviews as the need dictates.

"The program in no way reflects on the refiners," Simon said, "but it will assure us that they understand and are abiding by FEO regulations."

FEO regulations permit a refiner to adjust prices once a month but only to reflect increased costs for crude oil (foreign and domestic) or refined products purchased for resale.

Refiners must reflect these increased costs through uniform application of price increases to particular types of products. The refiners must also report cost justification calculations to the FEO each month to support their price increases, and they are prohibited to carry excessive inventories.

-FEO-

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FOR IMMEDIATE RELEASE JANUARY 10, 1974

PETROLEUM SITUATION REPORT
WEEK ENDING DECEMBER 28, 1973

The Federal Energy Office today released its weekly report on the petroleum situation for the week ending December 28, 1973. Highlights of the report:

Imports continued to decline by 300,000 barrels per day from the previous week. However, they remained above the level of a fully effective embargo.

Demand showed a significant reduction, 1.8 million barrels per day below the forecast for the latest week and 900 thousand barrels per day below the forecast for the latest month.

Gasoline, residual oil and jet fuel all showed significant reductions in demand. Reductions in demand for all petroleum products were due primarily to the continued relatively mild weather for December and the number of energy conservation measures that have been adopted throughout the Nation.

Attachment: Petroleum Situation Report
Week Ending December 28, 1973

-FEO-

E-74-13

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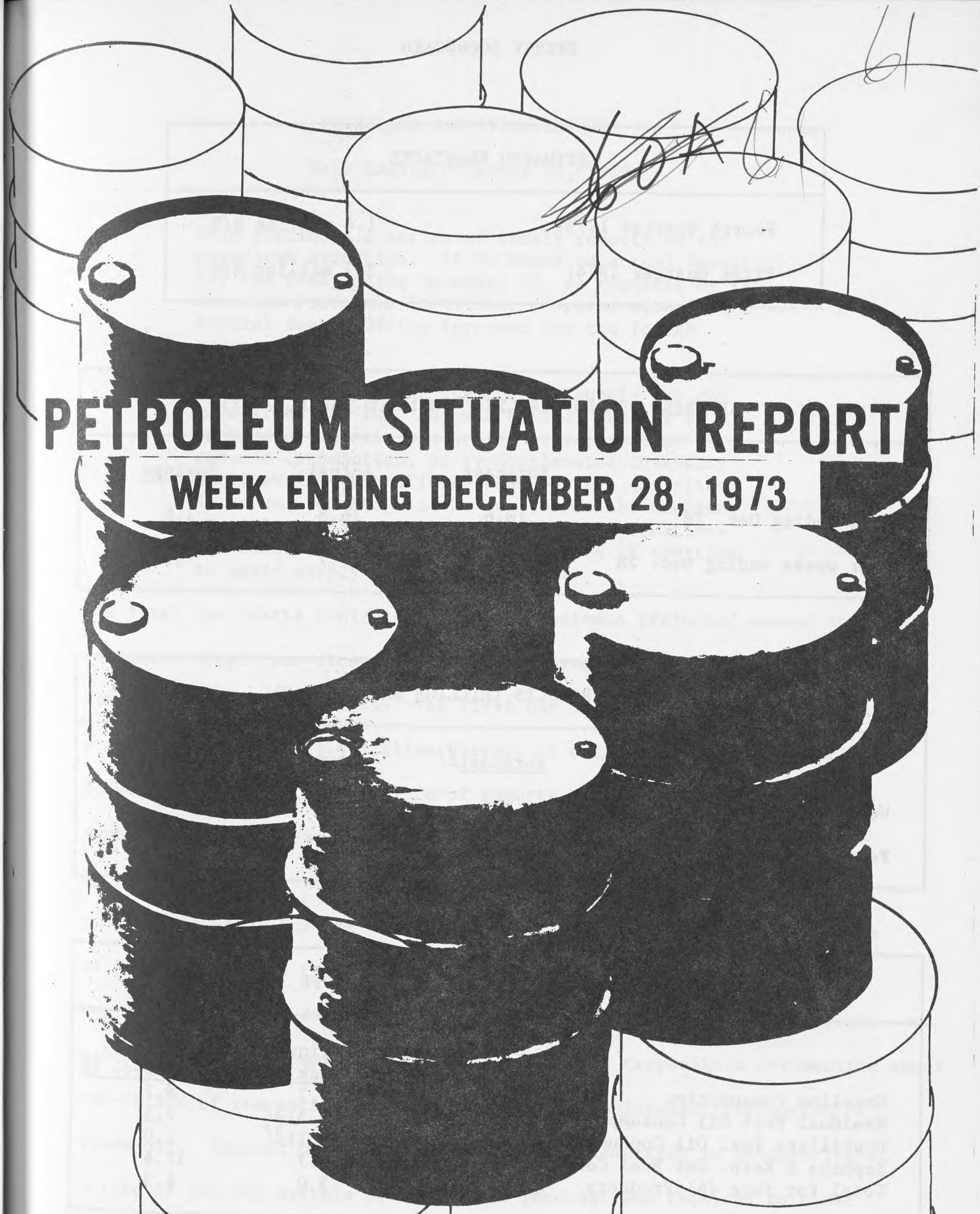

PETROLEUM SITUATION REPORT

WEEK ENDING DECEMBER 28, 1973

FEDERAL ENERGY OFFICE

ENERGY SCORECARD

ESTIMATED SHORTAGES	
Fourth Quarter 1973:	1.4 million B/D
First Quarter 1974:	2.7 million B/D

APPARENT DEMAND RESULTS[1/] (MILLION BARRELS/DAY)

	Forecast	Actual	Savings
Week ending Dec. 28	18.6	16.8	1.8
Four weeks ending Dec. 28	18.6	17.7	.9

IMPORT RESULTS (MILLION BARRELS/DAY)

	Forecast[2/]	Actual	Difference
Week ending Dec. 28	5.6	5.3	-0.3
Four weeks ending Dec. 28	5.6	5.8	+0.2

PERCENTAGE SAVINGS BY FUEL TYPE

	Latest Week	Prior Week	Four weeks Ending Dec. 28
Gasoline Consumption	18.6	7.7	8.7
Residual Fuel Oil Consumption	11.1	(3.3)[3/]	2.5
Distillate Fuel Oil Consumption	4.2	(4.1)[3/]	1.0
Naphtha & Kero. Jet Fuel Consumption	12.5	12.7	17.6
Total for four (4) Products	13.0	3.0	6.3

1/ Apparent demand calculated from supply and stock change.

2/ Reflects the average level of imports expected during the fourth quarter with the effect of embargo not fully realized.

3/ Increase

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PETROLEUM SITUATION REPORT

Week Ending December 28, 1973

This continues a series of weekly reports on the petroleum situation. It is based on actual results for the week ending December 28, as reported by the American Petroleum Institute, compared with the Federal Energy Office forecast for the fourth quarter of 1973.

This report appraises the current supply gap and identifies how this gap was closed, whether by increased domestic production or imports, by reduced consumption, or by accelerated inventory withdrawals. Significant week to week variations in actual results will be due to weather changes, possible bunching in ship arrivals, fluctuations in secondary stocks and other factors in addition to basic supply and demand changes.

The first two charts indicate how the gap between projected demand and projected supply was closed in the week ending December 28, and in the four weeks since December 1. The first bar on each chart shows the problem: the gap of 1.4 million barrels of oil per day, as originally forecast, augmented by a failure of imports or domestic production of crude oil to reach even the forecast level. The second and third bars in each of these chart show the effects of actions and events in closing the gap. For the current week, as shown on Chart 1, the failure of imports to reach the forecast level added to the shortfall. This was met entirely by demand below the forecast level. For the four weeks since December 1, lower than forecast demand was responsible for meeting about two-thirds of the anticipated shortage and below forecast production of crude oil. Imports were above forecast but a reduction in inventories at a rate of 400,000 barrels per day above forecast was required to close the deficit.

Imports

Imports of all petroleum products for the week were 600,000 barrels per day above the 4.6 million barrels per day forecast for December. This is the period when the embargo was expected to reach a fully effective level. Although imports have declined over the last four weeks, as shown in Chart 3, they are still above the level forecast for this month.

The Demand Situation

Demand for the four major petroleum products was 13.0 percent below forecast for the week ending December 28, and 6.3 percent, or 900,000 barrels a day, below forecast for the four week period since December 1, as shown in Chart 4. Demand for distillate fuel oils was close to forecast while demand for the three other major products was below forecast.

Gasoline demand was 18.6 percent below forecast for the week, and since December 1, 8.7 percent below forecast. This indicates a significant response to the administration conservation measures, and a savings of 600,000 barrels per day over the last four weeks.

Demand for distillate fuel oils was 4.2 percent below forecast for the week ending December 28, as milder weather returned after the colder weather of the previous week. During the last four weeks, demand for distillate fuel oils has been close to forecast despite the warmer than normal weather the country has been experiencing.

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Residual fuel oil demand was 11.1 percent below forecast last week. This is in marked contrast to the previous week when it was 3.3 percent above forecast. For the four week period since December 1, demand was 2.5 percent below forecast.

Demand for jet fuel was at approximately the same level as a week ago, and was 12.5 percent below the forecast. In the past four weeks demand has lagged 17.6 percent below forecast. Demand has been seasonally higher during the latter part of the month due to the holiday traffic.

Inventories

Inventory reductions were very close to the forecast rate for the week. Crude oil inventories were reduced at a rate of 900,000 barrels per day, to maintain refinery production in the face of decreased crude oil imports. Stocks of most major products were steady to higher after having been reduced during the two preceeding weeks.

Jet fuel stocks provided the exception. Stocks were drawn at a rate slightly above forecast, in contrast to the previous three weeks when stocks were increased each week. The reduction during the current week reflects a lag in the production of jet fuel.

Gasoline stocks were increased at a rate of 600,000 barrels per day. This is normally the period during which gasoline inventories are building to meet summer demand. However, these inventories were drawn down during the early part of December and are below the level of a year ago.

With the milder weather of last week and reduced demand for distillate fuel oils, stocks were increased after being drawn down in the two previous weeks to meet demands due to colder weather. They remain much above the level a year ago. Stocks of residual fuel oil increased over the week, but are below the level of last year.

Weather

The Nation's weather was warmer than normal for the week ending December 30. Oil heating degree days were 21.3 percent below normal for the week and for the period since July 1, cumulative degree days were 9.8 percent below normal. Chart 5 illustrates the regional differences.

January temperatures in the Northeast are expected to be above normal, while the Midwest is expected to have normal to below normal temperatures.

THE PETROLEUM SITUATION
WEEK ENDING DECEMBER 28, 1973
(Millions of Barrels per Day)

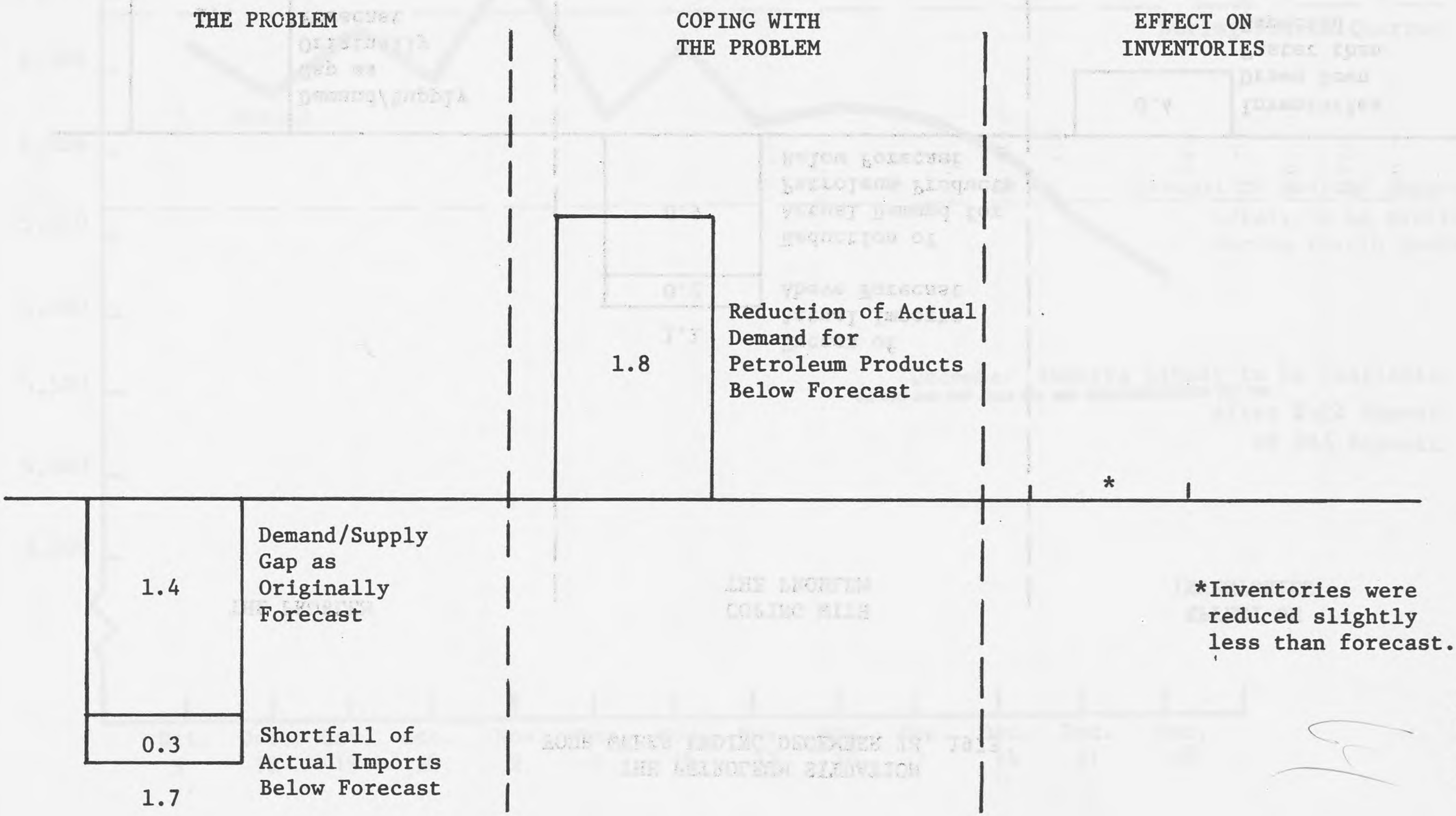

Chart 1

THE PETROLEUM SITUATION
FOUR WEEKS ENDING DECEMBER 28, 1973

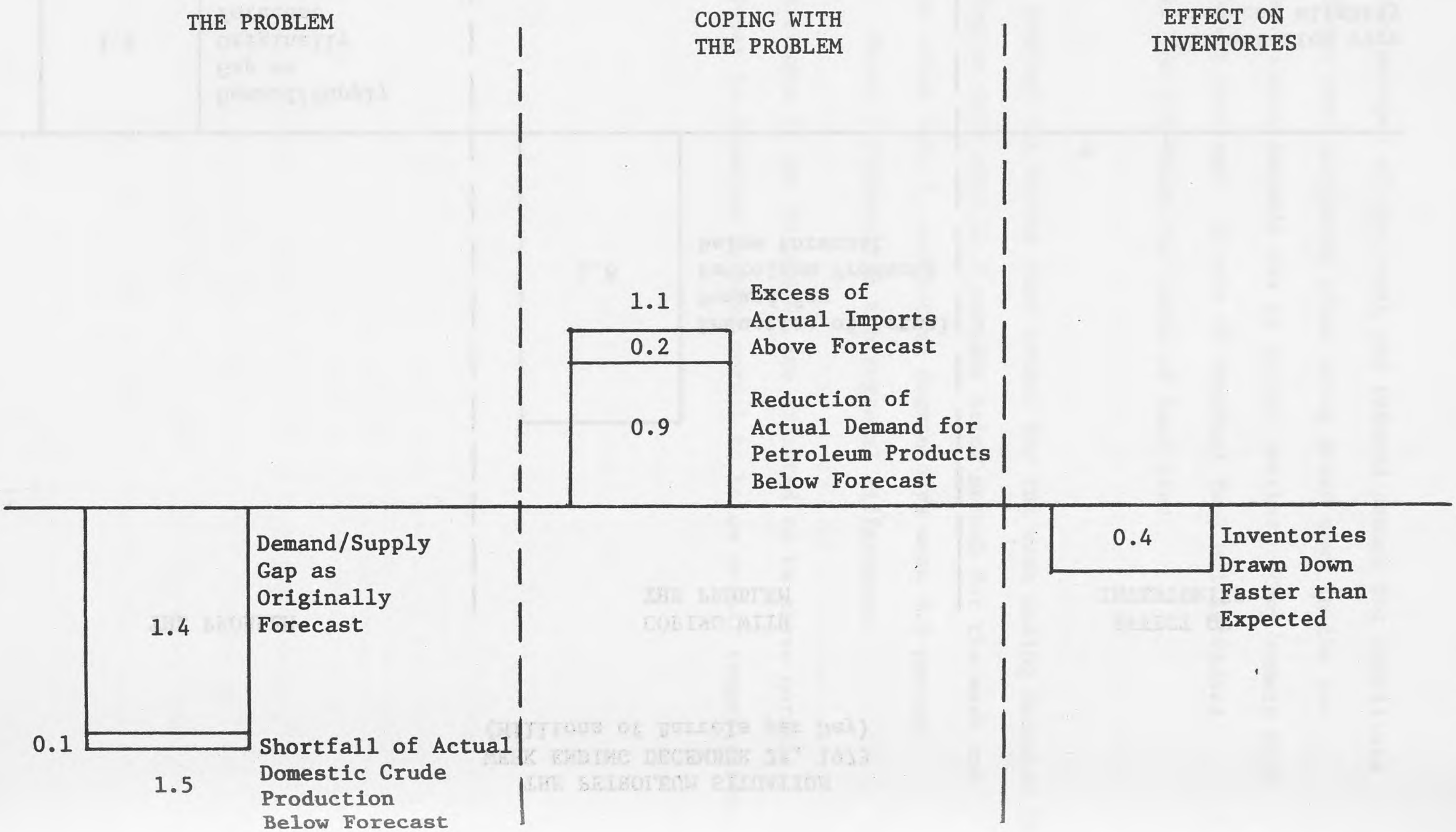

Chart 2

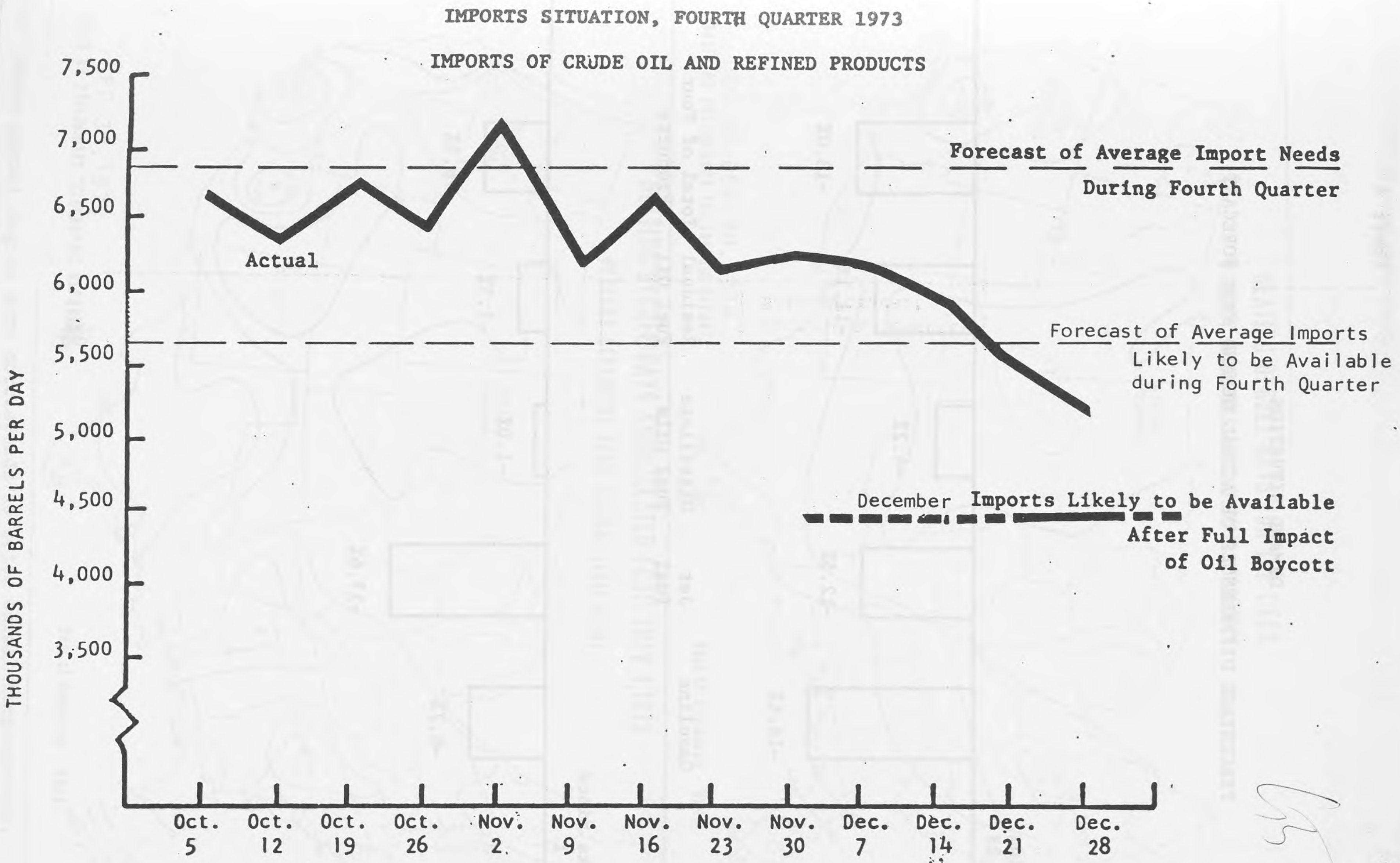
IMPORTS SITUATION, FOURTH QUARTER 1973
IMPORTS OF CRUDE OIL AND REFINED PRODUCTS
7,500
7,000
6,500
6,000
5,500
5,000
4,500
4,000
3,500
THOUSANDS OF BARRELS PER DAY
Actual
Forecast of Average Import Needs
During Fourth Quarter
Forecast of Average Imports
Likely to be Available
during Fourth Quarter
December Imports Likely to be Available
After Full Impact
of Oil Boycott
Oct. 5
Oct. 12
Oct. 19
Oct. 26
Nov. 2
Nov. 9
Nov. 16
Nov. 23
Nov. 30
Dec. 7
Dec. 14
Dec. 21
Dec. 28

CHART 3

Chart 4

DEMAND SITUATION

PERCENTAGE DIFFERENCES OF ACTUAL DEMAND FROM FORECAST

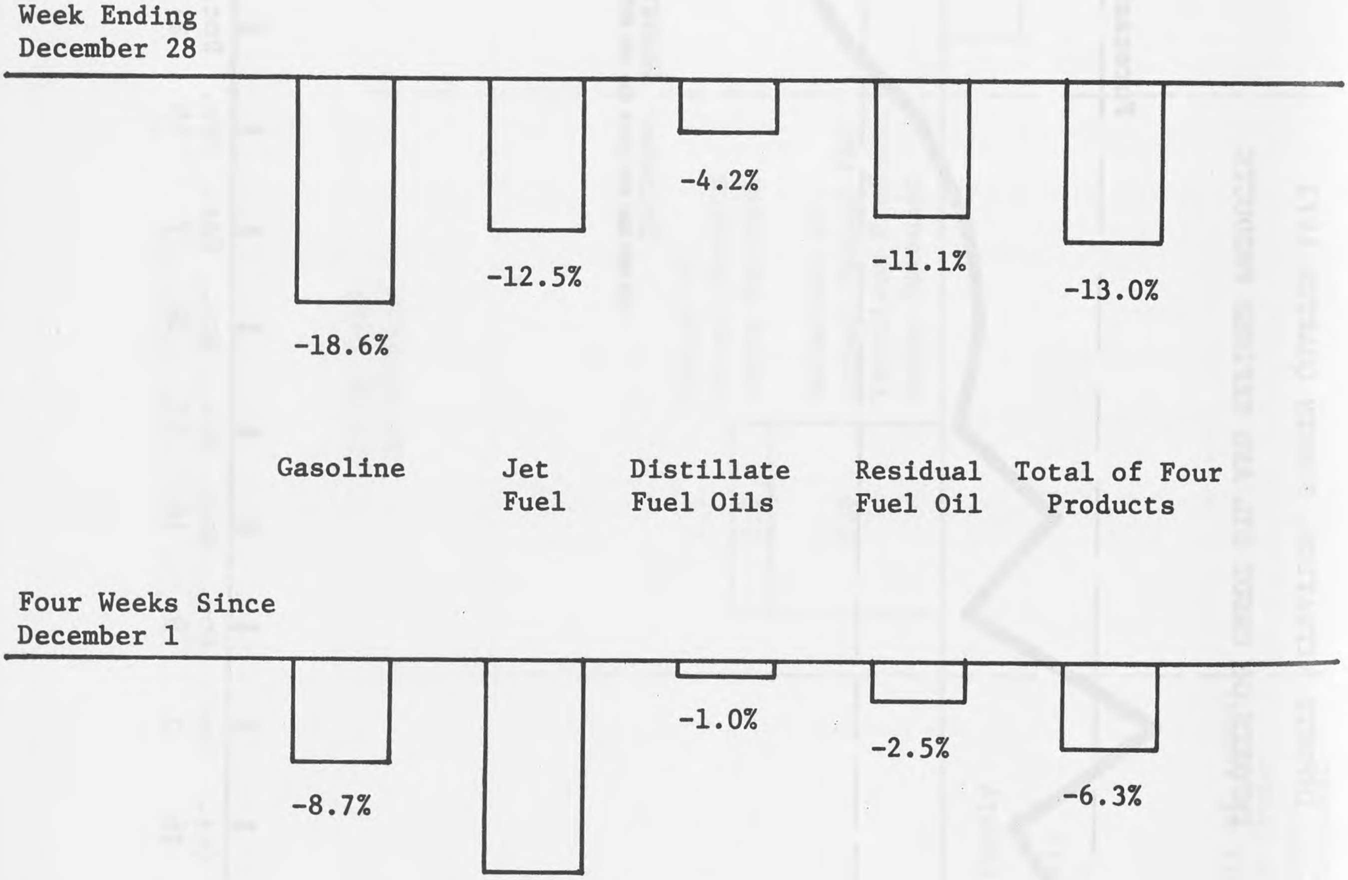

Chart 5

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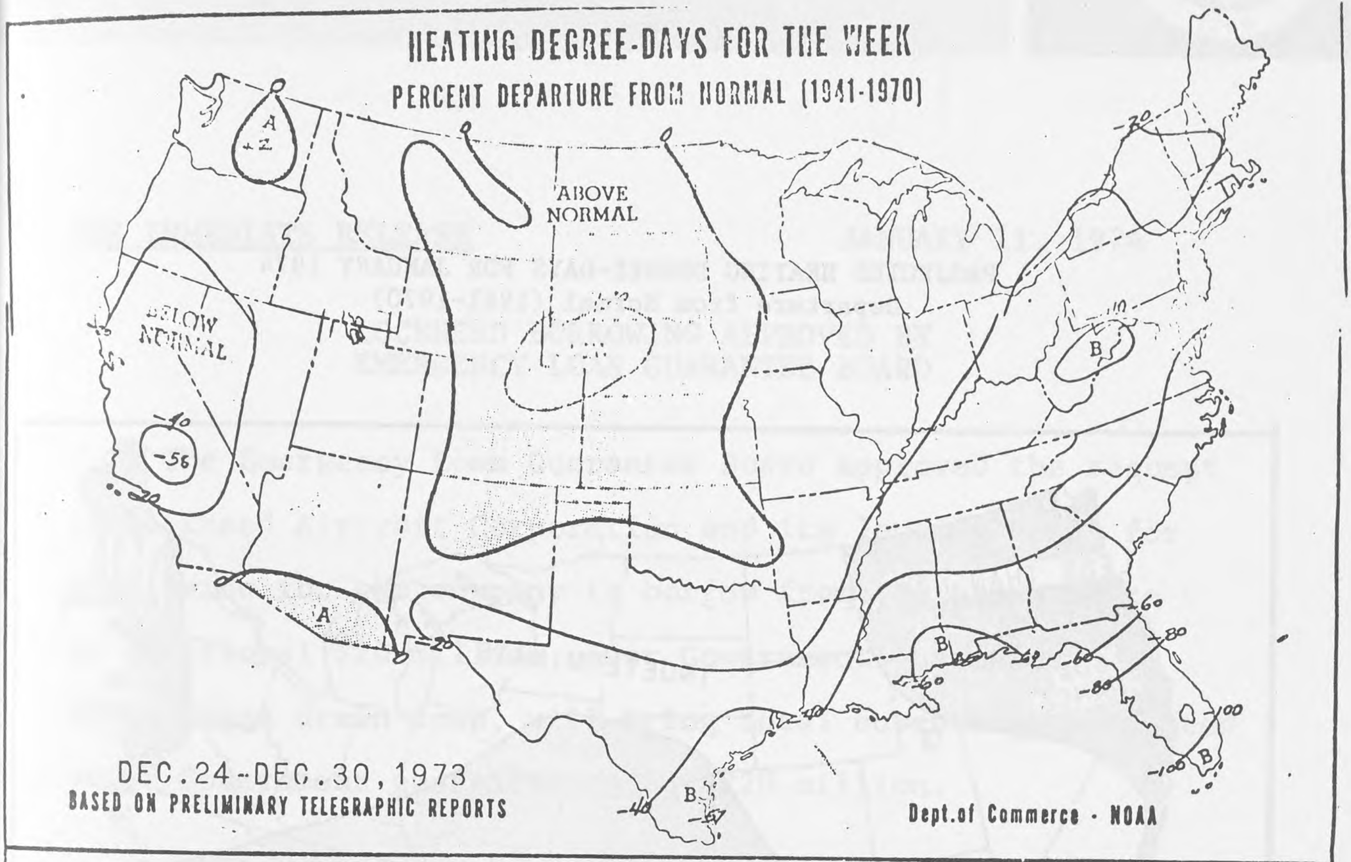
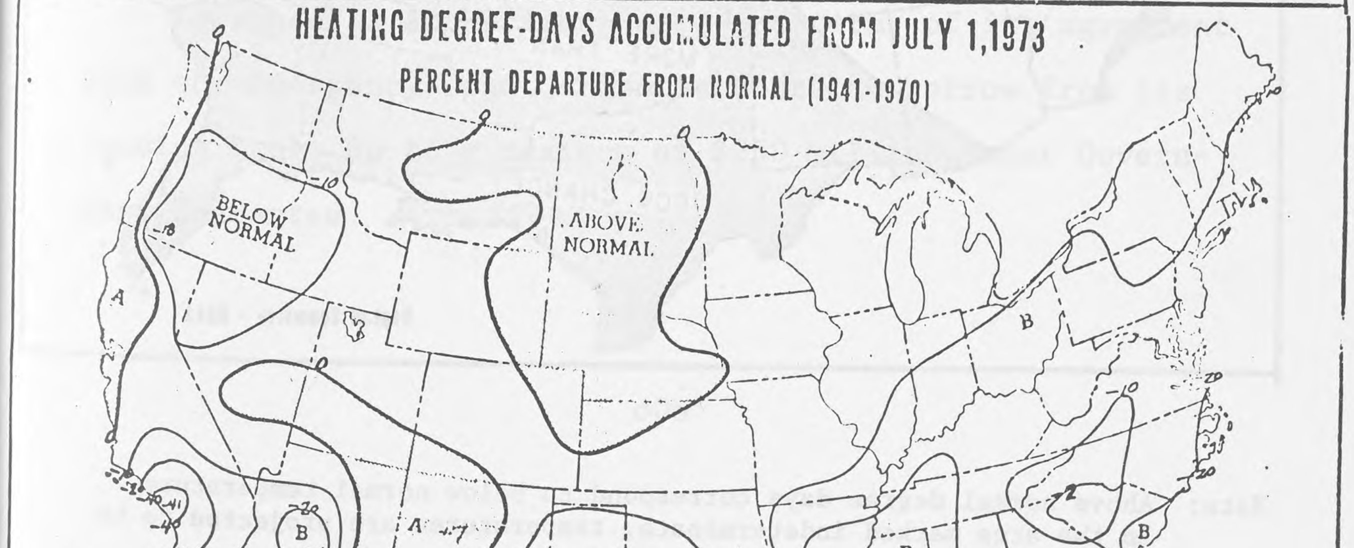
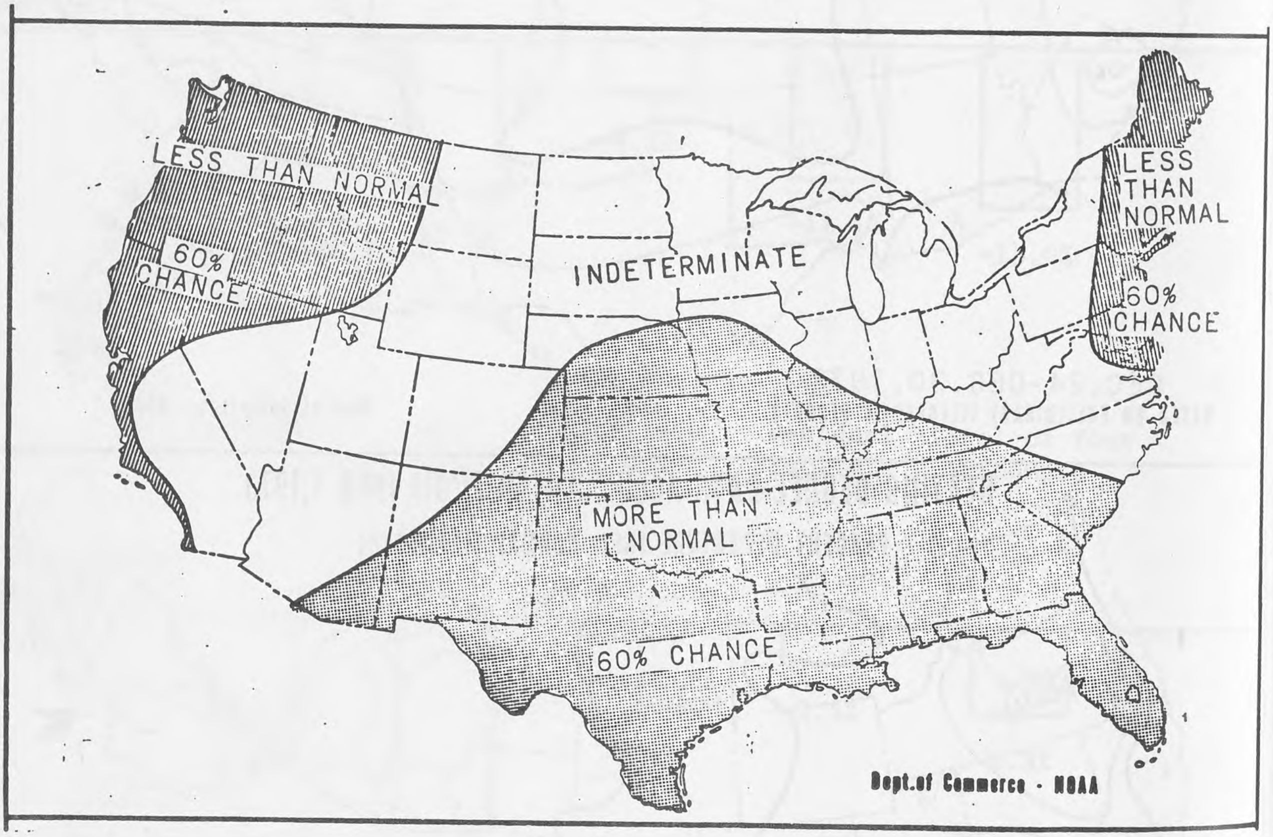




Note: above normal degree days corresponds to below normal temperatures.

PROJECTED HEATING DEGREE-DAYS FOR JANUARY 1974
Departure from Normal (1941-1970)



Note: Above normal degree days correspond to below normal temperatures. In the area marked indeterminate, temperatures are projected to be near normal.

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FOR IMMEDIATE RELEASE JANUARY 11, 1974

LOCKHEED BORROWING APPROVED BY EMERGENCY LOAN GUARANTEE BOARD

The Emergency Loan Guarantee Board approved the request of Lockheed Aircraft Corporation and its lending banks for permission for the company to borrow from the banks up to an additional $20 million under Government guarantee, which, when drawn down, will bring total borrowings permitted under Government guarantee up to $220 million.

Lockheed is authorized under the terms of its agreement with the Emergency Loan Guarantee Board to borrow from its lending banks up to a maximum of $250 million under Government guarantee.

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JANUARY 9, 1974

TRANSCRIPTION OF TAPE

SECRETARY OF THE TREASURY GEORGE P. SHULTZ
at MEETING OF U.S. INDUSTRIAL PAYROLL
SAVINGS COMMITTEE

DEPARTMENT OF THE TREASURY

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SECRETARY OF THE TREASURY GEORGE P. SHULTZ: This is an occasion for me to express my thanks to those of you who have served and my thanks to those of you who are embarking on next year's campaign for the wonderful work I know you will do. I do want to also say a word or two about the economy and something about the setting, you might say, that the campaign will take place in.

But first let me express the appreciation of the President for the work that's been done. I went over to see him, I guess about a month and a half or so ago, and talked to him about this occasion today and asked him if he would take part in it. And he accepted with alacrity, looked over the material, and knows the names of the people who are serving, and appreciates that very much and is impressed and is sorry that he is not able to be with us today.

I also would like -- and so I express his appreciation, but I want also to express the appreciation of the Vice President and just tell you a little bit there because I think it was last Saturday that I first began to get that uneasy feeling that my man would not be here today and I should do something about it, and so I called Jerry Ford and he -- and I explained to him, and he said, "Great. I'd love to meet with them." And he appreciates these efforts that you're making. I explained the program to him and said, "No, we'll come over there to your office and we'll do this and that." He said, "It's much easier for them if I come over there, if I come to them." So he's coming over here. He's looking forward to having a few words of his own to say, and I think after he's done that, he hopes that you'll stay around for a little while, and not have a receiving line or anything, but he'd just want to mingle around and shake your hand and say hello and meet you personally and give his appreciation for what you're doing.

Now I think that it is important to emphasize what Paul has said. This is a program that is very important -- $60 billion, $61 billion, 23 million Americans involved. It's just got to be something of great significance.

Now, I have a picture of Alexander Hamilton in my office, and I'm sure you all know that Alexander Hamilton, as the first Secretary of the Treasury, immediately decided to call in the War of Independence bonds, redeem them at face value and issue new securities on the theory that if private citizens held the public debt, or a piece of the public debt, that was a good thing for the country. It represented stability. And we have been at it every since, but I think that idea is a very profound idea, an important idea, and it seems to me, particularly with all the trials and the tribulations that we've had this past year, to have such a performance as Mel and you all turned in shows that that idea is very much alive, and we should be grateful for it.

Now, I listened carefully as Mill was talking, and I didn't realize that he was a stand-up comic, but you didn't either, because I noticed you didn't laugh at his jokes. One of his jokes was that I was in charge of the U.S. economy, and nobody laughed. He did give me that slight needle about wage-and-price controls, but I think the point is, the point is that nobody is in charge of the U.S. economy. The wonderful thing about it is is that it's in charge of itself. That's what a free system is supposed to be, and I think, for my part, that the one ingredient of patriotism, of what it is that you buy a bond for, is the ability to live in a free society, and for there to be a free society, there must be basically a free economy. And I certainly feel that one of my responsibilities is to exercise every ounce of ingenuity that I can to return it to a free economy and to be sure that we continue to rest our basic assumptions about what makes it go on that basic principle.

Now I have the privilege, first of presenting some awards of my own, and Marty is standing here impatiently for me to do that. So let me first do that and ask all of the industry and geographic members of the 1973 committee to stand, and Dr. Houghie (?), Dave, if you would come here on their behalf, as you are the chairman of the banking group, and receive a letter and an award, and I think the other awards will be presented in the same smooth way that Milt Batten (?) had his presented around. And this is a medal and a letter: Dear Dave, I want you to know how grateful I am for your outstanding service in behalf of the nation as a member of the U.S. Industrial Payroll Savings Committee and as chairman for the banking industry. You played a major part in the success of the committee' 1973 campaign and made a significant contribution to our efforts to manage the public debt wisely. The sale of smaller-denomination E bonds has been raised to an annual level of more than 4.4 billion, the highest since 1945. The enrollment of employees either as new payroll savers or for increased allotments far exceeded our year's goal of 2,400,000 -- you see how we hedge those numbers.

Please accept the attached savings bond medal of merit as an expression of appreciation from your government.

[Applause]

Now we would like to a little bit more ~~than simply~~ recognize the past chairman, and we have with us today Bill Gwynn (?) and also Dan Haughton (?), and Dan, will you please come here on behalf of the past chairman and accept this outstanding leader award from the -- and we appreciate your continued interest in the program very much indeed.

[Applause]

Now, Mill, you have already received a sustained hand you deserve one after another, and there are two awards here for you and for your leadership. You have a very nice quiet way of saying things that are really quite profound and of instilling a sense of confidence and, as your quotation from Adlai Stevenson brought out, more than just a sort of spirit of the moment, but a sustained drive. And we all recognize that and appreciate it.

And I have two awards here, a medal of merit awarded to William M. Batten for distinguished leadership as 1973 chairman, the U.S. Industrial Payroll Savings Committee, and this is a -- looks like a gold medal and there is some gold in it -- 43%, I'm told, so if the price gets much higher you can melt it down, and it's a nice handsome Treasury medal, and we have that, and then we have a parchment, framed parchment from the Department of the Treasury, a citation. And again, I would like to read it because it gives me special pleasure to recognize Mill Batten, whom I've had the pleasure of associating with in one way or another for quite a few years now.

For distinguished leadership of the 1973 Take Stock in America Payroll Savings Campaign. Responding to his inspiring example and his exceptional efforts, American industry far exceeded its goal of enrolling 2,400,000 savers in 1973, raised the sale of Series E bonds through the payroll savings plan to the highest dollar total in 28 years. This contribution to the security of both individuals and the nation is an impressive result of his untiring efforts. His dedicated service is in the finest tradition of the volunteer spirit which characterizes the savings bond program and gives strength and vitality to the American way of life.

Give under my hand and seal this 9th day of January, 1974, and signed, and a nice picture of Washington's oldest Federal building, the Treasury Building.

[Applause]

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Now let me make just a few more comments before I turn this over to the new chairman. I did take note of the fact that the business of selling government securities to our citizens has a long history, starting right with the beginning of the country, and it's gone on ever since. There have been all sorts of techniques used, and during World War II particularly, I think they were pretty jazzy [unintelligible]. We had Jack Benny playing and Fred Astaire dancing and Lucille Ball and all sorts of people promoting the savings bond. This year, in addition to your efforts, we rely on the technique of a little better price. I understand from my days back in the old days, when I was in the real world, that price counts, and so the 6% rate, I think, will be helpful.

Perhaps it is also worthwhile to say a little bit about the environment within which the program will go forward, the economic environment. And certainly I am not here finally to unveil it and tell you how it's going to be, but let me just try to interpret a few aspects of it and suggest the way in which we will try to position public policy with respect to the economy.

First of all, obviously, there is the question of energy and how to look at that problem, and I would have to say to you that I look upon it -- and I think Bill Simon looks upon it -- as a year of opportunity. And I say that recognizing the grave short-term problem that we have that must not be underestimated, but more in the spirit of saying that our real problem in the energy area is the long-term problem. That is the one we have to get our eye on and keep our eye on, and it seems to me that the big thing we must do is have the ingenuity to use the undoubted critical time that we have to get people to realize the longer-term problem and get ourselves positioned as a country, both in the public side and the private side, in a sense to take advantage of the crisis, turn it into an opportunity, and really get started down the right of solving the long-term problem that we have.

Now, the President has been working at it this way, Bill Simon has, Secretary Kissinger is, and I believe that in terms of the unfolding of the energy subject, our biggest problem probably will be that when the embargo ends, assuming it will end sometime or another, and I don't mean to put that forward as any kind of a prediction, but sooner or later there will be an ending or diminution. When it ends, our problem will be to get people to keep paying attention, and that is one of the things, it seems to me, we have to concentrate on.

Now as far as sort of the immediate impact is concerned, as I see it, anyway, what we have is an economy that has been growing faster than it can in real terms, in a sustained long-term sense, and which we had to slow down and were slowing down. And then hit by the energy boycott and the tremendous increase in prices, we have two things that happened.

First, you have a kind of automatic discontinuity in the rate of growth. That is, if you're going along like this, what happens as a result of the boycott and the high prices is that you inevitably go down a step and then, presumably, you'll be able to get back on that growth path, but you have to move from a somewhat different level. To put it another way, when we suddenly have to pay out from our goods and services and efforts a larger sum abroad for the same thing, that automatically means that it takes something out of our standard of living. Now, fortunately for us, it is, while big, small in relation to our total, so it doesn't hit us in the way that it hits many other economies. But first you have that phenomenon, and then second, you have the obvious transition that people must go through as a result of the change in price, let alone the uncertainty about supply. And we see many examples of that, and perhaps the most obvious with which to make the point is the switch to smaller cars and the fallout from that in many ways.

But at any rate, in terms of the energy crisis, we have the President working on it hard. We have a very good man in Bill Simon in charge, and he really has taken charge, and he is smart and he works all hours and he is decisive and driving, and I think that we -- it is manageable if we do it right, and I think we have the person in place and now getting the organization in place to be able to manage it in a satisfactory way.

But obviously, it means a slightly lower position from which to grow, a lower growth rate, in effect, for the economy as a whole, and it means that we have to sustain the problem of higher prices.

Now as far as real growth is concerned, the general view seems to be that we may have a drop in the first quarter and then we will start growing, and, in other words, we will have this pattern, and while I see no particular reason to disagree with it, it seems to me that we do have a situation of fairly great uncertainty, compared with most times in the past, and so we should, in a sense, plan for that uncertainty, and we are.

I think, myself, that it's of even greater importance that we enact the President's proposals, as far as general improvement of our employment compensation is concerned, rather than to continue down the path of special unemployment compensation for people displaced by imports, special unemployment compensation for people displaced by energy, or whatever it may be. If our system isn't what it should be, let us reform it in general rather than all of these different specific things. And the President has made a proposal, over a year ago, on that, and it seems to me it's about time to get going on it.

Beyond that, we feel that with whatever fiscal policy comes forward, implicit in the budget, and I don't want to scoop

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that in any way, we should nevertheless have ourselves prepared to meet different contingencies. If the economy grows faster than we have thought, we need to be ready for that. If the economy turns out not to move ahead as fast as we think it should and could, then we need to be ready for that. And we are trying to think about preparation, you might say, for economic policy to a greater degree than usual in terms of contingency planning, and that in the light of what we see as far as real growth is concerned.

But, I believe, in all of the gloom that seems to be spread about the economy, that it's very easy to overlook some of the powerful elements in it. It's very easy, apparently, to overlook the continued increase in capital spending. It's very easy to overlook the volume of new orders, the almost certain expansions in state and local spending that will support the economy, and the very tense state of inventories, which doesn't argue at all that we will slide off, quite the reverse. Usually when you're at the top of the business cycle and if you start of yourself as starting down, you are overloaded with inventories. That is not the case today.

So, there are many strong features in the economy, and if government policy were to be positive, pure and simple, on the idea that the problem is to stimulate the economy, we could make a terrible error, just because of this strength that's there that's easy to underestimate. At the same time, we must be positioned, in a contingency sense, to meet whatever may develop.

On the price side, obviously we have a terribly difficult problem, and have had all year long, stemming from many different causes. And the rising prices of energy, as they work their way through the economy, will pose a real strong upward push on the inflation side. Again, not wanting to be Pollyanish, but nevertheless in an atmosphere where it seems almost as though you're not allowed to recognize good news or a good feature, let me put forward three things that seem to me to be on the potential plus side as far as the potential price performance is concerned.

First of all, comparing 1974 with 1973, particularly first half with first half, we had in 1973 a devalued dollar and a continued deterioration of the dollar through the first half of the year. Certainly in the first half of 1974, we will have a dollar that is stronger, to use that terminology. I hope not too strong, in a sense, and not deteriorating, so that from the standpoint of the value of our dollar in exchange markets abroad, we will have a different picture, a stronger picture this year than last year. And since a great deal of our inflation problem has come from the very high prices of raw materials purchased abroad, and not just energy raw materials, I think this is a factor

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of some significance. It hit us on the back of the head last year. I should help us some this year.

Beyond that, with our economy expanding at a slower pace this year than last year -- certainly that you can say for sure -- and the same can be said for other industrial economies, it seems to me likely that at least some of the intense pressures on raw material markets as such will be relieved, and we may not see quite the same push in some of those markets that we have seen this year. Now obviously, that is subject to market-by-market analysis [unintelligible], but in an overall sense, it seems to me that factor is there.

And third -- and here I recognize the strenuous efforts made by Secretary Butz this year and as he looks ahead to next year -- the administrative portion of agricultural policy was revolutionary this past year. It was turned on its head from a policy that had existed for decades, that the name of the game was to restrict output in order to get up price. With the Secretary's leadership, beginning over a year ago, this was turned around, great releases of acreage were made, all sorts of things have been done to improve the supply, to increase the supply of food products. Now, it takes a long time for those things to take effect. I'm tired of hearing the Secretary say that it takes 24 months to grow a two-year steer, but there's something to it. There is an unfolding process here, and we will be now going into our second year in a row of virtually all-out efforts to raise production. And what is your word, Earl? They're going to plant the fence rows. I think that's a phrase that you use a lot. And we do see that taking place, and we have had a big expansion in supplies. Prices are still high, although they've come down in most commodities dramatically since their mid-summer highs. And again we will have tremendous planting.

So, those are three things that seem to me to be on the plus side. Nevertheless, we will have a testing transition year her . No doubt about it. We will have to break new ground in our conceptions about how to manage government policy in this area, but as we try to do new things, I hope we have the courage to stick to some old things, and one of the old things that I try to live by and feel is so important is the sense of our free market system.

And finally I would say another one of the old things is the importance of saving and the importance of investing something in your country's future, and I believe, again, that Alexander Hamilton's instinct to put the public -- have a public debt put into private hands is an essential ingredient for a stable and healthy country, and I believe that we have a stable and healthy country and that we will have a year that reflects that fact next year.

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Now it is -- you introduce the incoming chairman? You do. Well, before you introduce the incoming chairman, I just want to say that in my judgment, we have been very, very fortunate, to sign him up, and through him and other efforts to sign up the committee that has been lined up and which was introduced here -- as the last one was introduced, John turned to me with some satisfaction in his voice and said, "Well," he said, "that's quite a committee." And it is and it's a tribute to you and it's -- I'm not allowed to introduce you, but I do want to pay my respects before he does.

[Applause]

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MEMORANDUM FOR THE PRESS January 14, 1974

Secretary of the Treasury George P. Shultz will leave tonight for the meeting of the C-20 Ministers at Rome.

The United States expects that the Ministers will examine, among other matters, the impact of the energy crisis on monetary reform in the discussions this week. Secretary Shultz said "we will try to come to grips with the facts and the estimates and then see what should be done." He said a major concern would be the impact of the Arab embargo on the balance of payments position of the Less Developed Countries. "It appears that the added cost of oil to the LDC's may wipe out the concessional aid grants given them, so that in effect the energy crisis might wipe out the efforts of all to help the poorest people on earth," Mr. Shultz said.

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S-347

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FOR IMMEDIATE RELEASE JANUARY 15, 1974

REVENUE SHARING ALLOCATIONS TO BE
MADE EARLIER, MORE ACCURATELY

States and local governments will receive earlier and more accurate estimates of general revenue sharing annual allocations as procedures announced today by Graham W. Watt, Director of the U. S. Treasury Department's Office of Revenue Sharing are put into effect.

Working with the U. S. Bureau of the Census, the Office of Revenue Sharing has developed a system whereby data will be reviewed by the recipient governments themselves in March, 1974, before the fiscal year 1975 allocations are calculated for each government. Since the data will have been verified in advance, fewer and smaller adjustments are expected to be made subsequently in allocations of shared revenues.

"Efforts to improve the quality of data used to allocate the money have succeeded to the point where we can provide recipient governments in April with excellent estimates of the funds they are to receive for fiscal year 1975. These amounts will be paid in quarterly installments in October 1974 and January, April and July of 1975," Watt explained.

Revenue sharing entitlements (amounts to which governments are entitled under the law) are calculated according to a formula set forth in the State and Local Fiscal Assistance Act signed by President Nixon in October, 1972. The formula is applied to each of more than 38,000 local and state governments, using modern computer techniques to achieve accuracy.

The formula uses data relating to population, per capita income, adjusted taxes and intergovernmental transfers for each jurisdiction.

For fiscal year 1974, data was not available for complete review until after estimated allocations had been computed and quarterly payments begun. Data corrections have been made since that will affect fiscal year 1974 amounts for some governments.

"Adjustments that must be made in fiscal year 1974 entitlements, based on the verified data, will be added to or subtracted from fiscal year 1975 payment amounts," Watt said. "We estimate that these adjustments will be small," he said, "since the data we are using now is of very good quality."

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Watt went on to explain that analyses of results of correction of data for 281 local governments make it evident that these places already have been paid as much as they should receive for the fiscal year. Payments to these places will be reduced or temporarily suspended pending final determination of fiscal year 1974 entitlements. The 281 jurisdictions affected are small counties, cities, and towns.

The State and Local Fiscal Assistance Act of 1972 authorizes the distribution of $30.2 billion to more than 38,000 general purpose units of government. The money is to be sent to states, counties, cities, towns, townships, Indian tribes and Alaskan native villages over a five-year period that ends in December of 1976. Thus far, $11.199 billion has been distributed.

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FOR IMMEDIATE RELEASE January 14, 1974

TREASURY ANNOUNCES HAND-OPERATED LIQUID SPRAYERS FROM JAPAN ARE BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Edward L. Morgan announced today that hand-operated liquid sprayers from Japan are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. These sprayers are used in the household, service stations, beauty parlors, barber shops, and have other sundry applications. Notice of the determination will be published in the Federal Register of January 15, 1974.

The case now will be referred to the Tariff Commission for a determination as to whether an American industry is being, or is likely to be, injured. In the event of an affirmative determination, dumping duties will be assessed on all entries of hand-operated liquid sprayers from Japan which have not been appraised and on which dumping margins exist.

A notice of "Withholding of Appraisement" was issued on October 15, 1973, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. Pursuant to this notice, interested persons were afforded the opportunity to present oral and written views prior to the final determination in this case.

During the period of January 1, 1972 through September 30, 1973, imports of hand-operated liquid sprayers were valued at approximately $900,000.

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FOR IMMEDIATE RELEASE JANUARY 11, 1974

DON SHULA TO TELECAST ENERGY MESSAGE

Coach Don Shula of the Miami Dolphins, while managing his team from the bench in its Sunday Super Bowl clash with the Minnesota Vikings in Houston, will also be appearing on the television screen to urge national teamwork in meeting the Nation's current energy crisis. The message was filmed in Mr. Shula's office late last week.

"You don't need to know much about football to know the importance of teamwork. Our country's energy crisis is no game. But if we all work together, it will work out better for all of us. So let's keep our thermostats at 68 degrees or lower, and let's all observe the new speed limits and save electricity where possible. If we all help, we'll really be helping ourselves. Please don't be fuelish," he says.

This is the third Federal Energy Office TV spot produced on a volunteer basis by Cunningham and Walsh, Inc., a New York advertising agency, for the Advertising Council's public service campaign on energy conservation.

-FEO-

E-74-15

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FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
Washington, D. C. 20461
Telephone: 395-3537

EMBARGOED FOR RELEASE UNTIL
6:30 P.M. EDT, SUNDAY, JANUARY 13, 1974

POWER TRANSFER TO OIL-SHORT AREAS COULD SAVE 30,000 BARRELS DAILY

William E. Simon, Federal Energy Administrator, and John N. Nassikas, Chairman, Federal Power Commission, announced today that through a voluntary program within the electric power industry as much as 20 million kilowatt-hours of electricity per day may be furnished to fuel-short utilities in the Northeast and along the Atlantic seaboard.

This program represents a savings of about 30,000 barrels of oil per day, which is equivalent to the oil requirement for generation of electricity to supply one million residences. These transfers will be accomplished by wheeling power from utilities located, for the most part, in other areas east of the Mississippi River. The power would come from utilities which primarily depend on coal, nuclear or hydropower for producing electricity.

The shortage of residual fuel oil for the production of electricity has already resulted in a number of companies, particularly in the New England and Middle Atlantic States, converting from oil to coal at power plants which were technically capable of such conversion while still able to meet primary air quality standards. Such conversion will reduce the requirement for generating electricity with oil. Up to 200,000 barrels of residual oil daily could be saved upon completion of the overall conversion program involving twenty-six oil-fired generating units on the Atlantic Coast.

The National Electric Reliability Council (NERC) of the electric power industry met last Friday (January 4, 1974), with FEO and FPC representatives to review the activities, to date, taken by the industry to transmit or wheel power to the New England and Middle Atlantic areas from utilities generally west and southwest of these areas. The power will come from utilities which largely use coal to produce electricity.

NERC has completed a series of computer simulations of these interconnecting transmission systems and has identified power available from the coal-fired plants to serve areas which are short of oil to provide essential electric service. These studies indicated that power transfers of one to three million kilowatts may be made at varying times between the areas and on average about twenty million kilowatt-hours of energy per day may be transferred. The areas which will receive the power transfers were identified as the New England, eastern New York, eastern Pennsylvania, New Jersey, and Baltimore-Washington areas.

Tests to determine power transfer capabilities between utility systems have already resulted in actual transfers of 12 million kilowatt-hours per day from coal-burning utilities

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to the New England and Mid-Atlantic areas.

Due to day-to-day variations in transfer capability, NERC believes that the best way to achieve the maximum effect of power transfers is to establish better coordination between the various power pools so that any available capacity can be passed on immediately to other areas in such a manner that would optimize the transfer capability. Steps are already being taken to effect power transfers to the critical areas. Mr. Simon and Chairman Nassikas stressed the importance of the full cooperation of the electric utility industry to maximize electricity transmission to regions with severe residual fuel oil shortages.

-FEO-

(This is a release issued jointly by the Federal Energy Office and the Federal Power Commission.)

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EMBARGOED FOR RELEASE UNTIL
6:30 P.M. EDT, SUNDAY, JANUARY 13, 1974

ADMINISTRATOR SIMON COMMENDS INSURANCE INDUSTRY PROGRAM

William E. Simon, Administrator of the Federal Energy Office (FEO), today commended five insurance companies which make up the Insurance Energy Council (IEC) for their proposals to reduce the effects of the energy crisis on the motorists and companies they insure.

"The IEC has taken a step in the right direction," Simon stated. "We need the cooperation and example of all segments of business and industry to really conquer this crisis." Urging other insurance companies and businesses to follow this example, Simon pledged the Federal Energy Office's support for the IEC conservation program.

Simon made the comments after meeting earlier this week with top executives of Safeco Insurance Company of America, Kemper Insurance Company, Nationwide Insurance Company, Allstate Insurance Company and the Insurance Company of North America.

As a group, the five companies insure one out of every seven automobiles in the U.S. and write at least a part of the insurance on more than half of the businesses in America.

E-74-17 (more)

"Practically every person and business in the U.S. is guarded by insurance," the IEC spokesmen told Simon. "Because of this unique position within our society, we've formally pledged our companies' resources to help anyone concerned about what the energy crisis holds for him, his family, his company, his job and his lifestyle."

At a meeting with the group, Simon learned about a four point IEC proposal for reducing energy usage by both automobiles and business, while keeping possible hazards resulting from the energy crisis to a minimum.

The program includes;

- A national public information campaign encouraging voluntary compliance with federally proposed 55 mph speed limits.

- Special attention to the energy conservation and loss control aspects of corporate America and scrutiny of possible hazards that might be caused as a result of reduced energy consumption.

- Close cooperation with federal and state officials so that data on accidents, miles driven, claims costs and other pertinent information is relayed to state and federal decision makers as quickly as possible.

and - A pledge to continue to set an example of concern and action for the rest of the business community.

-FEO-

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FOR IMMEDIATE RELEASE JANUARY 13, 1974

PUBLIC CUTS NATURAL GAS USE BY SIX PERCENT

Public response to the President's request to turn thermostats down cut natural gas consumption by 6 percent in the last quarter of 1973, according to John A. Sawhill, Deputy Director of the Federal Energy Office (FEO).

"I was pleased to learn from gas utility executives that natural gas use by homes, businesses, and industries was about 6 percent lower than the quantity consumed during the corresponding months of 1972. Some companies reported reductions of as much as 16 percent," Sawhill said. "The savings figure has been adjusted to take into account the milder temperatures in some parts of the country earlier this winter. Thus, it represents true conservation by the consumer."

Sawhill recently met with officials of the 27 largest U.S. gas utilities. He pledged to work with Federal and State regulatory agencies to develop regulations consistent with the Nation's long range goal of energy self-sufficiency.

E-74-18 (more)

In their meeting with Sawhill, gas company executives:

- Warned that, even if the Arab oil embargo the energy shortage will last well into the next decade.

- Urged Congress and the Executive Branch to convince the public of the reality of the crisis and the need for conservation.

- Requested deregulation of natural gas prices at the well head to encourage exploration and drilling.

- Stressed that the vast potential natural gas resources of the outer continental shelf should be tapped.

- Agreed that power plants should switch to coal wherever possible.

- Promised that gas utilities will assist industry in conserving energy and urged industrial users to take advantage of this service.

- Recommended that the Federal Energy Office continue to work closely with the Federal Power Commission to help relieve some of the immediate and long range problems facing public utilities.

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FOR IMMEDIATE RELEASE JANUARY 13, 1974

East Coast Utilities Continue To Switch from Oil to Coal

William E. Simon, Administrator, Federal Energy Office (FEO), today announced that four more electric power plants on the East Coast have switched from oil to coal. The total number of recent plant conversions now has risen to 14 steam generating units at 9 plants and represents a savings of 51,000 barrels per day of residual fuel oil.

"By converting these oil-burning units to coal, we are using fuel more effectively and reducing consumption of residual fuel oil", Simon stated. "These voluntary conversions by electric utilities are being coordinated with Federal, State and local environmental agencies to assure the maintenance of healthy surroundings in nearby communities."

Four plants along the East Coast have indicated that within one month they will begin to use coal in six units, saving an additional 26,000 barrels per day of residual fuel. FEO's regional offices are working to assist still other plants in locating or transporting coal and in obtaining environmental variances to burn it. These conversions will reduce daily requirements by about 58,000 barrels, making a total savings of 135,000 barrels a day.

The FEO oil-to-coal conversion program began on December 6, when Administrator Simon sent telegrams to 19 utilities on the East Coast. About 70 percent of the residual fuel oil shortage is expected to center on the East Coast area.

Attachment: List of the plants which have converted from oil to coal.

-FEO-

ATTACHMENT

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Plants Which Have Converted from Oil to Coal

Plant and Company	Unit	Oil Savings (B/D)
England, Atlantic City Elec., N.J.	1	4,700
" " " " "	2	5,800
Deepwater " " " "	1	2,700
Bergen, Public Service Elec.&Gas, N.J.	1	6,280
" " " " " "	2	6,280
Burlington " " " " "	5	2,520
" " " " " "	6	2,520
Middletown, Hartford Elec.&Lite Co, Conn.	1	1,750
" " " " " "	2	3,540
Mt. Tom, Holyoke Water&Power, Mass.	1	4,050
So.St.Sta., Narragansett Elec., R.I.	121	1,448
Chalk Pt., PEPCO, Washington, D.C.	1)	
" " " "	2	7,545
Seawaren, Public Service Elec.&Gas, N.J.	3	1,900
	TOTAL	51,033

Plants Scheduled to Convert Within One Month

Plant and Company	Unit	Oil Savings (B/D)
Seawaren, Public Service Elec.&Gas, N.J.	4	2,600
Arthurkill, Con Ed, N.Y.	30	12,400
So.St.Sta., Narragansett Elec., R.I.	122	1,448
Salem, New England Elec. Sys., Mass.	1	2,500
" " " " " "	2	2,500
" " " " " "	3	4,700
	TOTAL	26,148 (B/D)

Plants in the Process of Locating Coal or Obtaining Environmental Variances

Plant and Company	Unit	Oil Savings (B/D)
Morgantown, PEPCO	1&2	23,000
Montville, Conn. Lite & Power, Conn.	5	3,000
West Springfield, Western Mass. Elec.	1	1,220
" " " " "	2	1,200
" " " " "	3	2,271
Mason, Central Maine Power Co.	3	1,302
" " " " "	4	1,285
Deepwater, Atlantic City Elec., N.J.	6/8	2,700
Down, Vineland, N.J.	10	842
Lovett, Orange & Rockland, N.Y.	4	2,800
" " " "	5	2,800
Norwalk Harbor, Conn. L&P, Conn.	1	4,500
" " " " "	2	3,900
Devon, Conn. L&P, Conn.	7&8	7,534
	TOTAL	58,354

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FOR IMMEDIATE RELEASE JANUARY 11, 1974

SIMON CONTINUES "OPERATION TRUCKSTOP SWEEP"

Administrator William E. Simon of the Federal Energy Office (FEO) today revealed that 1,289 violations have been reported to him by Internal Revenue Service (IRS) agents during a continued six-week effort of "Operation Truckstop Sweep." Agents have made 4,915 checks through this week.

IRS agents have checked pump prices at most major truck stops in every State since Simon ordered the ongoing sweep in early December, with $148,408 being returned to truckers as a result.

The latest report comes after Administrator Simon renewed his pledge of "not letting up on price gougers" to Secretary of Labor Peter Brennan and Teamster President Frank Fitzsimmons, during a Thursday morning meeting.

At the meeting Simon further pledged to investigate diesel and gas fuel shortages at truckstops, especially those located in remote areas.

Simon had met with truckers, the trucking industry, Mr. Fitzsimmons, and Secretary of Transportation Claude Brinegar, shortly after assuming his post at FEO, and immediately initiated "Operation Truckstop Sweep" after hearing their complaints.

"Our intention is to keep people employed, and homes heated during this fuel shortage. We need our trucks operating at full capacity to help us with this task," Simon stressed.

E-74-14 -FEO-

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

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FOR IMMEDIATE RELEASE January 14, 1974

REORGANIZATION OF TREASURY'S FISCAL SERVICE

Secretary of the Treasury George P. Shultz announced today a reorganization of the Department's Fiscal Service, involving merger of part of the functions of the Office of the Treasurer of the United States with the functions of the Bureau of Accounts, forming a new Bureau of Government Financial Operations.

The Treasurer of the United States, Mrs. Romana Acosta Banuelos, will continue her traditional responsibilities for the custody, issuance and redemption of United States currency. In addition, as a result of the reorganization, she will be able to undertake important new duties on a Treasury-wide basis to assure equal opportunity in employment with particular emphasis on equal opportunity for Spanish-speaking people. Mrs. Banuelos will also assist in these efforts throughout the government. Also, Mrs. Banuelos will now report directly to Under Secretary Volcker.

The new bureau will be headed by David Mosso, present head of the Bureau of Accounts, who will continue to serve also as Deputy Fiscal Assistant Secretary.

The text of the letters sent to the Treasury appropriations committees in Congress and the applicable Treasury Order describing the reorganization are attached.

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Attachments

S-348

THE SECRETARY OF THE TREASURY

WASHINGTON

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JAN 14 1974

Dear Mr. Chairman:

For some time the Treasury has been working toward a reorganization of its Fiscal Service, composed of the Bureau of Accounts, the Office of the Treasurer of the United States, and the Bureau of the Public Debt. The reorganization envisions the merging of the functions of the three bureaus (other than the functions relating to currency), ultimately resulting in a single bureau with a single appropriation for the merged functions.

There is a long record of cost reduction, productivity increases, and service improvement in the Fiscal Service. We are at the point, however, where continuation of that record requires a different organizational mold. There is a need for integrating related functions, both in operations and staff support, and only merger can permit the extensive intermingling of personnel, systems, and computers and other equipment that is called for.

Examples in two broad areas illustrate the need and the potential for improvement. As one example, functions relating to the government-wide accounting for receipts and expenditures and for public moneys are performed in both the Bureau of Accounts and the Office of the Treasurer; those functions should be consolidated in a single system. As a second example, steps in the processing of Treasury checks make up the major workload of both the Bureau of Accounts and the Office of the Treasurer; these functions should be realigned to provide a more logical flow of operations. The desirability of merging these and similar functions of these two bureaus has become so compelling that I have decided we should proceed with this phase of the reorganization immediately.

The move will take from the bureau known as the Office of the Treasurer of the United States its functions other than those relating to the custody, issuance, and retirement of currency. This provides the opportunity for assigning new responsibilities to the head of that bureau, presently Mrs. Romana Banuelos.

To facilitate this, I have decided to upgrade the reporting level of the position by providing for reporting directly to the Under Secretary for Monetary Affairs. This move will permit assigning to the Treasurer additional duties on a Treasury-wide basis in connection with the Department's efforts to assure equal opportunity in employment, with particular emphasis on equal opportunity for Spanish-speaking people.

I wanted you to know that we are making these moves looking toward improved operations. I am sending a similar letter to Chairman Montoya of the Treasury Subcommittee of the Senate Appropriations Committee.

Sincerely yours,

George P. Shultz

The Honorable
Tom Steed, Chairman
Subcommittee on Treasury-
Postal Service-General Government
Committee on Appropriations
U. S. House of Representatives
Washington, D. C. 20515

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DEPARTMENT OF THE TREASURY

TREASURY DEPARTMENT ORDER NO.

FISCAL SERVICE REORGANIZATION

By virtue of the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, it is ordered that:

1. There is established in the Fiscal Service a Bureau of Government Financial Operations, to be headed by a Commissioner, who will report to the Fiscal Assistant Secretary.

2. All functions of the Bureau of Accounts, and all functions of the Office of the Treasurer of the United States except the functions performed by its Cash Division and those functions performed by its General Accounts Division and its Internal Audit Office which relate to the custody, issuance, and redemption of currency, are transferred to the Bureau of Government Financial Operations.

3. The Treasurer of the United States will report directly to the Under Secretary for Monetary Affairs.

4. All provisions of law and regulations dealing with the transferred functions on the effective date of this Order will continue in effect under the supervision of the Commissioner, Bureau of Government Financial Operations.

5. All positions, personnel, records, property, funds, and other resources which relate to the functions transferred, as determined by the Assistant Secretary for Administration, shall be transferred to the Bureau of Government Financial Operations.

6. The internal organization of the consolidated Bureau of Government Financial Operations will be established by the Fiscal Assistant Secretary.

7. This Order shall become effective on February 1, 1974.

George P. Shultz

Secretary of the Treasury

Date:

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE 6:30 P.M. January 14, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on January 17, 1974 were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 18, 1974		:	26-week bills maturing July 18, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	97.993	7.940%	:	96.049 a/	7.815%
Low	97.973	8.019%	:	96.016	7.880%
Average	97.982	7.983% 1/	:	96.023	7.867% 1/

a/ Excepting 2 tenders totaling $1,000,000

Tenders at the low price for the 13-week bills were allotted 83%.
Tenders at the low price for the 26-week bills were allotted 64%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 69,165,000	$ 54,910,000	:	$ 22,350,000	$ 8,850,000
New York	2,962,415,000	1,874,600,000	:	2,764,680,000	1,292,080,000
Philadelphia	30,930,000	28,760,000	:	39,055,000	18,840,000
Cleveland	43,970,000	43,970,000	:	90,225,000	58,065,000
Richmond	25,365,000	25,365,000	:	19,330,000	17,105,000
Atlanta	32,295,000	32,295,000	:	17,980,000	17,450,000
Chicago	235,385,000	175,280,000	:	307,030,000	209,660,000
St. Louis	61,955,000	53,955,000	:	36,350,000	18,250,000
Minneapolis	23,495,000	15,495,000	:	24,895,000	10,395,000
Kansas City	52,220,000	46,750,000	:	45,965,000	32,685,000
Dallas	39,575,000	23,575,000	:	36,255,000	16,255,000
San Francisco	199,150,000	125,150,000	:	196,470,000	109,090,000
TOTALS	$3,775,920,000	$2,500,105,000 b/		$3,600,585,000	$1,808,725,000 c/

b/ Includes $420,685,000 noncompetitive tenders accepted at the average price.
c/ Includes $255,770,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.26 % for the 13-week bills, and 8.31 % for the 26-week bills.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE January 15, 1974

TREASURY ANNOUNCES ACTIONS ON THREE INVESTIGATIONS UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury, Edward L. Morgan announced today actions on three investigations under the Antidumping Act of 1921, as amended.

In two cases there was a final discontinuance of the antidumping investigationsand in the third case, a finding of dumping was issued. These decisions will appear in the Federal Register of January 16, 1974.

In the first two cases, Assistant Secretary Morgan announced that the investigations on mandelic acid from the United Kingdom and Japan have been discontinued. This acid is used as a primary ingredient for a pharmaceutical drug called methenanine mandelate, a urinary disinfectant. A tentative discontinuance was issued in the United Kingdom case on October 3, 1973, and in the Japanese case on October 5, 1973. In both cases since actual sales to the United States were so small as to be de minimis or non existant, comparisons were made between an offered price to the United States and an adjusted home market price. The investigation revealed that the offers to the U. S. were lower than the home market prices, but the U.K. and Japanese manufacturers have provided formal assurances that they would make no sales of mandelic acid at less than fair value within the meaning of the Act. Interested persons were provided an opportunity to submit oral and written views on the tentative action before Treasury made its final decision on both cases.

In the third case, Treasury has issued a dumping finding with respect to expanded metal of base metal from Japan. This metal is produced from steel plate and sheet and is used primarily as flooring and platforms for pedestrian traffic.

(OVER)

On September 5, 1973, the Treasury Department determined that expanded metal of base metal from Japan was being sold at less than fair value within the meaning of the Antidumping Act. On November 30, 1973, the Tariff Commission advised the Secretary of the Treasury that there was injury to a U.S. industry caused by such imports. The dumping finding automatically follows as a final ministerial act in antidumping investigations. Dumping duties will be assessed on imports of this metal which have not been appraised and on which dumping margins are found. During the year period of November 1972 through October 1973, imports of expanded metal of base metal were valued at approximately $1.1 million.

# # # #

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH December 31, 1973

(Dollar amounts in millions – rounded and will not necessarily add to totals)

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5,003	4,999	4	.08
Series F and G-1941 thru 1952	29,521	29,500	20	.07
Series J and K-1952 thru 1957	3,754	3,747	7	.19
UNMATURED				
Series E 3/ :				
1941	1,929	1,746	183	9.49
1942	8,510	7,690	820	9.64
1943	13,684	12,386	1,298	9.49
1944	15,968	14,384	1,585	9.93
1945	12,580	11,188	1,393	11.07
1946	5,739	4,955	785	13.68
1947	5,474	4,597	877	16.02
1948	5,678	4,692	985	17.35
1949	5,637	4,582	1,055	18.72
1950	4,949	3,971	978	19.76
1951	4,281	3,435	846	19.76
1952	4,487	3,578	909	20.26
1953	5,146	4,023	1,123	21.82
1954	5,251	4,048	1,202	22.89
1955	5,470	4,182	1,288	23.55
1956	5,289	4,012	1,277	24.14
1957	4,990	3,740	1,250	25.05
1958	4,886	3,568	1,318	26.98
1959	4,586	3,314	1,271	27.71
1960	4,616	3,246	1,369	29.66
1961	4,710	3,196	1,514	32.14
1962	4,587	3,031	1,556	33.92
1963	5,161	3,223	1,938	37.55
1964	5,030	3,146	1,884	37.46
1965	4,924	3,051	1,873	38.04
1966	5,328	3,153	2,175	40.82
1967	5,227	3,082	2,145	41.04
1968	4,965	2,875	2,090	42.09
1969	4,676	2,615	2,062	44.10
1970	4,899	2,442	2,457	50.15
1971	5,642	2,408	3,234	57.32
1972	6,219	2,151	4,068	65.41
1973	4,995	1,009	3,986	79.80
Unclassified	340	411	-70	-
Total Series E	195,854	143,131	52,723	26.92
Series H (1952 thru May, 1959) 3/	5,485	4,038	1,447	26.38
H (June, 1959 thru 1973)	9,371	3,223	6,147	65.60
Total Series H	14,855	7,261	7,594	51.12
Total Series E and H	210,709	150,392	60,317	28.63
All Series – Total matured	38,278	38,246	31	.08
All Series – Total unmatured	210,709	150,392	60,317	28.63
All Series – Grand Total	248,987	188,638	60,348	24.24

1/ Includes accrued discount.
2/ Current redemption value.
3/ At option of owner bonds may be held and will earn interest for additional periods after original maturity dates.

Form PD 3812 (Rev. Jan. 1973) – Dept. of the Treasury – Bureau of the Public Debt

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE January 15, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 24, 1974, in the amount of $4,301,275,000 as follows:

91-day bills (to maturity date) to be issued January 24, 1974, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated October 25, 1973, and to mature April 25, 1974 (CUSIP No. 912793 TJ5) originally issued in the amount of $1,801,625,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated January 24, 1974, and to mature July 25, 1974 (CUSIP No. 912793 UG9).

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, January 21, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own

(OVER)

account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on **January 24, 1974**, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **January 24, 1974.** Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

EMBARGOED FOR RELEASE UNTIL
11:00 A.M., EDST, TUESDAY, JANUARY 15, 1974

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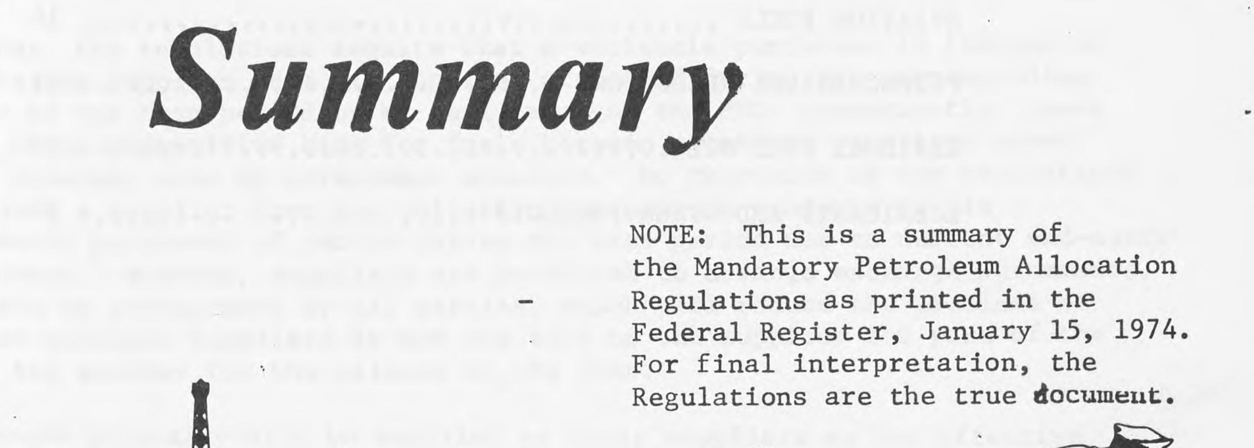
FEDERAL ENERGY OFFICE

Mandatory Petroleum Allocation Summary

NOTE: This is a summary of the Mandatory Petroleum Allocation Regulations as printed in the Federal Register, January 15, 1974. For final interpretation, the Regulations are the true document.



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INTRODUCTION

The Emergency Petroleum Allocation Act of 1973, signed by the President on November 27, 1973, requires the allocation of crude oil, residual fuel oil, and refined petroleum products manufactured in or imported into the United States with certain exceptions for some special products or limited use products such as petroleum coke and asphalt. The law requires allocation to users of petroleum products throughout the distribution chain on an equitable basis wherever practicable. It is intended that all regions and economic sections receive equitable shares of available fuels and that this be achieved primarily at the wholesale level. Accordingly, neither the Emergency Petroleum Allocation Act of 1973 nor the regulations issued pursuant to that Act specify rationing to end-users; instead, firms or corporations which act as suppliers or middle men are required to distribute their available products equitably to end-users in accordance with the objectives of the Act.

The proposed allocation scheme provides, as far as practicable and necessary, for the protection of public health, safety, and welfare; maintenance of public services, agricultural operations, and national defense; preservation of an economically sound and competitive petroleum industry; economic efficiency; and minimization of economic impact. Allocation systems prescribe the relationship between suppliers and middle men or distributors defined as wholesale purchasers. Allocation rules primarily dictate what actions must be taken by the industry. Government involvement primarily involves processing of exceptions or complaints, compliance, and audit of the industry's efforts to implement the regulations.

Further, the regulations require that a wholesale purchaser is limited to purchasing supplies from his supplier of record during the corresponding month of the base period or as designated by the FEO; consequently, there will be no competitive bids for fuels between potential suppliers under this program, even by government agencies. No provision of the regulations releases a supplier from his obligation to provide products to his wholesale purchaser of record during the base period nor to current end-users customers. However, suppliers are permitted to arrange exchange agreements, subject to concurrence by all parties, which will reduce the problems of either multiple suppliers at any one time or one supplier for part of the year and another for the balance of the year.

End-users generally will be supplied by their suppliers as the effective date of the regulations, except for motor gasoline. End-users, except end-users who are also wholesale purchasers, are not restricted to receiving supplies from the suppliers of record during the base period.

If allocation systems function perfectly, each wholesale purchaser, each state, and each region would receive an equitable share of available fuel as it was distributed during the base period. Allocation systems do not insure that the total quantity of fuel available to any wholesale purchaser, state, or region is sufficient in view of current conditions or requirements such as weather. The suppliers may adjust the distribution of residual fuel oil or refined petroleum products due to major and pervasive influences such as weather, by reducing up to 5% the quantity delivered to any state -r region to be utilized an any other state or region. The FEO may order the redistribution of any amount of residual fuel oil or refined petroleum products to meet state or regional needs; management of the redistribution of refined products is performed in the national office of FEO.

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GENERAL PROVISIONS OF ALLOCATION SYSTEMS

The programs which are administered by the regional offices have many common features. There are four major provisions which are common to most programs and essentially involve how the allocation systems actually work. They are:

-- the distinction between a user who is defined as an "end-user" versus a "wholesale purchaser" and each is treated under the allocation systems

-- a description of how adjustments are made to an allocation to a user

-- a description of the allocation methodology or rationale

-- a description of the state set-aside system

A. The regulations include a definition of wholesale purchaser as follows:

"Wholesale purchaser" means any person, firm, corporation, cooperative, or government unit which purchases, receives through transfer, or otherwise obtains an allocated substance in bulk or under contract at the wholesale level, specifically including: (1) only those agricultural users who consume more than 20,000 gallons per year; (2) only those multi-family residences consuming more than 50,000 gallons per year; and (3) all other purchasers who normally purchase more than 84,000 gallons of the product per year."

This definition is intended to separate comparatively smaller end-users (who normally purchase petroleum products from major wholesale purchasers) from the actual wholesale purchasers. All end-users who require adjustments in the amount of product provided will be required to contact their supplier for a permanent adjustment according to the provisions of the regulations (explained in the next paragraph) or to contact the state offices for a temporary allocation to offset hardships.

B. For wholesale purchasers, adjustments to base period volumes (i.e., adjustment to monthly allocations) will generally be made by the supplier under the following circumstances:

1. Actual growth in product requirements since the base period (including products necessary to serve end-users)

2. Annual growth in excess of normal growth since the effective date of the allocation programs, (normal growth is defined as 5% per year for middle distillates, residual fuel oil, aviation gasoline, and propane and as 10% for motor gasoline).

3. Increased requirements to provide for the needs of the priority categories which are allowed 100% of current requirements.

4. For other adjustments to base period volume, or for adjustments which involve an annual growth rate of more than 20% in any one year as well as for assignment of a purchaser to a new supplier, wholesale purchasers will be required to apply to the FEO regional offices (not the supplier). Adjustments in a base period volume will not be utilized to remedy short term problems or hardships; these adjustments will be resolved under the state set aside system.

Wholesale purchasers are required to provide increased supplies of products to end-users, based on valid, certified need (for example, increased agricultural planting or expansion of a small industrial firm). Wholesale purchasers are also required to accept new customers (without a previous fuel usage history), such as a new home, up to a level of a 5% increase in gallonage per year. Increases above normal growth in a wholesale purchaser's requirements are the basis for an adjusted base period volume for the wholesale purchaser.

C. The allocation methodology or rationale is based upon a wholesale purchaser's historical distribution of fuels during the base period. This methodology applies primarily to the five programs administered by the regional offices of the FEO, with some modification for propane. Each supplier in the distribution network and each wholesale purchaser is expected to determine monthly allocations and distribute products under this methodology as prescribed in the regulations. Each supplier will be required to determine the allocation to his wholesale purchaser and end-users (where applicable) monthly by using a FEO prescribed work sheet which identifies the requirements of the various priority categories and results in the calculation of the monthly allocation fraction. The allocation fraction is the quotient of total available fuel (allocable supplies) divided by the total requirement based on allocation levels allowed for the end-users. If sufficient products are available, the allocation fraction will be 1.0; if shortages exist, the allocated fraction will be less than 1.0 and available supplies will be distributed to the various levels of end-users with prot rata reductions except for those end-users allowed 100% of current requirements. There will be different allocation fractions between different suppliers, although the differences will be reduced after crude oil is allocated on a pro rata basis between refineries. The levels of end-users are described under each product in this pamphlet.

D. The state set aside system involves reporting by all refiners and importers and all other primary suppliers (the first major suppliers to distribute fuel in any state). These suppliers are required to report monthly to the FEO and to the state the total quantity of fuel expected to be available in each state for which the supplier is obligated to serve. A state set aside provides for a percentage portion of the fuel available in the state to be "set-aside" for control by the state office. The state set aside percentage is determined by the FEO and applied to the total gallonage by each supplier in the state. The state exercises complete discretion over set-aside products within the general provisions of the Emergency Petroleum Act of 1973 and the regulations to provide allocations to end-users or wholesale purchasers for hardships or to correct temporary supply imbalances.

Refiners, importers, and other primary suppliers will be required to allocate monthly their total available supplies less that which they reserve for the state set aside. The refiners, importers, and other primary suppliers will also be required to distribute fuels from the state set aside as directed by the states.

End-users or wholesale purchasers which receive an allocation from the state set aside at state offices will be directed to their customary suppliers, where practicable, or to another supplier to receive the allocated fuels. Copies of the allocation order from the state will be provided to the end-users or wholesale purchasers receiving the allocation, the wholesale purchaser providing the fuel, and to the regional or local offices of supplier. The state office may issue allocation orders monthly for each refiner, importer, or other primary supplier reporting under the state set aside system not to exceed the total gallonage set aside. Any unused set aside may not be carried forward by the state office, but will be automatically redistributed by the importer, refiner, or other primary supplier. Neither the regional office nor the national office of the FEO have any major involvement in the state set aside system other than the determination of the state set aside fraction by the national office of FEO.

NATIONAL, REGIONAL, AND STATE RESPONSIBILITIES

Although the Emergency Petroleum Act of 1973 requires that crude oil, residual fuel oil and refined products be allocated to achieve specific objectives and within defined guidelines there are significant differences between the various allocation programs. The differences are both in the applicability of the programs within the industry and with the public and how the programs are administered.

The FEO headquarters will deal primarily with the headquarters offices of refiners and importers; FEO regional offices will deal primarily with regional offices of refiners and importers and with wholesale purchasers. The State offices will deal primarily with emergency and hardship situations within the regional and local distribution offices of refiners, importers, primary suppliers and wholesale purchasers within the States and, where necessary, with end-users who are not wholesale purchasers.

The NATIONAL headquarters of the FEO will be responsible for the following functions:

(a) Setting policy for case resolution accomplished in regional offices, including compliance, application verification, and investigations.

(b) The administration and issuance of allocation orders for the following programs:

(1) Crude oil.

(2) Refinery yield.

(3) Petrochemical feed stocks.

(4) Residual fuel for utilities.

(5) Bunker fuel for maritime shipping

(6) Aviation fuel for Civil Air Carriers.

(7) Allocation of other products.

(8) Butane

(c) The determination of state set aside percentages.

(d) The determination of allocation levels for priority customers.

(e) Monitoring industry actions to redistribute fuels regionally (between states) to correct for regional imbalances, changes in weather, seasonality, etc.

(f) Directing, where necessary, redistribution of fuels regionally to correct for regional imbalances, changes in weather, seasonality, etc.

(g) Coordination with State offices, regional offices, and industry in assessing national, regional and State stock levels for all fuels.

(h) The dissemination of information on fuel inventories and supply projections.

All of the programs administered by the national office of the FEO involve a limited number of participants in the private sector as compared to the programs administered by the regional offices which involve pervasive distribution systems affecting virtually every American. The general allocation methodology and the procedures for adjustment to base period volumes which apply to the programs administered by the regional offices do not apply to the programs administered by the national office of the FEO. Complaints and adjustments must be processed by the national office of the FEO for these programs. Appeals for these programs will be processed by the national office of the FEO.

The 10 REGIONAL Offices of the FEO will be responsible for the following functions:

(a) The resolution of all cases and administration of the following programs:

(1) Middle distillates

(2) Motor gasoline

(3) Residual fuel oil (except that used for utilities or as bunker fuel)

(4) Aviation fuel (except Civil Air Carriers)

(5) Propane

(b) The direction of compliance efforts within the region.

(c) The implementation of auditing application verification and investigation procedures within the region.

(d) Coordination between FEO headquarters and State offices.

For each of these programs administered by the regional offices of the FEO except aviation fuel, there is a state set-aside. The supplier/purchaser relationship and the allocation methodology or rational for all of these programs, except propane, is described in subsequent paragraphs. Adjustments to base period volumes (or to an allocation) for all of these programs, except propane, is also described in subsequent paragraphs and is administered by the regional offices of the FEO. Initial appeals for these programs are also processed by the regional offices of the FEO.

Propane, although administered by the regional offices of the FEO, is allocated in a different manner and has different reporting requirements than do the other four programs administered in the regional offices. There is a state set-aside for propane. However, allocation and the supplier/purchaser relationships are related to the 1972-73 heating season and are prescribed separately for propane. Adjustments are administered by the regional offices. Initial appeals for propane cars are also processed by the regional offices of the FEO.

The FEO will be responsible for the following through the Federal Allocations Officer located in each State:

(a) The approval of hardship allocations recommended by the state offices if the state offices do not have the authority to approve such allocations.

(b) Facilitating coordination between FEO headquarters, regional offices, and State officials.

(c) Providing guidance on Federal programs.

(d) Monitoring State activities conducted under these regulations.

The STATE Offices will be responsible for:

(a) The allocation of the State set-aside in resolving emergencies and hardships. The State set-aside is a percentage of the total supply of allocated products under the state set-aside program for any product for which a state set-aside is established. The set-aside will be taken from all refined and imported supplies of a refiner or importer. It cannot be accumulated or deferred. It is made available by the States for hardships and emergencies from working stocks of refiners, importers, suppliers, and wholesale purchasers. State governments are not permitted to physically accumulate inventories of fuels except such inventories as are customary in operating State vehicles and facilities. The mechanics of the State set-aside program are explained in subsequent paragraphs.

(b) Advising the FEO regional office and headquarters of problems within the state including problems associated with applications to FEO for allocations which have required hardship allocations by the States.

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INDIVIDUAL MANDATORY PETROLEUM ALLOCATION SUMMARIES

CRUDE OIL AND REFINERY YIELD

This allocation program provides for an equitable distribution of crude oil among refiners. Secondly, it is intended to insure adequate supplies of essential petroleum products used in home heating, agricultural and industrial production, and aviation by diverting some of the refining capacity from the production of automobile gasoline.

A national ratio of crude oil supply to refinery capacity will be computed and updated quarterly. To this end, refiners have been required to provide information on their current and projected crude oil supplies, the capacities of their refineries, production rates for each refinery in 1972 and 1973, and estimated production rates for the first four months of 1974.

Refiners whose supply to capacity ratio is less or greater than national ratios will be allowed to buy or sell crude oil to stay within national guidelines. The Federal Energy Office will publish quarterly, beginning January 15 a "Buy-Sell" list. Normal business interaction shall occur between buyers and sellers on this list with each transaction being reported to FEO in Washington. FEO will intervene only when this normal interaction does not function properly.

The refiners initial reports shall be submitted before January 10, 1974 on forms FEO-900 and FEO-901. Their periodic reports an Allocable Crude Oil Supply Change and Buy-Sell Crude Oil Transaction shall be filed on forms FEO-902 and FEO-903 respectively.

To meet the second major objective of the program, adequate supplies of aviation fuels, distillates, residual fuels, and petrochemical feedstocks, the total supply of gasoline produced will be limited to a fraction of the 1972 production set by the FEO. This percentage limit is subject to change quarterly. Two or more refiners may request authorization to produce the gasoline fraction on a pooled basis. In certain situations, a refiner may, on form FEO-200 request authorization for an exception to the mandatory refinery yield control program.

PROPANE

COVERAGE

This allocation applies to propane and propane-butane mixes produced in or imported into the United States.

Excluded from this program include (1) Ethane and (2) The sale of propane in cylinders with a capacity of one hundred (100) pounds or less, provided that the cylinders are not manifolded at the time of sale.

ALLOCATION LEVELS AND PRIORITIES

"Base Period" for propane means this heating season extending from October 3, 1972 through April 30, 1973.

(a) 100 percent of current requirements for:

(1) Agricultural production
(2) Dispensing stations and resellers which sell only bottled gas in quantities up to 15,000 gallons per year
(3) Emergency services
(4) Energy production
(5) Sanitation services
(6) Telecommunication services
(7) Passenger Transportation Services
(8) Medical and nursing buildings

(b) 95 percent of base period for all residential uses.

(c) 90 percent of base period for:

(1) Commercial use or 210,000 gallons, whichever is the lesser on approximately a monthly ratable basis
(2) Industrial use
    (a) where no substitute for propane is available, and
    (b) standby volumes consumed during the base period, or 210,000 gallons, whichever is the lesser on approximately a monthly ratable basis
(3) Other transportation for those vehicles equipped to use propane as of the effective date of these regulations.
(4) Petrochemical production
(5) Schools

(d) The use of propane for peak shaving of gas utilities is limited to the volumes of propane equivalent to those amounts contracted for or purchased for delivery during the heating season extending from October 3, 1972 through April 30, 1973.

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SUPPLIER/PURCHASER RELATIONSHIPS

Suppliers shall deliver to those other suppliers either 1) the same proportion of their total propane available for sale, transfer, or internal use as a raw material feedstock as they delivered in the period October 3, 1972; through April 30, 1973, or 2) the actual supplier/supplier contractual during such period, whichever is lesser.

All suppliers of propane shall continue to supply all of their purchasers of record during the base period, and all of the purchasers assigned to them by FEO, for the duration of this program.

Suppliers, resellers, and end-users who had either nonexistent or substantial increases in propane requirements since the base period may apply for an assignment of a supplier or an adjusted base period volume through the appropriate FEO REgional Office.

The FEO may order the sale of propane by suppliers or end-users in order to alleviate imbalances, order the transfer of propane from one area to another, reassign purchasers, or make other adjustments as necessary to achieve a more equitable distribution.

METHOD OF ALLOCATION AND DISTRIBUTION

Propane suppliers shall provide propane for priority to those whom they sold or had a contract to sell propane at any time subsequent to August 31, 1973. Propane suppliers to resellers shall provide, on a pro rata basis, to those whom they sold or transferred propane in the period October 3, 1972 through April 30, 1973.

Non-priority users will receive an allocation fraction of the propane remaining after the priority customers receive their requirements.

STATE SET-ASIDE

There is a state set -aside for propane. It has initially been set at three (3) percent of all propane produced in or imported into the United States. This set-aside shall be directed, to alleviate temporary hardship situations.

Special provisions of the program govern the release of propane from large storage and merchant storage facilities so as to limit non-priority.

BUTANE

COVERAGE

This allocation applies to butane and certain mixtures containing butane products in or imported into the United States. The sale of butane in cylinders of one hundred (100) pounds or less, provided that the cylinders are not manifolded at the time of sale, is excluded from this program.

ALLOCATION LEVELS AND PRIORITIES:

"Based Period" for butane means the corresponding quarter of 1972.

a) 100 percent of current requirements for:

1) Agricultural production
2) Emergency services
3) Dispensing stations and resellers which sell only bottled gas in quantities up to 15,000 gallons per year
4) Energy production
5) Petrochemical production
6) Sanitation production
7) Telecommunication services
8) Passenger Transportation services
9) Medical and nursing buildings

b) 100% Base Period

Industrial use (1) where no substitute for butane is available, and (2) standby volumes consumed during the base period, or 210,000 gallons, whichever is the lesser or approximately a monthly ratable basis

c) 95 percent of base period for all residential uses

d) 90 percent of base period for:

1) Commercial use, but limited to 210,000 gallons, whichever is the lesser, on approximately a monthly ratable basis
2) Other transportation
3) Schools

e) The use of butane for peak shaving by gas utilities is limited to the volumes of butane equivalent to those amounts contracted for or purchased for delivery during the heating season extending from October 3, 1972 through April 30, 1973.

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SUPPLIER/PURCHASER RELATIONSHIPS

All suppliers of butane shall continue to supply all of their purchasers of record during the base period, and all of the purchasers assigned to them by the FEO, for the duration of this program.

Supplier, wholesale purchasers, retailers, and end-users who during all or part of the base period had either nonexistent or exceptional usage rates for butane or who have had substantial increases in butane requirements since the base period may apply for an assignment of a supplier, or an adjusted base period volume through the appropriate FEO Regional Office.

The FEO may order the sale of butane by suppliers to other suppliers or end-users in order to alleviate imbalances, transfer butane from one are to another, reassign purchasers, or make other adjustments as necessary to achieve a more equitable distribution.

METHOD OF ALLOCATION AND DISTRIBUTION

Butane suppliers and resellers shall provide butane for priority requirements of their priority customers to whom they sold during same quarter of 1972. Nonpriority end-users will receive an allocation, on a pro rata basis, after all priority users have been supplied. In the event that a supplier's or a reseller's immediate supplies may be insufficient to meet the needs of priority users, they shall supply all priority users on a pro rata basis until the full requirements can be met.

STATE SET-ASIDE

There is no state set aside for butane.

MOTOR GASOLINE

COVERAGE

The program specifies rules for the allocation of motor gasoline to suppliers and other wholesale purchasers. Although retail sales outlets are expected to distribute gasoline among their customers based on the same allocation levels, no provisions are provided for allocation levels for retail-supplied end-users nor for rationing.

This program applies to all motor gasoline produced in or imported to the United States. Aviation gasoline, specifically excepted from this program, is covered in the Mandatory Aviation Fuels Allocation Program. The base period for the gasoline program is the corresponding month of calendar year 1972.

ALLOCATION LEVELS AND PRIORITIES

The regulations set priority allocation levels of 100 percent of current requirements of motor gasoline for the following:

1) Agricultural production
2) Emergency services
3) Energy production
4) Sanitation services
5) Telecommunication services
6) Transportation services (public)

The allocation level for all other businesses is 100 percent of base period use. There shall be no allocation levels for end-users supplied at the retail level.

SUPPLIER/PURCHASER RELATIONSHIPS

All suppliers of motor gasoline shall supply their wholesale purchasers of record for the corresponding month of 1972.

The FEO may order the sale of motor gasoline from suppliers to other suppliers or wholesale purchasers in order to alleviate imbalances, order the transfer of motor gasoline from one area to another, reassign wholesale purchasers, or make other adjustments as necessary to achieve a more equitable balance of assigned sales among suppliers.

If a wholesale purchaser did not have a supplier during the base period he may apply to the appropriate FEO Regional Office and be assigned a supplier. A wholesale purchaser may also apply for an adjusted base period allocation to allow for increased business.

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STATE SET ASIDE

Initially, there will be a state set-aside of three (3) percent for motor gasoline. It may be distributed by the state offices for emergency and hardship cases.

MIDDLE DISTILLATE

COVERAGE

This allocation system applies to all middle distillate fuels produced in or imported into the United States. This primarily covers kerosene, #2 heating oil, and diesel fuel.

This program shall exclude kerosene-base and naphtha-base jet fuels heavy fuel oils (#4,5, and 6) intermediate fuel oils, (blends containing #6), all specialty items such as solvents, lubricants, waxes, process oils, and bonded middle distillates.

ALLOCATION LEVELS AND PRIORITIES

(a) 100 percent of current requirements for non-space heating uses for

(1) Agricultural production
(2) Emergency services
(3) Energy production
(4) Manufacture of ethical drugs and related research
(5) Sanitation production
(6) Telecommunication
(7) Passenger Transportation Services

(b) 100 percent of current requirements for

(1) 6° F reduction (or equivalent) for residences and schools
(2) 10° F reduction (or equivalent) for all other except 200.46 (a) (2)
(3) Each user must reduce his ambient indoor temperature by the appropriate amount, or take other actions which shall result in a fuel savings that would be achieved by the specified reduction.
(4) Medical and nursing buildings

(c) 110 percent of base period volume for

(a) Industrial and manufacturing (except for space heating)
(b) Cargo, freight, and mail hauling, except as set forth elsewhere

(d) 100 percent of base period volumes (except for space heating) for all other uses except for utilities.

The allocation levels to electric utilities shall be:

(a) 100 percent of base period volume or as otherwise determined by the FEO upon recommendation of the FPC, but notless than 100 percent of current requirements for nuclear plants, and start-up testing, and flame stability of coal-fired

(b) In order for the FEO to determine the middle distillate allocation for each utility, the FEO may include but is not limited to the following considerations:

(1) Electric generating plants which now burn middle distillate fuel oil that have been identified by the FEO as candidates for conversion to coal, and the maximum possible extent to which such plants could be utilized after conversion.

(2) The extent to which any electric generating plants which burn coal may be utilized more fully than at present.

(3) The extent to which it is possible for electric utilities to obtain necessary supplies of coal.

(4) The extent to which certain minimal levels of middle distillate consumption are essential, as determined by the FEO upon recommendation of the FPC, or to supply portions of a power system requirement that cannot be supplied by non-middle distillate-fired generation, or for other special considerations. Any volumes so identified shall be counted as part of the utility's total allocation.

(5) The extent to which utilities currently utilize natural gas supplied under interruptible contracts experience gas service interruptions.

(6) Available stocks of middle distillate held by each utility.

SUPPLIER/PURCHASER REQUIREMENTS

Middle distillate fuels shall be distributed according to record of corresponding months of 1972 base period, according to normal business practices and seasonal and geographic factors affecting consumption.

The FEO may order the sale of middle distillate by suppliers to other suppliers or end-users in order to alleviate imbalances, order the transfer of middle distillates from one area to another, reassign purchases, or make other adjustments as necessary to achieve a more equitable balance of assigned sales among suppliers.

Any purchaser who did not have a supplier during the base period may apply to the appropriate FEO Regional Office and be assigned a supplier.

Requests by suppliers, wholesale purchasers, or end-users for an adjusted base period volume should be submitted to their supplier or the appropriate FEO Regional Office.

STATE SET-ASIDE

Initially, the State set-aside level for middle distillate is set initially at four (4) percent.

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AVIATION FUEL

COVERAGE

Aviation gasoline, naphtha, and kerosene jet fuels produced in or imported into the U.S. shall be allocated on a mandatory basis to wholesale purchasers. Bonded aviation fuels are specifically excluded from coverage. The base period volume used as a determinant for calculating percentages of supply to be allocated is the corresponding month in 1972; however, the average monthly consumption may be used as the base period volume figure at the option of the user.

ALLOCATION LEVELS AND PRIORITIES

Amounts to be allocated to the various categories of aviation fuel users are set forth in the regulations as follows:

I. Civil Air Carriers

   A. Regional and other are to receive 100% of base period volume.
   B. Domestic, international, and intrastate to receive 95% of base volume.

II. Wholesale purchases and supplies requiring aviation fuels for general aviation use are to receive 95% of base period consumption.

III. Distribution by retail suppliers and other sellers to specifically-categorized customers including transients shall be based on the following allocation levels:

   A. Users of aviation fuel for the purchase of flying related to agriculture, energy production and aircraft manufacturing are to receive 100% current requirements , although aircraft manufacturing shall not exceed 130% of base period volume.
   B. Users of aircrafts for business flying are to receive 90% of base period volume.

   C. Users of aircraft for personal, instructional, and air travel club flying are to receive 75% of base period volume.

IV. Allocations for public aviation shall be made at 85% of base period use to end users at the highest government level for further allocation within their jurisdictions.

METHOD OF ALLOCATION

The Federal Energy Office shall estimate the total supply and determine the portion of allocable supply for civil air carriers and public aviation, and for general aviation.

Requests for redistribution of aviation fuels among civil air carriers and for public aviation shall be made directly to the Administrator, FEO. All matters pertaining to general aviation shall be handled by the appropriate FEO Regional Office. Aviation fuel for international flights shall be allocated on a nondiscriminatory basis. Allocation of non-bonded fuels to international air carriers which traditionally use bonded fuels may be made in specific cases where all potential suppliers and the carrier certify that bonded fuel supplies are not available.

The use of aviation fuel for non-aviation purposes (i.e.,) peak shaving) is limited to those volumes of aviation fuel contracted for or purchased during the 1972 base period. Aviation fuel shall not be used for peak shaving usage to interruptible nonpriority industrial customers (or other than in situations where no substitute for aviation fuel is available) or to any customer who can use alternate fuels other than aviation fuel.

STATE SET-ASIDE

There is no state set-aside.

PETROCHEMICAL FEEDSTOCKS

Petrochemical feedstocks are those refined petroleum products resulting from the breaking-down and processing of crude oil which are necessary as starting ingredients in a variety of industrial production processes. The production of thousands of everyday products as diversified as shoe soles and vitamins are thus dependent upon the availability of petrochemical feedstocks. Aimed primarily at assisting the petrochemical producer who is unable to obtain sufficient feedstocks at prices within the current ceiling, the program is expected to afford significant relief to those producers who may currently be experiencing feedstock shortages.

The Petrochemical Feedstocks Allocation Program will be administered nationally by the Federal Energy Office and will cover such basic feedstocks as butane, naptha and distillate oils. Propane and crude oil will be allocated under separate programs. The intent of the program is not to interfere with normal economic patterns; movement of feedstocks where no abnormal circumstances, i.e. extreme or inequitable shortages, exist will not be subject to mandatory controls or regulation. When a petrochemical producer is unable to obtain adequate supplies at or below ceiling prices requests, the Federal Energy Office may take either or both of the following steps:

a. Permit the producer to purchase feedstocks at a price not exceeding 115% of the current ceiling price.

b. Assign (thus require) a supplier to sell feedstocks to the producer.

Applications should be directed to the Federal Energy Office, Petrochemical Feedstocks, Fuel Manager, P.O. Box 2885, Washington, D. C., on the FEO-600 form available at the office.

Priority in assigning suppliers will be given to producers whose traditional suppliers cannot meet their obligations and to producers attempting to restore production to the 1972 level; lower priority will be assigned to producers seeking to expand beyond these levels.

The program does not cover intermediate or end products per se; however, the regulatory distribution system is directed toward maintaining a steady flow of necessary feedstocks which will ultimately ensure the continued availability to the consumer of the following: drugs, aspirin, pharmaceuticals, synthetic rubber, antifreeze, films latex paints, paint thinners, shoes soles, paper coating, adhesives, insecticides, varnishes, resins, perfumes, flavoring, synthetic detergents, solvents, explosives (TNT), herbicides, dyes, photographic chemicals, saccharin, food preservatives, foam padding, cushions, insulation, clothing vitamins, hydraulic fluids, plastic bottles, plastic bags, plastic pipes, and gasoline additives, as well as many others.

RESIDUAL FUEL OIL

COVERAGE

This allocation system provides for allocation of residual fuel oil produced in or imported into the United States including #4, #5, and #6 fuel oils, Bunker C, Navy Special Fuel Oil and crude oil when burned directly as a fuel. Bonded residual fuel oil is specifically excluded from coverage. "Base Period" for residual fuel oil means corresponding month of 1973 for all non-utility uses.

ALLOCATION LEVELS AND PRIORITIES

Allocation levels for the designated groups are as follows:

(1) 100 percent of current requirements for non-space heating uses for:

- (1) Agriculture production
- (2) Emergency services
- (3) Energy production
- (4) Manufacture of ethical drugs and related research
- (5) Nonmilitary marine shipping, foreign and domestic (except cruise ships carrying passengers for recreational purposes). Sales to vessels engaged in the foreign trade of the United States shall be made on a non-discriminatory basis in regard to flag of registration. Such policy shall be subject to modification by the FEO following consultation with appropriate Federal agencies on a case-by-case basis if required to encourage reciprocal non-discriminatory allocation of bunker fuels in foreign ports to vessels engaged primarily in the foreign trade of the United States.
- (6) Sanitation
- (7) Telecommunication
- (8) Passenger transportation services

(2) 100 percent of current requirements for

- (1) Space heating consistent with
  - (a) 6°F reduction (or equivalent) for residences and schools
  - (b) 10°F reduction (or equivalent) for others
  - (c) Each user must reduce his ambient indoor temperature by the appropriate amount, or take other actions which shall result in a fuel savings that should be achieved by the specified reduction.

(2) Medical and nursing buildings (100 percent of current requirements)

(3) Electric Utilities
Allocation may fluctuate monthly depending upon total shortfall. The FEO, with the assistance of the FPC, will determine the required reduction in electricity generation. To the extent practicable, each utility within appropriate groupings shall absorb an equal percentage cutback in electricity generation.

(4) 100 percent of base period volume for industrial users and all other users and uses of residual fuel oil not covered elsewhere in the program.

SUPPLIER/PURCHASER RELATIONSHIPS

The FEO shall estimate total supply and determine the portion of allocable supply for non-utility use, utility use, and the state set-aside.

All suppliers of residual fuel oil shall supply all of their non-utility wholesale purchasers of record as of the corresponding month of 1973.

The FEO may order the sale of residual fuel oil by suppliers to other suppliers or end-users in order to alleviate imbalances, order the transfer of residual fuel oil from one area to another, reassign purchasers, or make other adjustments as necessary to achieve a more equitable balance of assigned sales among suppliers.

STATE SET-ASIDE

Initially, the state set-aside for residual oil is 1.5 percent. It may be distributed by the State Offices for emergency and hardship use.

LUBRICANTS AND OTHER PRODUCTS

COVERAGE

This allocation program is for lubricants and all other refined petroleum products not allocated under other Federal Energy Office (FEO) programs, and not excluded from allocation by law or regulations.

ALLOCATION LEVELS AND PRIORITIES

This program, which includes lubricants, special naphthas and some solvents, provides that an amount equal to the current requirements will be allocated to each wholesale purchaser. Any wholesale purchaser who has difficulty securing necessary supplies may petition his FEO Regional Office for assignment of a new supplier.

Suppliers who cannot meet the needs of all wholesale purchasers shall distribute to all purchasers in proportion to each customer's purchases during the corresponding quarter of 1972.

The determination of need as defined by the wholesale purchaser and the initiation of mandatory allocation action only by request of the purchaser, will insure, as much as possible, a continuation of normal business practices.

STATE SET-ASIDE

There is no state set-aside.

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FOR IMMEDIATE RELEASE January 16, 1974

TREASURY ISSUES DUMPING FINDING WITH RESPECT TO CALCIUM PANTOTHENATE FROM JAPAN

Assistant Secretary of the Treasury Edward L. Morgan announced today that he has issued a dumping finding with respect to calcium pantothenate from Japan. The finding will be published in the Federal Register of January 17, 1974.

Calcium pantothenate is a member of the B-complex family of vitamins and is produced in both U.S.P. and feed grades. The U.S.P. grade is sold for human consumption in the form of multi-vitamin tablets, and the feed grade is used as a food supplement for swine and poultry.

On September 10, 1973, the Treasury Department determined that calcium pantothenate from Japan was being sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

On December 7, 1973, the Tariff Commission advised the Secretary of the Treasury that an industry in the United States was being injured by reason of the importation of calcium pantothenate from Japan sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

After these two determinations, the finding of dumping automatically follows as the final administrative requirement in antidumping investigations.

During the six-month period of January through June 1972, imports of calcium pantothenate from Japan were valued at approximately $400,000.

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DEPARTMENT OF THE TREASURY

TREASURY DEPARTMENT ORDER NO. 229

FISCAL SERVICE REORGANIZATION

By virtue of the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, it is ordered that:

1. There is established in the Fiscal Service a Bureau of Government Financial Operations, to be headed by a Commissioner, who will report to the Fiscal Assistant Secretary.

2. All functions of the Bureau of Accounts, and all functions of the Office of the Treasurer of the United States except the functions performed by its Cash Division and those functions performed by its General Accounts Division and its Internal Audit Office which relate to the custody, issuance, and redemption of currency, are transferred to the Bureau of Government Financial Operations.

3. The Treasurer of the United States will report directly to the Under Secretary for Monetary Affairs.

4. All provisions of law and regulations dealing with the transferred functions on the effective date of this Order will continue in effect under the supervision of the Commissioner, Bureau of Government Financial Operations.

5. All positions, personnel, records, property, funds, and other resources which relate to the functions transferred, as determined by the Assistant Secretary for Administration, shall be transferred to the Bureau of Government Financial Operations.

6. The internal organization of the consolidated Bureau of Government Financial Operations will be established by the Fiscal Assistant Secretary.

7. This Order shall become effective on February 1, 1974.

George P. Shultz

Secretary of the Treasury

Date: JAN 14 1974

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FOR IMMEDIATE RELEASE January 17, 1974

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
AT THE FIFTH MEETING OF THE COMMITTEE OF TWENTY
THURSDAY, JANUARY 17, 1974, AT 11:30 A.M.

Gentlemen: We scheduled this meeting because we had a common belief that working together there was much we could accomplish through improving our international monetary arrangements. We felt we could reach agreements which-- together with those achieved elsewhere -- would promote international cooperation and allow each of our nations to derive greater benefit from international trade and investment.

Since the meeting was scheduled, most of the nations represented here -- both more developed and less developed -- have found the prospects for their economic activity, prices, and balance of payments sharply worsened. Any economic betterment we can contribute through international cooperation is, therefore, now even more urgently needed than before. And that international cooperation is all the more essential, since we do not know with any certainty which nations among us are likely to be most seriously afflicted by the new developments.

In these circumstances, the logic seems to me compelling to act as do the members of a mutual insurance society who recognize a common interest in pledging to spread the impact of a calamity which could otherwise fall with concentrated force on any one of the members. At the same time, of course, we must not only insure against the risk. Our more basic task is to do all we can to reduce it.

It is imperative, therefore, that we make the most of our meeting. But, after a change in economic circumstances without precedent in magnitude and suddenness in peacetime, we obviously must rethink our priorities in the area of monetary reform. And we must act in the financial area with a full realization that our response to the current threat of economic instability will be viewed as a fundamental test of our willingness to cooperate internationally.

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A number of governments, the oil exporters, have demonstrated that they can act in pursuit of immediate political and economic objectives. In doing so, the clear danger is that they will create severe economic disruption for other nations and ultimately for themselves as well.

Now we must demonstrate that we can achieve joint action among a much larger number of countries and in a more broadly beneficial manner. We must develop a broader cooperation which meets the legitimate aspirations of the oil producers for an appropriate level of compensation for their current production and for secure and profitable opportunities for investing their financial resources, while assuring that they in turn meet their responsibilities for producing in reasonable amounts without capricious manipulation of supplies or prices. We must develop a broader cooperation that does not undermine economic development in any areas of our world.

This meeting of ministers of finance is not the proper forum for discussions of all the implications of the new developments in the field of energy. Primary work must be undertaken elsewhere on agreements for the maintenance of appropriate levels of supplies and prices, on research and development, on conservation, on alternative energy sources, and on emergency sharing of supplies.

President Nixon, to insure that all this work is undertaken promptly, has issued an invitation for a meeting in Washington to ministers of a number of oil consuming countries, together with the Secretary General of the OECD and the President of the Executive Commission of the EC. It is the President's belief, I know, that this small group can launch most expeditiously the preparatory work which will permit substantive and productive meetings to take place in the near future on a broader basis among representatives of the oil producers and the oil consumers from all parts of the world. The ultimate objective is a set of international arrangements which will permit economic development to continue on a secure basis in all parts of the world.

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The recent price increases and supply disturbances of oil have created uncertainty, which -- even apart from the direct costs involved -- is detrimental to economic development. And, when the newly announced prices are applied to estimates of oil consumption which are in the neighborhood of previous forecasts for 1974 and later years, the arithmetic results are staggering. We have seen estimates, for example, of an increase in the costs of imported oil in 1974 of more than $75 billion just from the price increases of the last few months. Similar calculations for later years yield even larger numbers. In appraising these estimates, however, I believe we must be driven to the conclusion they are simply not realistic. At the prices used in these calculations the consuming countries will not -- and in some cases probably cannot -- import such large volumes. In the more developed countries the combination of consumer choice and government controls is bound to restrict consumption of imported oil substantially even in the short run. Increasingly over time, imports will fall even further behind earlier forecasts, not only from reductions in consumption, but also from increases in production from alternative energy sources which have become economic by comparison. With the economic incentives which now exist, I suspect we shall all be surprised by the new ways of producing and of saving energy which "come out of the woodwork".

The impossibility of the initial projections of mammoth increases in import bills for oil is particularly obvious for the less developed countries which are not oil producers. I have seen estimates that their import bill alone would increase by more than $10 billion in 1974, an amount in excess of the total of official assistance which they have been receiving in recent years. Clearly it would not be possible for these countries to absorb such increases. Conceivably these countries could turn to the oil producers to borrow some portion of the increased cost. But many of these governments are already near the limits of prudent indebtedness. Moreover, it is one thing to borrow for a promising investment project which will generate increasing revenues in the future, but it is a far different and dangerous course to borrow large amounts to cover current consumption. Of course, the more developed nations must maintain their assistance programs but, in addition, to meet the new needs, some of the oil producers must provide a substantial amount of grant assistance if current welfare and future development are not to be drastically reduced in many areas whose levels of economic welfare are already abysmally low.

Even after the inevitable reduction in future levels of imports, the increasing cost of imported energy in the near future will still be huge. The secondary effects in terms of the availability of such derived products as fertilizer must also be recognized. The extra funds paid by the importers will inevitably mean a decline in their terms of trade, a burden upon their economies, and a heavy burden on efforts to manage common affairs cooperatively. Of course, the funds paid by importers will not disappear from the face of the earth. They will be used by the recipients in part for increased purchases of goods and services and in substantial part for investment in other countries. These reflows will collectively redress the payments positions of those countries. But in the new circumstances there inevitably is great uncertainty as to which countries will receive these reflows.

Naturally we in the U.S. government are hopeful that our businessmen will be competitive with their exports, and we know that we have a large and smoothly-functioning markets for investments. Yet, for us as for others, there is great uncertainty as to what will be the net impact of the new oil developments on our payments position. We had, after all, been scheduled to be the world's single largest importers of oil during the next few years. The oil price increases are likely in the short run to cause for us an even larger percentage increase in the total cost of imports than will be the case for most major countries in Europe, since oil looms larger among our imports.

For me these new developments have three basic implications for our work on monetary reform in the Committee of Twenty:

First, we must demonstrate that we can achieve international economic cooperative agreements in a timely fashion. It is imperative that we reach a substantive agreement by the date which we have already set for ourselves, July 31 of this year.

Second, in doing so, we must re-order our thinking to take fully into account the new conditions and the new uncertainties which have been thrust upon our international affairs. Our monetary reform agreements must not attempt to impose upon the system a rigidity which hampers response to future developments including, for instance, the possibility of a surfeit of energy supplies around the world in a few years time. Rather, we must agree on rules and procedures to insure there will be prompt adjustment in response to developing international monetary imbalances. We must try to avoid the mistake of giving too much weight to present conditions by simply extrapolating them far into the future. While setting the flexibility necessary to adapt and evolve the system to meet future developments.

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Third, we must design financial mechanisms and arrangements to deal with the present problem. But we must be realistic and recognize that the present problem is literally unmanageable for many countries. The oil-producing countries have to recognize this simple fact and cooperate with the rest of the world in scaling down the magnitude of the financial problem to manageable proportions. Once that is accomplished we must still bring together the countries that have investment opportunities with oil-producing countries which have investible funds, so that major destablizing forces in the world economy are avoided.

If we manage our affairs properly, it will plainly make economic sense all around for producers to pump oil in excess of their current revenue needs so that oil wealth can be put to uses which generate a greater return that would result from letting that oil increase -- or possibly decrease -- in value while lying in the ground. In fact, however, that oil is not likely to be produced unless the producers of the oil and the custodians of the investment projects can be brought together in a manner in which each participant feels he can rely on the contractual relationships with the other. There may be possibilities for collective action which should be given consideration in this area.

All these tasks I have just mentioned are ones for which we as Finance Ministers must take primary responsibility. But our responsibilities for constructive response to the new circumstances will not end there. We also have a vital role to play in facilitating future trade negotiations.

The recent experience of abrupt, major shifts in world supply-demand relationships in certain commodities has caused us all to rethink our policies and our methods of economic management, domestically and internationally. In this re-thinking, some have concluded that recent proposals for trade negotiations should be put aside in view of more pressing problems like the energy supply constrictions and price rises or alleged world food shortages. That is the wrong conclusion.

The effort to embark on trade negotiations has much in common with our efforts in the monetary field: on the one hand, to solve specific problems, and on the other hand, to bring about a negotiating process and improved framework for trade relations which would help deal more effectively with new problems as they arise. The recent difficulties, to me, argue more strongly than ever for getting moving on the process of trade negotiations.

The exact way in which we go about this, and the new priorities, that may be emerging -- including the avoidance of export restrictions -- will need close examination. But it is imperative that the process itself be set in motion now.

While this broader process is getting underway we have to ensure that nothing is done to make the situation worse now. No country can take unilateral restrictive trade or monetary measures to benefit some selected section of its economy or its current balance of payments at the cost of others without generating still greater turmoil in world economic relations. There would inevitably be countermeasures. Unilateral trade or monetary actions which are generated by energy problems or similar difficulties would be counterproductive. Any new trade or monetary actions should be considered in the most careful way in this delicate time, and should be kept consistent with mutual interests and obligations. Bilateral agreements between oil producing and oil consuming countries should themselves be fitted into an internationally agreed framework.

As Finance Ministers, with our particular knowledge of the dangers of economic instability and autarchic policies, we must impress upon our national colleagues the dangers of attempting to "go it alone" in international economic affairs in today's circumstances. We must recognize monetary cooperation plays a large part, but still only a part in the broad effort needed to respond to the new economic challenges. With cooperation, we can find a balance in the essential needs of oil producers and consumers. With intelligence and understanding, we can avoid unemployment through excesses of financial restraint at home. If we approach our problems in common, we can maintain a fabric of reasonable stability and freedom in international commodity and exchange markets, to the benefit of all our citizens.

The new challenges have come upon us with a brutal suddeness. But the collision between growing energy demands and the slower growth in apparent supply was inevitable in any event. Let us now attempt to insure that we derive one important benefit from our recent jolting experience. Let us resolve to delay no longer and to proceed at once with the reordering of our research efforts, our production plans, and our consumption patterns to fit our new conception of the world's energy balance. In doing so, let us achieve that broad consistency among our individual actions that is essential to the success of the total effort.

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FOR IMMEDIATE RELEASE JANUARY 16, 1974

SIMON PLEDGES FLEXIBILITY IN NEW PETROLEUM ALLOCATION RULES

William E. Simon, Administrator of the Federal Energy Office (FEO), today pledged that the new petroleum allocation regulations (published in the Federal Register yesterday) will be responsive to the changing needs of the American economy. "We will closely watch and reassess the effect that these regulations have on both oil production and producers of crude oil," Simon said.

"Should it become apparent that unreasonable inequities are created or that our objectives are not being achieved, or that there is a better way of allocating crude, then we will not hesitate to introduce additional refinements or changes in the regulations," he promised.

To minimize doubt and confusion at the outset of the allocation program, Simon said that supplier-purchaser relations as of December 1, 1973, should be maintained.

"The possibility of large numbers of 'connection' changes has made it difficult and somewhat confusing to determine what supplies of crude will be available to whom," he said. "The allocation program was implemented to assure equity during our shortage," the FEO administrator said. "It must also provide reasonable stability and assurances of supply if it's to be successful."

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FOR IMMEDIATE RELEASE JANUARY 17, 1974

ADMINISTRATOR SIMON APPOINTS LEIGH S. RATINER
DEPUTY ASSISTANT ADMINISTRATOR FOR
INTERNATIONAL POLITICAL AND SECURITY AFFAIRS

Federal Energy Office Administrator William E. Simon today announced the appointment of Leigh S. Ratiner to the position of Deputy Assistant Administrator for International Political and Security Affairs in the Office of the Assistant Administrator for International Policy and Programs, Stephen A. Wakefield.

Ratiner, 34, will be responsible for pursuing new diplomatic initiatives, policy development, and international negotiations affecting the security of our imported energy needs. He will also act as the Federal Energy Office's principal representative to the many international organizations that now deal with energy matters. Mr. Simon emphasized that Mr. Ratiner will carry out his duties in close coordination with the Department of State.

From the past two years, Mr. Ratiner has been Director of the Office of Ocean Resources in the Office of the Assistant Secretary of the Interior for Energy and Minerals. Prior to that he was Staff Director of the Office of Ocean Affairs in the Office of the Secretary of Defense. From 1966 to 1970

Ratiner was Legal Counsel for Western Hemisphere Affairs in the Department of Defense. Between 1963 and 1966 Ratiner was an attorney in the Federal Aviation Agency, specializing in international air law negotiations.

Ratiner has been negotiator at a variety of bilateral and multilateral conferences and is presently serving as the principal United States representative in Committee I at the Law of the Sea Conference, which deals with the mineral resources of the deep seabed, and with the creation of new international institutions for their administration.

Ratiner has delivered numerous speeches on ocean policy and is the author of several legal articles, including analyses of United States oceans policy and mineral resources interests of the United States, which have been published in the Journal of Maritime Law and Commerce and the Natural Resources Lawyer.

Ratiner is a member of the American Society of International Law, the International Law Association, and a member of the General Advisory Committee of the American Bar Association Section on Natural Resources Law.

Ratiner is a native of New York City. He holds a B. A. degree from Grinnell College, 1959; an LL.B. degree from the University of Pennsylvania, 1962, and a Masters in Comparative Law from Southern Methodist University, 1963.

He and his wife, Catharine, have a daughter, Cris, 13, and a son, Tony, 10, and live in Annandale, Virginia.

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FOR IMMEDIATE RELEASE JANUARY 17, 1974

ADMINISTRATOR SIMON APPOINTS MELVIN A. CONANT
DEPUTY ASSISTANT ADMINISTRATOR FOR
INTERNATIONAL TRADE AND COMMERCE

Federal Energy Office Administrator William E. Simon today announced the appointment of Melvin A. Conant to the position of Deputy Assistant Administrator for International Trade and Commerce in the Office of the Assistant Administrator for International Policy and Programs, Stephen A. Wakefield.

Conant, 49, who most recently served as Senior Government Relations Counsellor for the Middle East and Asia for the EXXON Corporation, will deal with the trade and economic relationships related to the flow of energy materials between countries. He will also act as the Federal Energy Office's principal representative to the many organizations active in energy and trade affairs. Mr. Simon said that Mr. Conant will carry out these functions in close coordination with the Departments of Commerce and Treasury.

Conant had been with EXXON since 1963 and previously served as Regional Political Advisor for Standard Oil interests in East Africa, Asia, the Far East and Australia. From 1960 to 1961, Conant was on the faculty of the National War College as Professor of International Security Affairs. Between 1955 and 1961 Conant was on the executive staff of the Council on Foreign Relations.

Conant has held several advisory positions including that of lecturer to the Royal Canadian Defense Forces College; U.S. National War College; U.S. Air University; and Royal Naval Staff College, Greenwich. He was Oil Advisor to the U.S. delegation at the Preparatory Sessions of the Law of the Sea Conference in 1972 and 1973, and is a member of the Institute of Strategic Studies (London).

Conant is a native of New York City. He holds a B.A. degree (Magna Cum Laude in international law and diplomacy) from Harvard College, 1949, and also received his M.A. there in Far Eastern studies (1951).

He lives with his wife, Christa, in Arlington, Virginia.

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January 17, 1974

FOR IMMEDIATE RELEASE

PLANS FOR IMPROVING FEDERAL GOVERNMENT'S PAYMENT SYSTEM

The Department and the Social Security Administration said today that a series of actions is being taken to facilitate the payment of benefits to the 3-1/2 million recipients of payments under the new supplementary security income (SSI) program. The Treasury Department said that it is not ready to begin making Government benefit payments by direct electronic transfer to recipients' accounts and it does not expect to eliminate all paper checks in making Federal payments, as has been reported in the press.

Under the SSI program, the Federal Government began this month to make welfare payments to the aged, blind, and disabled which had heretofore been made by the States. The Treasury and the Social Security Administration anticipated two problems that would arise in the delivery and negotiation of SSI checks. The first was that, since many of the payees under the new program do not have accounts with financial institutions, and since they would not have satisfactory documentary means of identifying themselves, they would have difficulty in negotiating their checks. The second problem was that, because many of the recipients are located in high crime areas, the mailing of checks to the individual beneficiaries would tempt mail-box thieves.

The first step taken was to meet with trade associations representing commercial banks, savings and loan associations, mutual savings banks, and credit unions to solicit the cooperation of their members in making accounts available to recipients who wish them. The institutions would then have account signature cards which would enable the identification of the payees of the benefit checks. Although the trade associations were not in a position to commit their members, the reactions received were generally favorable and it is expected that a sufficient number of financial institutions will participate to make available in most cities and towns adequate and convenient facilities for the maintenance of accounts for those SSI beneficiaries who wish them.

The second step involves working out the mechanics of sending the checks directly from the Treasury to the financial institutions for credit to the payees' accounts. Since these checks would be negotiable only by the financial institution, the problem of their

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theft for the purpose of fraudulent negotiation would be eliminated. The implementation of the second step includes making SSI beneficiaries aware of the advantages to them of establishing account relationships and encouraging them to elect to receive their payments by direct credit to their accounts.

The Treasury and the Social Security Administration have for some months been engaged in a joint study to implement Public Law 92-366, approved August 7, 1972, which provided that payments of various benefits, such as social security, could be made by direct credit to the accounts of the beneficiaries at a financial institution.

A number of basic operating problems are involved in adopting such a procedure, and considerable lead time will be required to make it available for regular social security payments. A number of these operating problems do not exist, however, with respect to SSI payments, since the use of direct credits to financial institutions was contemplated when the SSI program was established, and the system was developed in such a way as to be compatible with the use of direct credits. A system of direct credits to financial institutions for SSI payments can therefore be implemented sooner. In the meantime, recipients can have their individual checks sent directly to a bank of their choice by executing a power of attorney form and notifying their local social security office.

Initially, any system of direct credits to financial institutions will involve only the forwarding to each financial institution of individual checks payable to the institution for credit to the account of the named beneficiary. While the ultimate goal is the transfer of funds to the financial institutions by electronic means, without the use of checks, this will be a number of years away. When the proper techniques are available, however, the system will be extended, as an option to payees, to other types of benefit payments such as veteran benefits, civil service retirement, and railroad retirement.

Another phase of the joint Treasury/Social Security Administration study is to accomplish the conversion of the different types of benefit payments to a cycled basis. The system for cycling payments, like the system for direct credits, involves complex operating problems and will take time to implement.

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FOR IMMEDIATE RELEASE January 18, 1974

DONALD L. E. RITGER NAMED
DEPUTY GENERAL COUNSEL

Treasury Secretary George P. Shultz has announced the appointment of Donald L.E. Ritger as Deputy General Counsel.

He succeeds Roy T. Englert who resigned last year to join Charls E. Walker Associates, Inc.

Prior to his appointment as Deputy General Counsel, Mr. Ritger had served as an Assistant General Counsel since June, 1966. He began his Treasury service in 1949 in the Office of the Chief Counsel of the Bureau of Customs. He was Assistant Chief Counsel from July, 1959 until May, 1964, when he was designated Chief Counsel.

Mr. Ritger was born in Orange, New Jersey, October 31, 1920. He was graduated from Georgetown University, Washington, D.C., in 1942 and the Georgetown University Law School in 1948, where he served on the Law Review. He was on active duty with the U.S. Navy from July, 1942 to October, 1946.

He is married to the former Antoinetta Galeazza Kirby. They live at 601 Piscataway Court, Oxon Hill, Maryland and have one son, Edward N. Mr. Ritger has three children by a former marriage, Lee M., Thomas Bulfinch, and Wendy A.A.

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FOR IMMEDIATE RELEASE January 18, 1974

ASSISTANT SECRETARY EDWARD L. MORGAN RESIGNS

Edward L. Morgan announced today that he is resigning his position as Assistant Secretary of the Treasury for Enforcement, Tariff and Trade Affairs, and Operations effective February 1, 1974, to return to private life. Mr. Morgan, who has served with the Administration since January 1969, has been Assistant Secretary since January 1973.

Secretary of the Treasury George P. Shultz issued the following statement on Assistant Secretary Morgan's resignation:

"Ed Morgan's departure from the Treasury is something I deeply regret. Ed brought great competence and leadership to the job of Assistant Secretary for Enforcement, Tariff and Trade Affairs, and Operations and its broad responsibilities ranging from law enforcement to Treasury's minting and engraving operations. His background in law and government and his ability to analyze complicated problems, coupled with his skill at bringing together divergent opinions, made him a particularly valuable member of the Treasury team.

"During his year with Treasury Ed dealt effectively with the reorganization of the Administration's anti-drug efforts and was instrumental in negotiating a significant treaty with the Swiss government regarding the disclosure of banking information. He also oversaw a change in the leadership of the U.S. Secret Service and made important contributions to the Administration's trade proposals to the Congress in the antidumping and countervailing duty areas. He achieved international recognition at the INTERPOL General Assembly last fall in Vienna when he was elected to the Executive Committee of INTERPOL.

"I have known and worked closely with Ed for five years and have the greatest respect for him. He has impressed me and those with whom he has worked at Treasury with his capacity for work, his good judgment and his sense of humor. We will miss him both on a personal and professional level. We all wish him the best of luck in his future endeavors."

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THE DEPARTMENT OF THE TREASURY 1789

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PRESS BACKGROUNDER BY SECRETARY SHULTZ
PRIOR TO HIS SPEECH IN ROME, ITALY
THURSDAY, JANUARY 17, 1974

We thought we would give you this speech beforehand, or this statement which, in one manner or another, we hope to put forward this morning. I undoubtedly won't read it all but we will stand by the full text. We thought it might be useful to have a session so you could raise whatever questions you want to raise about this and, for that matter, the general meeting as we go into it. Of course, we don't know what is going to happen so we can't comment on that; we will, however, arrange somehow to have a session with the press after the meeting is concluded. I think you all have had this statement so you may proceed with whatever questions you want to raise.

Q. Mr. Secretary, what assurances or indications do we have bilaterally from the OPEC countries that they might be interested in something other than dollars, immediate dollars in return for their oil?

A. Well, we don't posit this statement on any particular assurance from the oil producing countries. This is based on our own analysis of the situation and what, in our view, is the emergence of a set of implications that won't work. And, that being the case, we have to see what can be done about it.

Q. Aside from the statement, do we have any hopeful indications from them?

A. I don't have any statement to make about what the oil-producing countries have to say for themselves. That is for them to say. Our position here is, this is our analysis of the situation. This sets forward the general pattern or method by which we think we need to work at it and we go on from there. We hope to be able to talk with the oil-producing countries, but that is an emerging and unfolding development. I don't have anything to say about it here.

Q. Does this reflect an agreed position at your dinner the other night with the other.....

A. This is simply a United States statement.

Q. Mr. Secretary, you mentioned financial mechanisms in your speech. Do you have any particular mechanisms in mind? Anything specific that you intend to propose or that you think might work in order to resolve the problems?

A. Well, the kinds of things that can be done vary as between sets of nations, depending upon their situation. We do have swap lines with a number of countries. We think these are important. It may be important to strenthen them. They will be helpful in meeting developments in exchange markets, as they have been in the past. Whether or not some special kind of financial arrangement having to do with developing countries emerges remains to be seen. Mr. Witteveen has made a proposal somewhat along these lines, as we all know, and we think that it is important to think contructively about these problems. We have lots of questions to raise about that particular proposal, but maybe they can be answered satisfactorily.

Q. Is that along the lines of the sort of thing you would be prepared to support?

A. Well, that is a proposal. Before we would be prepared to support it we would want to know the answers to some questions that we think are very hard to answer.

Q. For example?

A. For example, if you set up some sort of a fund, presumably it gets its money from somewhere. I suppose the thought is from the Arabs. Presumably, they will want to have some kind of guarantee as to value, and they will want to have some reasonable rate of interest on the funds that are loaned by them. We put this in the setting of the developing countries. If the developing countries borrow from this fund, they will have to pay a rate of interest, and presumably they will have to pay the money back. Now, when you consider that the recent increases in price, if applied to their past year's purchases of oil, come, in sum, to the equivalent of or perhaps a little more than the total amount of the concessionary aid flowing to them, it is a little hard to see how they are going to be able to pay these sums back. And they already have very substantial debt repayments going on. So, then, the question is how is that going to work out as a fund that has any sort of prospect of balancing itself? That is the kind of question that we think needs to be raised. And, at least in our judgment, it is an illustration of the sense in which the implications of what has happened lead you, in part, to say that it is not a manageable situation. There has to be some give in it before you can start really figuring out, financially, how to deal with it.

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for arms and what have you. Yet, in your speech you are talking about leaving the way open for them, saying, in effect, that bilateral agreements are O.K. so long as they fit into an internationally-agreed framework.

A. If there is an exchange between two parties, it is thus bilateral and exchanges have that characteristic. Now, the question isn't whether exchanges and arrangements between parties are going to exist -- they are going to exist. The question is whether or not those will take place under an understood and cooperatively-developed umbrella, so that they are not put in juxtaposition and competition with each other. That is the problem, so that people act with some mutual understanding of what we are doing:

Q. Mr. Secretary, although you said that you still think it is necessary to meet the July 31 deadline, there has been some vagueness as to precisely what terms. Could you expand on this? The understanding that has gotten around here is that one will drop it all except in the most general terms, and that the 20 is possibly to be disbanded in the spring.

A. I can only say what my thinking is, or I should say what our thinking is. We've discussed this a lot in the U.S. Government, and we will learn the views of others. We have been talking with others since we've been here, but we will learn the views of others in the meetings in the next two days and expect to be influenced by those views, so I can only tell you what our sort of "going-in" attitude is. It is a positive one toward the July 31 deadline, or before. Because we think that it is possible to achieve worthwhile and substantial goals by that time and that it is important for the Committee of Twenty to do that. In effect, a goal from the beginning has been to evolve an understood, broad outline of reform and somehow to get that into a posture where, with some kind of monitoring and adapting surveillance, it can gradually merge itself with the reality of world monetary development. I think it is important to remind ourselves that the Bretton Woods system did not spring full-blown into being. It was not, I believe, until 1958 that convertibility, in general, was achieved, for example, so that I don't think that any reasonable expectation was that there would be a snap of the fingers or an unveiling or something and there, presto, would be a new monetary system. Rather, that the general characteristics would be developed and understood and broadly agreed and some things would be possible to implement before others and that at some point a sort of marker should come down and then the process of evolution should take place. I think if the Committee of Twenty can achieve those things, and do so by the middle of the year, that will be a substantial and worthwhile achievement. I think it is possible, and I think we should try very hard to bring it off.

Q. Could you say precisely, Mr. Secretary, what the United States means when it talks about general rules for floating? What you expect to achieve?

A. Obviously, we have a situation right now which can be described as a more or less floating situation with intervention. It isn't a so-called clean float -- nobody describes it that way -- it is a flexible system with a pattern of intervention that has sort of emerged ad hoc following the last Paris meeting in March. We think that it is desirable... to have some more explicitly understood rules for behavior. And we think, broadly speaking, that they should have to do with what happens to people's reserve positions. We have made some proposals, as have others in the Committee of Twenty, that we think would be helpful.

Q. Mr. Secretary, reading between the lines, it seems almost on top of the lines, it seems clear that you are content to let the dollar float for the foreseeable future. Is

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that the best system until these many problems you described are ironed out?

A. Well, we had thought at the time our position was put forward a year ago last September that a system which had its center of gravity in par values and which had a clear option for floating was a prospectively good system. We expected that the United States would be part of that center of gravity. We don't see any reason to change our mind about that. We think that the oil price developments constitute an event that makes it very hard to establish par values in the near future and that, on the whole, the more or less floating system that has emerged has handled these developments pretty well, since at least that, the one crisis you haven't been (I was going to say you haven't been writing about) is the monetary crisis, and I think you could imagine yourself four or five months ago with a system of strongly defended par values, and we would have had quite a show. But I do think that the system needs to be given more body and that it gets more body by getting agreement on the nature of the adjustment process, the nature of rules for floating and for settling down and then being moved gradually into this center of gravity type situation that I mentioned.

Q. Mr. Secretary, how do you feel about the point that the dollar has reached at the moment and recently? Do you agree with President Pompidou's remarks that Americans are concerned that it is too high?

A. Well, I don't -- I haven't heard President Pompidou's remarks and I prefer not to comment on what somebody else says. Just in terms of the situation, of course, we felt that the dollar fell too low in the summer, and said so and said that we thought it would come back and that, broadly, the dollar of February was approximately right, we thought. It has come back through natural forces and I think the pattern of sort of ad hoc intervention that has developed helped to give some body to the market and implement the idea that we had a progressive, orderly market. It is a bold person who can give an opinion on precisely what relative exchange rates are right right now. In fact, that is a reason why it would be so difficult to go to par values right now. But I would say my sense of the situation is that the market has reacted a little bit too far and that we may see some development in the other direction, but that is just my instinct at the moment and developments would have to be seen.

Q. Would ad hoc intervention be part of influencing that result?

A. Yes, it could be.

Q. Mr. Secretary, Mr. Emminger has been quoted these days as saying that he is optimistic that probably before March some fairly well-defined basket of currencies could be drawn up with which to value the SDR's. What are your feelings about this possibility?

A. Well, that is one of the questions that we are going to be discussing in the next couple of days. It has both a short-term and a long-term dimension, and it's hardly in the interests of the point we were discussing earlier, namely, the emergence of as much monetary reform as can be achieved. We think that whatever is done in the short-term should have its eye on what we think is an appropriate arrangement in the long-term. Just what kind of a market basket should be constructed, if any basket less then the sort of average of all currencies, is a question that we are ready to look into. Of course, it is hooked in closely to the question of what the rate of interest on the SDR should be. Certainly, this is one of the questions to be discussed and it will be discussed at the meeting.

Q. In September, in Nairobi it seemed that the U.S. was opposed to this idea of a currency cocktail. What is the current position of the United States?

A. We think that there are many arguments to be made in favor of a broader average. We don't think that a smaller basket is unworkable, and we're practical people, and we will look at all aspects of the situtation.

Q. Mr. Secretary, do you already have a feeling as to whether your colleagues that you will be meeting today are in agreement with oil prices being too high?

A. They will have to speak for themselves. I'm sure everybody wishes they were lower; that's really not the question. The question is when you look carefully at the implications of both the present level and the speed in which that level has emerged and ask yourself, "Really, is this a tolerable situation," we think that the answer to that is no, that we must bring out clearly the many ways in which this situation is going to present the greatest of difficulties to many nations. What others think about it -- first, we have been talking since we've been here last Tuesday with representatives of other countries and I don't want to presume to speak for them, but certainly this problem is on everybody's mind.

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Q. Mr. Secretary, as I understand it, the Witteveen proposal is to borrow money from the Arabs and then to recycle this to those countries that might be in balance of payments deficit, whether it be developing countries or developed countries. You were addressing yourself to the problem of developing countries in your earlier remarks and criticism of the proposal. What do you feel about the proposal vis-a-vis the developed countries? Does this seem like a mechanism that could be effective?

A. Well, it is possible, but I think we also have to look at, as I said, the swap lines that are in effect and at mechansims in the private market for dealing with this kind of problem. We intend to work with others in exploring Mr. Witteveen's proposal along with any other proposals that come along. We are here to look at any reasonably promising avenue. But we think it is a mistake to take the attitude right now of saying, "well, all right, here is this situation and our problem is how to manage it." We think that is a snare and a delusion; that there are many senses in which it is not manageable, at least easily enough, to be acceptable.

Q. This implies, therefore, that something has to give somewhere--that you are going to go back to the OPEC countries and demand a price reduction.

A. I think that if you have oil to sell to somebody and if somebody just doesn't have the money to pay for it, then what is going to happen? There is going to have to be some back-and-forth on that, not only in a broad sense but on an individual basis. And the prospect of that, it seems to me, has to be recognized and as clearly as we can.

Q. Sir, do you think the group that will be meeting in Washington next month will be the sort of group that, together, could form some sort of committee to directly negotiate with the oil-producing countries? There must be some sort of institutional arrangement.

A. How that will emerge, I think, is best left to the meeting itself. I don't want to prejudge that. The President has called that meeting, the response has been quite gratifying, we have our thoughts about what the contents should be and the objective should be, but we are also visiting other Capitals and seeking the thoughts of others, so that it is a, so to speak, a mutual agenda, not an agenda set simply by the United States, and out of that process will come whatever comes from that meeting and I don't want to prejudge it.

Q. Mr. Secretary, you've said that the situation now is, to a large extent, not manageable while oil prices stay up, and at the same time you have expressed some hope that you can reach, or make some progress or some agreement, by the July 31 deadline. Could you give us some idea of those areas in which you think some progress is possible by July 31 if the oil prices stay up?

A. Well, first, I think as compared with, say, two years ago, a great deal of progress has been made in the Committee of Twenty and in the general discussions on what the sort of overall dimensions and characteristics of the new monetary system should be. And that was evident in Nairobi, even in the outline of reform with the various differences that were presented in it. Nevertheless, that outline itself represented a broad agreement on the nature of a new system. So that's number one and I think that is in a sense, already in the bin. Second, we have had a great deal of discussion of the adjustment process and we had a fairly good meeting of the minds last July at the Washington meeting. The situation has, I would say, unraveled somewhat since then but it seems to me possible to, in one way or another, perhaps merge with rules for intervention or floating or however you want to phrase that, set up understandings about the adjustment process. How the discussion on the SDR will go, in this meeting and in the subsequent meetings, I don't know, but it seems to me that as a general proposition that we ought to be able to work something out that is at least reasonably precise along those lines. I think that it has always been one of the principal objectives to examine the Fund's structure itself to see if there are some ways in which that could be strengthened and it seems to me there is, as far as I can see, a general agreement certainly from the Deputies' meeting, on doing that, and more or less how to do that, so those are all things of substantial importance and in the meantime we do have a system through which we have been managing. World trade has been expanding, up until this energy business. Within the framework of the overall understanding, and with a strengthened IMF, the Committee of Twenty should be able to point to some very substantial accomplishments and expect that some similarly-constituted group would be able to gradually bring a new monetary system along the lines broadly suggested into being.

Q. Mr. Secretary, what is the short-term industrial outlook for the next six months to a year--while SDR'S are being discussed, while oil prices are being haggled over, while oil supplies are curtailed for various political reasons? People talk about a very serious recession, perhaps, or primary deflation areas. What is the real industrial outlook, say over the next year?

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Q. What are some alternatives to Mr. Witteveen's suggestion?

A. Well, I've mentioned the swap arrangements. I think the basic alternative is to bring forward clearly the inherent difficulty, well-nigh, impossibility, of the situation as it exists, and to get the situation changed so that it is more manageable, in which case, then, financial arrangements of one sort or another become more possible. But it is not really possible to conceive of loaning money on any expectation of repayment to people who, very clearly, can't repay.

Q. What sort of change in the situation is possible?

A. The prices are too high, and they have gotten to the present level much too precipitiously, so that people have not had a chance to digest and adjust and absorb and in any orderly way work these things into their system. Of course, this goes not only for the developing countries but for the developed countries, and it is interesting that it poses internal questions as well, because the whole level of energy prices and oil prices has gone up. Within a country like Canada, I suppose, just internally they are in balance on petroleum, but some sections of the country are producers and some sections of the country are consumers and you have a problem to work out in that regard. The same thing is true insofar as the United States is concerned.

Q. Would you go to the OPEC members, then, and ask them to lower their prices?

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A. I don't know that I would put it quite that way, but we certainly are putting the problem clearly forward and pointing up a situation which we think is not a workable situation. In theory, I think it is important for them to realize clearly the implications of what has happened, not only in terms of the gross flows and the difficulties of managing these gross flows, but the implications for them for their own development. That is, you have all sorts of secondary and tertiary effects here affecting, for example, the production, I've noticed, of steel and fertilizer in Japan, with Japan not able to service some of its traditional customers with respect to those commodities. The same thing will happen in other areas, and these are things that flow back to the Arabs, so you have that kind of problem to consider. Beyond that, I think, myself, that we are all going to be surprised--even people like me who tend to think that this will happen, will be surprised--at the way in which these extraordinary prices will call forth supplies from many quarters as time goes on. I think this needs to be pointed up and may put some sense of perspective into these prices and price movements.

Q. For the time being, though, you are saying that there is no solution to the problem unless the prices come down?

A. I think that, well, there is a solution in the sense that we will consume less. There is a solution in the sense that the prices are extraordinary, and I might say some of the oil offered at these emotional prices is being left there; that is, people aren't taking it quite so quickly any more, so you are beginning to see that start already. I think that these are the kinds of things we need to focus on and if we, too quickly, say to ourselves, "Let's figure out how to manage this financially" we may wind up kidding ourselves into thinking we really can when we can't and it will tend to blow up in our face. I think our basic thrust here -- and when I say "Our" I mean the United States more broadly than simply this meeting -- is to say, well, let us look at these developments together through an orderly procedure, a procedure that starts with the countries that are major consumers of oil, adds on the special problems of the developing world and comes together programmatically with the oil-producing countries. And when I say programmatically, I mean in terms of the various segments of the problem, such as the research segment, the financial segment and so on. That is essentially the President's proposal for a conference in February.

Q. At that conference in February, there has been a feeling here that one of the aims is to try to stop these bilateral arrangements that have been going on, swapping oil

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A. We have felt in the United States that we first have to equip ourselves for perhaps a broader range of contingencies than is normal. To put it another way, there is a large element of uncertainty in the situation depending upon how some of these questions that we have been discussing here this morning turn out. But, given that, what we expect in the United States for the year as a whole is growth, real growth, in the U.S. economy a little less than we had formerly anticipated. We expect that there will be a continued major problem with dealings with inflation and the big increase in oil prices to whatever extent it is maintained, represents a kind of a one-shot step in the price level. I don't know if you want to translate that into a rate of inflation or not--I think it is a little deceptive, really, to do that. It is as though you have one component in the price structure suddenly rise and, assuming that it just stays at about that level, then there have to be re-adjustments made. But, in any case, I think it is clear that the rate of inflation for the year as a whole is going to be a problem. Now, as we have reviewed the situation in other countries, talked with people from other countries, and particularly paid attention to the sort of systematic efforts to appraise, as distinct from the sort of emotional reactions that many people have, the picture is not so different for other countries. That is, a little less real growth than they anticipated, a little more inflation than they anticipated. But I think if we manage our affairs in a reasonable and cooperative manner we can avoid the worst results that people sometimes refer to. Of course, if the situation just totally unravels it could be very bad, but I don't see any necessity for that to happen if we will keep our sense of balance and perspective and also keep our nerve.

Q. Could you explain why it is in the interests of the oil-exporting countries to reduce their prices?

A. First, because they can produce difficulties in other parts of the world that are severe enough to wind up affecting them as well. Second, because by extraordinary prices they will bring on alternate sources of energy and means of doing the things that energy does at a rapid pace and undermine the value of the treasure that they have. In fact, my own opinion is that the long-term supply price, you might say, is lower significantly than the present price level already, and that can be brought on more rapidly. Third, to the extent that this is a factor that they wish to consider, we have always felt that it is a factor that we should consider in our actions, these price increases are devastating in their effect on the aspirations of the poorest people in the world. By imposing a cost the equivalent of the total flow of concessionary aid, they are, in effect, wiping out the ability of those with the least resources at their disposal to move along in their effort for economic development, and I think that all of us have an obligation to our fellow men in other countries, aside from our own kind of narrow self-interests.

Thank you, Mr. Secretary.

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FOLLOWING IS THE COMMUNIQUE RELEASED AT CLOSE OF THE MEETING OF COMMITTEE OF TWENTY, AT ROME, JANUARY 18, 1974

The Committee of the Board of Governors of the International Monetary Fund on reform of the International Monetary System and Related Issues (The Committee of Twenty) held their fifth meeting in Rome on January 17 and 18, 1974, under the chairmanship of Mr. Ali Wardhana, Minister of Finance for Indonesia. Mr. Johannes Witteveen, Managing Director of the International Monetary Fund, took part in the meeting which was also attended by Mr. Wilhelm Kaferkamp, Vice-President of the E.E.C., Mr. Rene Larre, General Manager of the B.I.S., Mr. Emile Van Lennep, Secretary-General of the O.E.C.D., Mr. Olivier Long, Director-General of the G.A.T.T., Mr. Manuel Perez-Guerrero, Secretary General of the U.N.C.T.A.D., and Sir Denis Rickett, Vice-President of the I.B.R.D.

Members of the Committee began by reviewing important recent developments including the large rise in oil prices and the implications for the world economy. They expressed serious concern at the abrupt and significant changes in prospect for the world balance of payments structure. They recognized that the current account surpluses of oil-producing countries would be very greatly increased, and that many other countries-both developed and developing - would have to face large current account deficits. In these difficult circumstances the Committee agreed that in managing their international payments countries must not adopt policies which would merely aggravate the problems of other countries. Accordingly, they stressed the importance of avoiding competitive depreciation and the escalation of restrictions on trade and payments. They further resolved to pursue policies that would sustain appropriate levels of economic activity and employment, while minimising inflation. They recognized that serious difficulties would be created for many developing countries and that their needs for financial resources will be greatly increased; and they urged all countries with available resources to make every effort to supply these needs on appropriate terms. The Committee agreed that there should be the closest international cooperation and consultation in pursuit of these objectives. They noted that the International Monetary Fund, the World Bank and other international organizations are concerned to find orderly means by which the changes in current account positions may be financed, and they urged that these organizations should cooperate in finding an early solution to these questions, particularly in relation to the difficult problems facing non-oil-producing developing countries. In particular, while recognizing the uncertainties with regard to future developments in the field of energy, the Committee agreed that the proposal of the Managing Director of the International Monetary Fund for a temporary supplementary facility should be urgently explored. It is recognized that such a facility poses operational problems which must be resolved and would, particularly for non-oil-producing developing countries, be only a partial measure, in view of the nature and magnitude of the balance of payments problems created.

The Committee expressed its determination to complete its work on the main features of a reformed international monetary system in the coming months. They recognized that, in the light of the recent developments in the world economy noted above, priority should be given to certain important aspects of reform affecting the interests both of developed and developing countries, with a view to their early implementation. Other aspects of reform could be agreed with the understanding that their operational provisions would be developed and implemented at a later date. The Committee agreed that the Deputies should arrange to study the broad question of the transfer of real resources, including all aspects of capital transfers, and that there should be a report to the next meeting of the Committee.

The Committee discussed the valuation and yield of the SDR. They agreed that further attention should be given to the question of protecting the SDR's capital value against depreciation. In the present circumstances the Committee agreed that, for an interim period and without prejudice to the method of valuation to be adopted in the reformed system, it would be appropriate to base the valuation of the SDR on a "basket" of currencies. They invited the Executive Board to work urgently on the composition of a basket of currencies, the effective interest rate, and other outstanding questions, with a view to early adoption by the Fund of this method of valuation.

The Committee discussed certain aspects of the future structure of the International Monetary Fund. They agreed that in the reformed system it would be desirable to establish, between the full Board of Governors and the Executive Directors, a permanent and representative Council of Governors with twenty members. They agreed that the Council should meet regularly, three or four times a year as required, and should have the necessary decision-making powers to manage and adapt the monetary system, to oversee the continuing operation of the adjustment process and to deal with sudden disturbances which might threaten the system, while maintaining the role of the

Executive Board. As an interim step, pending the establishment of the Council. It was agreed that a Committee of the Board of Governors should be created, with an advisory role in the same areas as the Council and with the same composition and procedures. This Committee would come into being when the Committee of Twenty has completed its work. The Executive Board was invited to prepare for the Board of Governors a draft Resolution to create such a Committee, giving due consideration to the need for adequate consultative machinery and the protection of the interests of all Fund members.

The Committee received reports from the Chairman of the Deputies on the progress of the technical groups set up after the Nairobi meeting and urged them to complete their work if possible before the next meeting of the Deputies. They also received a report on the Deputies' preliminary discussion of conditions and rules for floating in the reformed system. They instructed the Deputies, in cooperation with the Executive Board, to continue to work on these questions and to report to the next meeting of the Committee.

The Committee discussed their future program. They agreed that, following meetings of the Deputies in March and May, the Committee would aim to complete its work on the reform at a meeting to be held in Washington on June 12-13, 1974.

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RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on January 24, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 25, 1974		:	26-week bills maturing July 25, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	97.993	7.940%	:	96.051	7.811%
Low	97.977	8.003%	:	96.044	7.825%
Average	97.979	7.995% 1/	:	96.047	7.819% 1/

Tenders at the low price for the 13-week bills were allotted 10%.
Tenders at the low price for the 26-week bills were allotted 17%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 48,860,000	$ 28,010,000	:	$ 38,305,000	$ 11,095,000
New York	3,365,965,000	2,011,655,000	:	3,024,005,000	1,388,735,000
Philadelphia	54,190,000	39,190,000	:	61,605,000	10,710,000
Cleveland	59,410,000	37,840,000	:	124,365,000	25,535,000
Richmond	41,205,000	23,405,000	:	33,795,000	21,795,000
Atlanta	31,010,000	27,225,000	:	21,195,000	16,235,000
Chicago	261,145,000	150,585,000	:	427,920,000	228,925,000
St. Louis	54,215,000	37,140,000	:	68,060,000	18,310,000
Minneapolis	25,325,000	17,525,000	:	30,220,000	7,120,000
Kansas City	37,845,000	34,455,000	:	46,185,000	27,770,000
Dallas	40,445,000	20,750,000	:	58,115,000	17,115,000
San Francisco	201,280,000	72,680,000	:	238,285,000	26,770,000
TOTALS	$4,220,895,000	$2,500,460,000 a/		$4,172,055,000	$1,800,115,000 b/

a/ Includes $389,080,000 noncompetitive tenders accepted at the average price.
b/ Includes $255,205,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.27 % for the 13-week bills, and 8.25 % for the 26-week bills.

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TESTIMONY SUBMITTED BY THE HONORABLE JOHN SAWHILL
DEPUTY ADMINISTRATOR OF THE FEDERAL ENERGY OFFICE
BEFORE THE
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Monday, January 21, 1974

Mr. Chairman,

Thank you for the opportunity to appear before you today to discuss our energy data requirements.

The Arab embargo will reduce our petroleum supplies almost 14 percent below expected demand. Some have questioned the accuracy of these estimates. I welcome the opportunity to address the credibility of our estimates, the sources of the data we use in making them and our plans to improve our energy information capabilities.

While many doubt the accuracy of the data being provided by industry, there is no doubt in my mind that we do indeed have a serious shortage. Consumption this year is expected to reach over 19.1 million barrels per day or an increase of 1.5 million barrels per day over 1973.

This growth represents a continuation of the historic trends in demand growth. Domestic production on the other hand leveled off in 1971 and has been steady or declining since. We have had to make up the difference between demand and domestic supply with imports and the result has been ever increasing levels of imports and a growing dependence on Arab crude oil and products refined from Middle East oil. In October, the Arabs, who had been supplying us with over 1.5 million barrels a day of crude, announced an embargo on shipments to the U.S. The effect of this embargo on both crude and product is 2.7 million barrels a day in the first quarter. Thus, while there has been some leakage, imports have been steadily declining. The existence of a shortage simply cannot be denied.

In developing our estimates of the shortage, a realistic, worst case situation was used. We assumed normal growth in demand, a fully effective embargo and inventory drawdowns to minimum operating levels. We could have assumed embargo leakages or larger inventory drawdowns, but we didn't feel these were responsible assumptions for policy making. Leakages could be stopped and lower levels of inventories would only leave us more vulnerable to other as yet unexpected contingencies. We feel that responsible national energy policy can only be developed by planning for the worst. We would like to be surprised by more favorable events, but we cannot afford to have programs developed which are not adequate to cope with the maximum expected shortage.

In early December, the FEO was created and we began a crash program to manage the shortage. In this effort, we have benefitted from warmer than normal weather, a tremendous response by the American people to our conservation initiatives and leakages in the embargo. The result has been a build up in our inventory position.

To a certain extent, the discussion of the shortage has been confused by these inventory build ups. However, the inventory figures can be misleading if they are not viewed in the proper context. As of December 29, the American Petroleum Institute reported we have only slightly over 30 days supply of the major petroleum products, and as I will point out, this situation could change rapidly.

In October of 1973 we actually imported 6.7 million barrels of oil a day. These statistics are submitted directly to the Office of Oil and Gas. For the week ending January 10, the API reported 4.96 million barrels a day imports. This level of imports has been checked and is accurate to within 1.5% based on the preliminary runs of our new import reporting system operated by the Customs Bureau. These recent import levels mean that we are importing 1.7 million barrels a day less than just two months ago, and are 2.7 million barrels a day below expected needs. This shortage will quickly reduce our inventories to dangerously low levels unless we continue our programs to reduce demand and equitably allocate the available supplies. For example, heating oil inventories are at about 200 million barrels, almost 30% above last year. But with a fully effective embargo and an abnormally cold winter, these inventories would be reduced to levels where spot shortages might occur by mid-March.

In order to develop fair and equitable policies to deal with the energy shortage, we need a comprehensive energy information system. We intend to have such a system. The President established FEO in early December to bring all key energy policy development and implementation in the Federal government into one agency. One of our highest priorities in this new agency is to develop a comprehensive, accurate, and timely data system.

Current Information Sources

The information we now have to work with is not adequate and its reliability cannot be checked. Today and in the years ahead we need better data on every aspect of energy -- reserves, refinery operations, inventories and production costs. Nevertheless, we are in an emergency situation and we must make decisions even as we are building these new systems. We must and are using and modifying the systems we now have until new, better ones can be developed. We need data that we can check, verify and cross-check. Without exception I feel we need more accurate, timely and comprehensive data, and we intend to get such data.

The data we now use comes from a variety of sources. Data on the domestic petroleum supply system are currently gathered

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by the Bureau of Mines (BOM) and by the American Petroleum Institute (API). The Bureau of Mines data are gathered primarily through a monthly report by refining companies, supplemented by monthly data gathered from terminal operators. Additional information on crude oil production is obtained from state agencies, and additional information on imports, primarily imports of refined products, is obtained through Census Bureau reports based on information gathered by the Bureau of Customs. The Bureau of Mines reporting system is voluntary, but there is a very high degree of cooperation by the petroleum refining companies, and the response rate is in fact higher than that achieved in many supposedly mandatory information reporting systems.

The API has a much less detailed reporting system than the Bureau of Mines, but it receives and publishes data on a weekly basis. For example, API collects refinery information from about 60% of the refiners which account for over 90% of domestic operations. These data include refinery crude runs, production and yields of all major refined products and inventories of crude oils and finished products. Detailed information on imports are also compiled by the API.

We have already completed preliminary cross-checks of these reporting systems and have found them to be reasonably accurate and quite consistent over long periods of time although on a week-to-week or month-to-month basis differences of up to several hundred thousand barrels per day can and do occur. For example, during the first 10 months of 1973 API reported imports differed from the data published by the Bureau of Mines (based on Customs Bureau data) by less than one half of one percent.

While these cross-checks indicate that the data appear sufficiently accurate for management decisions, there are still significant deficiencies in these systems. Let me briefly summarize the problems.

First, industry coverage by the API for the weekly statistics is not complete. Smaller refiners and importers are not included and the statistical techniques used to extrapolate the sample to industry totals may not be completely adequate in these times of shortage and rapid change.

The second major problem deals with secondary stocks -- those petroleum inventories not held by refineries and major terminal operators. Data on actual consumption is also lacking.

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Particularly in times of shortage, information on all inventories and actual use rates are important, but our reporting systems are inadequate. Information on reserves is also inadequate. While not critical in dealing with the embargo, accurate reserve data is needed if we are to develop sound public policy on energy resource development, pricing policies, or research and development programs.

In contrast to the primary supply system, where both the Bureau of Mines and the API provide comprehensive, although not completely adequate data, information about secondary stocks and consumption can only be pieced together from a number of sources, but even the combination of all these data sources does not provide complete information. However, selected data are available. The Federal Power Commission compiles data on the use of all fuels, including petroleum, for the generation of electricity.

The Civil Aeronautics Board collects data on the use of aviation fuels by certified carriers. The Bureau of Census collects data on fuels and electric energy consumed in manufacturing industries once every five years of manufacture, and estimates are provided in intervening years. From all of these data sources one can build only an incomplete picture.

There are two additional deficiencies in most of our current energy data: lack of regional and seasonal differences in consumption. To make our allocation programs work properly, we must know where and when the different petroleum products are needed. Current needs must be determined in large part by reference to past consumption levels and trends, but data on past consumption patterns are not available by states and by month. Further breakdowns of consumption by industry or other users are not available. These kinds of data are not available primarily because the Federal Government is only now allocating scarce fuels.

One final point must be made. All of our current sources of data are voluntary and for many of the programs we now must operate this is simply not enough. We now clearly need mandatory reporting systems and mechanisms to check and enforce their proper operation.

New Reporting Systems

We have already instituted a number of actions to correct the deficiencies I have cited. These actions will enable us to collect better energy data and to improve our management capabilities.

We have instituted immediate daily reporting of tanker arrivals by the Bureau of Customs, so that petroleum imports data can be available and processed with a lag

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of only about one week instead of the month or two required for complete Census Bureau processing of all Customs imports data, including petroleum. This will provide a direct check on imports as presently reported by the API and give the Federal Government a timely and independent measure of the import situation.

We are establishing a system for obtaining, on a sample basis, measures of actual consumption of home heating oil, adjusted for the weather. Data have been coming from New England for a month, through the cooperation of the New England Fuels Institute, its member dealers, and their computer service bureaus. The results, which we report weekly, indicate that significant reductions in use of heating oil due to conservation measures has resulted. Broader coverage will be achieved as additional companies or associations are brought into this program.

We have been working with the FPC to establish a rapid reporting and forecasting system for the consumption and stocks of all fuels, including petroleum, used to generate electricity. These data are needed to operate our allocation programs properly.

Administrator Simon and some of his staff will be visiting the Texas Railroad Commission this week and shortly thereafter will meet with other state regulatory agencies to see what can be done to get more accurate and timely information on reserves, capped wells and maximum recovery rates.

The FEO working with the National Oil Jobbers Council is now beginning a survey of storage capacity and inventories of about 15,000 jobbers and wholesalers. The responses will give us a much better indication of secondary stock levels for kerosene, diesel fuel, heating oil and gasoline.

These systems represent just a start in the overall mandatory reporting systems we are now developing. Most important perhaps is an integrated mandatory reporting system for petroleum products. FEO is now developing and implementing such a system for all refiners. It has three essential parts. First, reports of expected refinery operations during the coming quarter and reports of expected inventories and shipments to each state for the coming months will be required. This information will provide the backbone for planning and operating our allocation programs

Secondly, we are now developing a weekly reporting system for all refiners, major bulk terminal operators and pipeline companies to give FEO production, yields, and stocks information directly from industry. This system will obviate our need to rely on API aggregated data.

Finally, monthly reports, certified by company officials of refiners, pipeline companies and bulk terminal operators will be required. FEO audit teams, assisted by the IRS will make continuous field checks of the information contained in these forms. We expect that every major refiner will be audited at least partially four times each year.

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The forms, computer systems and implementing regulations are now being developed and the complete system will be operational in about 6 weeks. This system will provide the detailed, verifiable information we must have to operate. The system will be further expanded to include secondary stocks as soon as possible.

I am advised that we have sufficient legal authority under both the Economic Stabilization Act and the Emergency Petroleum Allocation Act to require these reports be filed and enforce legal sanctions if they are not.

None of these systems will provide all of the information we need during the crisis. There will continue to be important facts or questions that only targeted spot checks can confirm. Reports of price gouging, hoarding or the possibilities of ships off-shore awaiting higher prices are all cases in point. We have already dealt with problems like this. We used over 1,000 IRS agents late last year to sweep the 48 states looking for price gouging. The Coast Guard used its District Commanders and major port personnel to make physical checks on unusual tanker activities. Let me assure this Committee that we intend to maintain sufficient flexibility and manpower resources to continue these activities as needed to cope with the shortage.

New Legislation on Energy Reporting

While we have sufficient authority to mandate the petroleum data we now need, I still feel that specific mandatory reporting legislation is required. First tailored sanctions and enforcement provisions may be more appropriate than those in our current authorities. Secondly, expansion of mandatory reporting to other energy sources, such as coal and uranium, is a necessity in the months ahead and may not be practical under our existing authorities.

We are now developing the information needed to propose specific mandatory reporting legislation. Such legislation will go beyond information on petroleum inventories, imports and refinery operations. The more complex problems of reserves, and non-petroleum products will be included.

Public Disclosure

A central issue, and one which is very important, is the extent to which the information which is reported to us ought to be made available to others. The public has a right to complete and accurate information on the energy situation. This policy should give way only where limitations are imposed by statute and where important public policy considerations dictate otherwise.

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For example, there will undoubtedly be national security constraints upon the release of certain information about military fuel supply levels. Further, competitive considerations will dictate confidentiality in cases where disclosure of future production or shipment plans could be used for anti-competitive or predatory purposes. We will be conferring with the Justice Department and Federal Trade Commission on the anti-trust risks involved in disclosure, on a company-by-company basis, of certain sensitive commercial information. But I would expect these limitations to be relatively narrow and that most of the information would be more widely available.

Both the government and the public are entitled to much more information about the petroleum industry than is now available. We intend to see that it is gathered and made available. To this end, we will be presenting proposals recognizing three categories of information disclosure. The first will be that information generally available to the public; second is that information which should be available only to other government bodies with a legitimate interest in and need for the material; and,third,that information which ought properly to be limited to FEO in the carrying out of its responsibilities. I believe these proposals will mitiate concerns about excessive confidentiality, and will greatly broaden public acceptance of the information which the government collects and publishes on this subject.

Summary

In summary, the Federal Energy Office fully intends to get all the information needed to do our job and fairly present the facts to the American people. We have already made substantial progress in our energy data systems. Under the authorities we now have, we will implement mandatory reporting requirements for the petroleum industry. And, under authorities which we are now evaluating, and would hope to work closely with Congress in finally formulating, to develop the broad-based energy information systems needed not only to deal with our current problems but with the challenges in the decade ahead.

In addition to this prepared testimony, I am submitting for the record, detailed responses and reports which cover the questions raised in the attachment to your January 14, 1974 letter to Mr. Simon.

Question 1: What is the projected demand for crude oil and petroleum products in the first quarter of 1974?

Answer:

The total consumption that would have occurred without supply interruptions is projected to be 20 million barrels per day. A detailed description of this estimate is contained in the report, "National Petroleum Supply and Demand, 1974," which I am submitting for the record.

Question 2: To what extent have these figures changed since December and why?

Answer:

The aggregate estimate has changed by less than 50 thousand barrels per day. However, the distribution by product is different and the individual changes are somewhat larger. This revised forecast, first announced on December 27, 1973, is the result of complete review of the statistical support for the estimates published in early November of 1973. This review produced a more detailed formal analysis of the historical patterns as described in "National Petroleum Supply and Demand, 1974".

Question 3: To what extent are the demand projections affected by the lack of information on secondary inventories?

Answer:

The lack of information on secondary inventories is a continuing problem that we are working to correct. The uncertainties of estimating the size of secondary inventories affect our estimates of supply for the near future more than the projections of demand. To the extent possible, the estimations of the demand equations were based on data from periods when abnormal changes in secondary inventories were not likely to be present. The actual demand projections, therefore, should not be seriously affected by the lack of information on secondary inventories.

Question 4: Specifically, what effect have various conservation programs had in reducing demand and what is the anticipated effect of these programs for the balance of the quarter?

Answer:

The estimated effects of various conservation programs is shown in Table 2 of the January issue of the Monthly Energy Indicators, a copy of which is appended hereto. This table has also appeared in other FEO statements but the attached publication is the latest release with a comprehensive analysis of the energy situation and our programs responsive to it.

Question 5: What is our projected domestic production for the first quarter of 1974?

Answer:

Domestic production for the first quarter should be 11.2 million barrels per day. This figure assumes that new production from areas such as the Elk Hills Reserve or significant expanded production from existing wells will not be realized in the immediate future. The detailed description of these production estimates can be found in the report, "National Petroleum Supply and Demand, 1974."

Question 6: To what extent will inventories be utilized to meet demand in the first quarter and what are the implications of this use for the balance of 1974?

Answer:

For planning purposes, we have developed scenarios which assume that inventories will not be allowed to fall below the average levels of the last two years. Although a continuation of the embargo will result in continued shortages, this inventory policy avoids the danger of increasing the volumes of the future shortages by failing to account for normal inventory patterns. The success of our conservation measures will determine whether or not these inventory policies will occur without further action from FEO, particularly in the case of gasoline. Current inventory levels are high due to conservation and good weather, among other factors, and we are continuing to monitor the situation.

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Question 7: What level of imports of crude oil and petroleum products is now projected for the first quarter and from what sources will such imports come?

Answer:

If the embargo is fully effective, the projection for first quarter imports calls for 4.9 million barrels per day of crude oil and petroleum products. The detailed description of this import forecast is contained in section 5 of "National Petroleum Supply and Demand, 1974." Although imports in the fourth quarter of 1973 were higher than a fully effective embargo would indicate, this continues to be the proper planning assumption and it is confirmed by the data from the first few days of January.

Question 8: To what extent have these figures changed since December and why?

Answer:

This import forecast is 200 thousand barrels per day higher than the first quarter forecast prepared in November 1973. The short period of time since the lifting of import quotas and the uncertainties regarding the international diversions of oil impose the greatest requirement for experienced judgement in the estimation of imports. The higher level of imports of the fourth quarter 1973, primarily from Venezuela, led to the slight upward revision in our estimate, but no major changes in methodology or assumptions have taken place.

Question 9: What is the current estimate of shortages for the first quarter? To what extent are those shortages caused by the Arab embargo and to what extent by other factors?

Answer:

The current estimate of the shortage for the first quarter of 1974 is 2.7 million barrels per day or 13.5% of unconstrained demand. This is the conservative planning figure and represents the difference between projected supply and the level of demand that would have occurred without an oil embargo. Conservation actions, favorable weather and actions by the FEO are designed to cope with a shortage of this magnitude.

The limitations on U.S. refinery capacity and the world competition for oil would have combined to produce some shortages even without the Arab embargo. The exact proportion of the shortage attributable to the embargo is difficult to estimate. Large increases in Arab oil production would have been required to meet the total increases in world demand; these increases may not have been forthcoming. Although the embargo precipitated a shortage of more serious dimensions, the removal of the embargo will not return the world or the U.S. to an immediate energy surplus position.

Question 10: To what extent have these estimates changed and why?

Answer:

The current first quarter 1974 shortfall estimate is 550 thousand barrels per day lower than the first estimates published in November of 1974. The difference is determined primarily by the higher imports and over 400 thousand barrels per day in increased inventory reductions. The increased inventory reductions are included as the result of a more extensive analysis of alternative inventory policies and our favorable current position. The previous estimates would have produced second and third quarter inventories substantially above historical levels whereas the current estimate maintains inventories at levels consistent with the average pattern of the last two years. The detailed shortage and inventory profiles are contained in "National Petroleum Supply and Demand, 1974."

Question 11: How are the FEO supply/demand projections prepared?

Answer:

The projections of demand and supply are prepared separately. The historical relationship of product demands and other factors such as weather and economic activity are estimated and these formal statistical models are used to provide a monthly projection for the next year. This basic profile is then explicitly modified to account for exports, increased military requirements and other factors that are judged to be significant changes not accounted for by the historical analysis. The supplies of domestic crude oil and natural gas liquids are judgementally estimated by the Bureau of Mines and compared with recent historical data. These are combined with the judgemental estimates of imports to produce the total supply available to the U.S. Historical refinery operations and inventory policies provide the final link in computing the supply, demand, and shortage projections.

The exact procedures for each of these steps are described in the detailed report, "National Petroleum Supply and Demand, 1974."

Question 12: To what extent are your projections based on industry information and to what extent on non-industry source?

Answer:

With the exception of historical import data, all statistics in the historical data base originate in voluntary reports of industry to the Federal government, primarily through the Bureau of Mines. The projections, based on these historical data and the trends they embody, were prepared entirely by the Federal Energy Office with assistance from other elements of the Federal government.

Question 13: What steps have you taken to verify industry information and data on which your projections are based?

Answer:

Our projections are based on historical data. Our programs for verifying these data are discussed in more detail in Mr. Sawhill's overview statement.

Question 14: To what extent have reduced shortage estimates changed your strategy for managing projected shortages in the first quarter and beyond?

Answer:

The reduction in the shortage estimate by 550 thousand barrels a day has not greatly changed our strategy. Major actions are still required to reduce gasoline, distillate, jet fuel and residual oil use. However, the somewhat lower shortage estimate has allowed us to reduce the severity of cutbacks expected in both gasoline use and commercial aviation flights.

Question 15: Will the Administration support legislation to create an independent Federal agency to collect and analyze energy information and statistics and make such information available to Congress and appropriate Federal agencies?

Answer:

The Administration supports the creation of a Bureau of Energy Information, as provided in S. 2782. However, we believe that sound energy policy and competent management of our energy supplies, demand and research and allocation programs is not possible without integrating such an energy information bureau into the Federal Energy Administration. Much of the work specified in Title I of S. 2782 is already under way within FEO, and some of the organizational components of such a bureau also exist within FEO. Continuation of this work within FEO will therefore result in minimal disruption of activities already in progress, and whose timely completion is essential to successful development of national energy policies.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE January 22, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 31, 1974, in the amount of $4,312,435,000 as follows:

91-day bills (to maturity date) to be issued January 31, 1974, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated November 1, 1973, and to mature May 2, 1974 (CUSIP No. 912793 TK2) originally issued in the amount of $1,801,125,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated January 31, 1974, and to mature August 1, 1974 (CUSIP No. 912793 UH7).

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, January 28, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own

(OVER)

account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on **January 31, 1974**, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **January 31, 1974.** Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

"UNOFFICIAL, UNCORRECTED" TRANSCRIPT
INFORMAL PRESS BRIEFING BY
TREASURY SECRETARY GEORGE SHULTZ
AT THE CONCLUSION OF THE MEETING OF THE
COMMITTEE OF TWENTY, ROME, JANUARY 18, 1974

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SECRETARY SHULTZ: I would like to express the U.S. point of view toward this meeting. We have come to the beautiful and historic city of Rome. We have come at an important time in the history of the world and for our monetary system and we have come in a constructive spirit to try to achieve something.

I think this meeting has been a decisive meeting. We have set out the future course of the work of this Committee. I think we see a very good prospect for doing those things that realistically can be done and will mean something by the middle of the year as had been agreed earlier, and we have established a way in which the world monetary system beyond that time will evolve and be adapted and managed so that it will work and it will serve all the people. So those are major achievements in this meeting.

Beyond that, of course, we addressed the results of the abrupt and significant increases in the prices of oil and their implications for the positions fo many countries, not just in a financial sense but in other ways. And those are very serious problems. We have tried to understand them better and to set in motion procedures for seeing how they can be addressed. At the same time, I think it is recognized by many that for many countries the problems are not manageable and somehow there has to be a shift in these abrupt and significant price changes. I was also very heartened to notice the many delegates to this meeting who spoke favorably and warmly about President Nixon's

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initiative in calling the energy action group together in Washington in February and, of course, we envisage this as the beginning of a process in which we can put a cooperative umbrella, you might say, over the efforts that both, I'm sure, the oil-consuming -- whether developed or developing -- countries want to make and the oil-producing countries want to make.

QUESTION: Mr. Secretary, can you say please what effect you think the military disengagement announced yesterday will have on the oil price situation and on the embargo situation with respect to the United States and Holland?

SECRETARY SHULTZ: Well, I think the main thing, of course, that we must focus on is the enhanced chances for peace in that part of the world and throughout the world by that agreement, and that is enough. Now, beyond that, of course, as we move more and more toward peace we can expect to see a settling-down on other aspects as well. But, I wouldn't want to make any more specific comment than that because I think it is so important to recognize the implications for a peaceful world from a development of that kind.

QUESTION: Well, yesterday when you said, sir, that you thought the next move should be downward in prices, were you at all influenced by the peaceful developments in the Middle East?

SECRETARY SHULTZ: I was not trying to tie the two things together, no. I think that the effort to bring about a just and lasting peace in the Middle East and elsewhere is an effort that, as far as the United States is concerned and I'm sure others, has been pursued and will be pursued on its own merits aside from any other consideration and it stands on that basis as a major and important achievement.

QUESTION: Mr. Secretary, some delegates made the point that that there should be some Ministers of Finance at the February oil talks. What do you think about it?

SECRETARY SHULTZ: Well, certainly the subject matter will involve economic and financial aspects and I would expect them to be represented in the discussion. Just how in terms of personal representation or people who should go, I will provide information back to Washington when I go myself and in my memorandum to the President and we'll see how others react. We're collecting information about how this conference should be constructed and we want it, of course, to go forward in a good way, so all these suggestions are welcome. I might say that the recognition of the problems of developing countries was commented on a great deal here, too, and we certainly intend and have always intended to do that. So, all of this is part of a healthy process by which people are responding

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to the President's initiative and making suggestions about how to make it work and we welcome that.

QUESTION: Mr. Secretary, there has been concern that divisions which appeared here will be perpetuated in Washington and hinder the President's energy action group. What do you think of that, sir?

SECRETARY SHULTZ: Well, I think it is important to have frank and realistic discussions and we have had that here and everything hasn't been just sweetness and light all the time. We've had oil-producing, oil-consuming, developed, developing countries; the world is represented in this meeting. And I think the fact that we have discussed these issues that way, that we have made decisions that will surel lead to constructive results and that we have agreed on a communique which I think is direct and realistic -- all point to the fact that if people will try, if they will put themselves in a reasonably cooperative frame of mind, they can work at these problems in a constructive manner.

QUESTION: Sir, what in your opinion has been the principal achievement of the conference?

SECRETARY SHULTZ: Laying out clearly the future work program of the Committee of Twenty and taking steps that will see that that program is implemented on the one hand, and on the other, bringing out clearly the nature of the problem that we face in the energy area and moving the discussion forward in what I think will be constructive ways.

QUESTION: Mr. Secretary, can you tell us why a final agreement has not been reached as far as Special Drawing Rights are concerned on the basis of the proposal of the --

SECRETARY SHULTZ: Well, I expect that we will be able to work out an agreement consistent with the notion of significant, completed work by the middle of the year that we agreed on. We have, in a sense, made the strategic decision to have a basket type of arrangement for the Special Drawing Right and once that decision has been made there are a multitude of technical matters that have get worked out and which the Deputies will work at and bring back to the Committee and I think that actually there has been significant progress on that.

QUESTION: In any way did you accept the principle of the basket, standard basket, any way?

SECRETARY SHULTZ: That has been accepted as the way to go for the time being.

QUESTION: Sir, excuse me, do you think that the prices of crude will decrease?

SECRETARY SHULTZ: I think the prices of crude right now are above what they will be in the long term because I believe

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there are alternative sources which will come into play eventually and will cost less than the present prices to produce. And beyond that I think that the implications of the abrupt and significant increases for many countries present them with a problem that can't be managed. That is, they simply don't have the money to pay for the oil at those prices. So something is going to have to give and I hope that there will be some give in these prices in the short run myself.

QUESTION: Will the Arabs put the price down, do you believe?

SECRETARY SHULTZ: I only speak for myself and my observations, and the oil-producing countries will speak for themselves, I'm sure. I always find it presumptuous when somebody tries to speak for me so I don't try to speak for anybody else.

QUESTION: Thank you, sir.

Thank you, Mr. Secretary.

UNITED STATES
DEPARTMENT OF TREASURY

1145

Washington, D.C.

January 21, 1974

PRESS CONFERENCE

SECRETARY GEORGE P. SHULTZ

This is an unofficial, uncorrected transcript of a briefing given by Secretary Shultz on Jan. 21, 1974. Direct quotation Prohibited

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SECRETARY SHULTZ: Well, I am sorry to be late. On the other hand, my boss seemed to be interested in hearing so we spoke a little longer than I thought we would.

SPECIAL ASSISTANT LOFTUS: We will have the usual ground rules.

No quotation marks unless except with special permission.

SECRETARY SHULTZ: That is because you write better than I talk.

Well, I think we might just have questions.

QUESTION: What did you tell the President?

SECRETARY SHULTZ: Oh, well, you know. The same thing that I tell everybody else.

QUESTION: What did he ask you?

SECRETARY SHULTZ: We had a discussion of the budget. We had a discussion of the economy and the economic report of Mr. Ash and Mr. Stein but I think it is fair to say the bulk of our meeting was discussion stemming from a report on the Rome meeting and various things that took place there.

I described what I thought had happened, what I thought about it, and he asked questions and commented.

QUESTION: Do you have any comment, Mr. Secretary, about the French action over the weekend?

SECRETARY SHULTZ: Well, I think, first of all, we have maintained that, in a monetary system, a country should have the option to float and the French have never been enthusiasts for that position but we have said we are hardly in a position to say they should not take the option.

I think that I can understand why they did what they did. I believe that there are two things we must think about in connection with that and the general situation.

First of all, as was said in the communique of the Rome meeting, we need to maintain our nerve, so to speak, and guard against competitive devaluations and things of that kind. I was interested to see that Mr. d'Estaing in his statement did remind everyone that France had been a party to the France meetings and felt a commitment to maintain the markets just as we had so I think there is a consciousness of the general state that everyone has of that.

And I would say, second, that the importance is emphasized of doing what we agreed to do in Rome; mainly, to do the doable things in the area of monetary reform and to give just some general understandings to go with the system of flexible voting exchange rates that we have.

So we expect to work with the French and others on this system and we will.

QUESTION: Are the general understandings you referred to meaning such things as rules for intervention?

SECRETARY SHULTZ: I would say, at least my hope and expectation is that, by the time we get through with the June meeting that was agreed on for which there will be intensive preparations for the deputees, we have agreed on a strength and structure for the IMF, we have agreed on the character of SDR, at least for a period, and we will have developed the general understanding of the development process, how that would work, including rules for intervention or floating or however one decides to express that.

Now, all of that it should be possible to put into an envelope of the general character of any merging monetary system, although certainly there will be important elements of the system that will be pinned down in any operational detail with the expectation being that the IMF structure will then take over, you might say, with a developing reality of monetary arrangements and mold them into a system that will, I believe, be a much more flexible system than the one that we had before.

QUESTION: Mr. Secretary, when you left the meeting in Rome, were you anticipating the French move? Did you know it was coming?

SECRETARY SHULTZ: Well, we had lots of discussions in Rome with individuals and various groups and it was clear that the French were very concerned about their situation but I do not want to describe precisely the

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discussions that I had at this time with Giscard d'Estaing.

QUESTION: It is correct, Mr. Secretary, that you were opposed to or certainly were reluctant about the proposal of Mr. Witteveen in Rome?

SECRETARY SHULTZ: Well, I have two thoughts on that.

First of all, I think it was constructive of Mr. Witteveen to make the proposal and I believe there is a potentially useful device there; but, I have these two reservations that I expressed.

First, that we should not get ourselves in the mood to say, well, we have a problem. Now, the Finance Ministers, with the special fund, will figure out how to solve the problem because I do not think that realistically could be done and so we tried, in our approach to the energy topic on the agenda, which I believe this approach was reflected in the talk that I gave that, before we can really aspire to some of the problems in a financial sense, we have to change the problem and we tried to point out the various senses in which the problem was not manageable; at least for some countries.

The U. S. can manage but there are others that cannot. That leads to the second aspect that needs to be worked out and we intend to work cooperatively, constructively, helpfully with Mr. Witteveen on this but you have to

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ask yourself, how is this going to work exactly and we asked.

There were people there from oil producing countries who said that funds that came to them could be made available. They made the point that those funds would be made available with appropriate guarantees and a fair rate of return. I think I am quoting pretty accurately what was said.

So, we said, how is this facility going to work? We are going to retract funds from certain countries with appropriate guarantees and a fair rate of return. That goes into a fund. Then you are going to loan it to some other country.

Now, if you loan it to a country in which total reserves are not as the additional one year oil bill, to a country where the additional oil bill is as much or more than the total flow of aid, bearing in mind that this is not a loan for a project that is going to pay out or something -- this is somebody paying the grocery bills -- how are they going to pay that money back?

Or, in some cases, even, how are they going to make the interest payments.

Now, if that kind of transaction flow occurs, then how is the IMF going to give a guarantee and pay the fair rate of return?

So, there is a sense in which the idea will be most difficult to make work for those who are most in need and which, for those who do not have any particular need, of course, it can work but it is not needed.

But, there is a zone in there; there are situations where probably it could be useful but the difficulty is that it is hard for a nut to be drawn into the areas of greatest need which would put the greatest strain on the essential workability of the idea so we pointed this up, I believe in a cooperative manner, but realistically.

In fact, our theme, as far as the energy side of the discussion was concerned, was, let us be realistic, let us look these facts in the face, let's be clear about what can be done what cannot be done.

QUESTION: Mr. Secretary, are you satisfied with the reports you got from different governments on this idea on the tune of being realistic in the face --

SECRETARY SHULTZ: Well, everybody had read the same figures and even the estimates -- we had an estimate of seventy-five billion, Mr. Witteveen had an estimate of sixty-five billion and somebody said, well, it is hardly worth arguing about; the ten billion dollars.

The point is, they are not so different that they show you the general nature of the problem. Everybody agrees on that.

Indeed, why did the French feel they had to do what they did. Well, because most of the people's forecast of the balance of payments impact shows a very large impact on the French situation with a prospect of very rapid losses of reserves. So, the French had to look realistically at the situation when, all of a sudden -- and Mr. Giscard d'Estaing is a very realistic person but different countries express themselves in different degrees of passion and firmness but one of the most poignant moments in the conference was the statement made by Mr. Coore of Jamaica and we read it and we have a copy of it around -- it is a formal statement -- but he described their situation in the sense that this dramatically affected them and they are unable to see what they can do about it.

So, there were a number of statements like that that were very realistic in that sense.

QUESTION: Can we come back to something you said earlier.

Would you say, in a causative way, that the French action is compatible with that section of the communique which promised we would not be -- whatever the phrase is -- competitive devaluation?

SECRETARY SHULTZ: There is nothing inherent in the French move that is antagonistic to that. The problem is now how we manage the situation and what happens but we think that the market test is a pretty good test for many things, including exchange rates so let us rely on that.

That is very different from somebody trying to manipulate the rates. The French give no indication of doing that; quite to the contrary.

I think this also. There is a lot more, of course, to the problem than simply exhortations against competitive devaluations.

We have seen, in our own case; well, devaluation may be helpful to you and we felt that ours was important to us but it also hurts you on the inflation side. I think our trading partners are all feeling the problem of inflation at least as much and, in most cases, more than we are and that is an important economic and political issue, too, and it is the thing that keeps you from wanting to go too far in this direction; makes your oil bill larger, for instance.

QUESTION: Are you saying, Mr. Secretary, that our two devaluations were a factor in the inflationary rate we have been seeing?

SECRETARY SHULTZ: I do not think there is any doubt about that. We knew that.

The question was how much it would be in combination with other things that dramatize it, but it certainly is the case.

QUESTION: How much is the fact --

SECRETARY SHULTZ: I find it impossible to disentangle the things but it was a factor and we were certainly aware of the direction when we started.

QUESTION: Mr. Secretary, do you think that it is possible today, with as much mobile capital as we have in the world, for a country to attempt to manipulate its rate?

No countries have had much success in preventing devaluations in the market when it was time for it.

Do you think the French or any country could successfully manipulate their rates?

SECRETARY SHULTZ: Well, they can try. The process of trying tends to have a debilitating effect but I think that the market forces are pretty powerful and, basically, they have swept over strong efforts by governments to stand against them in the international sphere, at least; eventually, not right away.

I think there is a good international tone in the sense of a realization of a structure of the problem that there is inherently, in this situation, a large growth of savings in the world flowing through the oil producing countries that will not import very much and, that being the case, on the trade side alone, there is not any way for the rest of the world, in a sense, to come to a balance.

It has to come in the investment side, somehow, and, of course, we have argued, as well, that the prices have gone up too far, too fast.

QUESTION: Mr. Secretary, have you gotten any indication that the oil exporting nations are interested in moving, in a big way, to U. S. capital markets?

SECRETARY SHULTZ: No. I do not have any comment to make on that beyond saying that our capital markets are -- they function on the whole well, relative to most, that investment in the United States commands a reasonable rate of return these days and it is relatively secure investment.

I think all those factors weigh.

QUESTION: Mr. Secretary, did you get any encouragement in Rome that the oil importers may, indeed, lower their price?

SECRETARY SHULTZ: Well, none of them volunteered. On the other hand, I think the whole atmosphere has been one of the prices just going up endlessly and we thought it was about time somebody blew the whistle on that by pointing out the consequences and the fact that some of these projected amounts of money that people are going to pay, they cannot pay; they do not have the money.

So, how are they going to buy that much oil at those prices? They are not. No way for them to do it.

So, what that means is that there are natural pressures arising on the other side of the market and I believe we will also see developments on the supply side and I say that in part just as a statement of faith in what high prices and opportunities for profit will get people to do.

QUESTION: Mr. Secretary, what was the feeling in Rome for a possible worldwide recession with the oil problem?

SECRETARY SHULTZ: Nobody wants it, obviously, and I think there is a desire not to take steps by individual countries that will sort of start that process and, while I suppose anything is possible, I do not think it is likely at all and I think, if we manage our affairs well, why, we will -- the ship will right itself, the ship of the world economy.

It has been hit by a tremendous event and I think, in the end, it is not so much the supplies as it is the prices that are the big thing that will make the difference. There is a lot to adjust to there with this big change in prices and the impact it has on the composition of the output.

You can see examples all around. Much of the plastics industry has been built on the basis of very low input prices. Well, raise those input prices drastically and all of a sudden the big thing they have had again stainless and aluminums and so forth is not so apparent and, to the extent to that price structure holds and technology remains the same, that will cause the readjustment so there is a lot of that that will take place.

QUESTION: Mr. Shultz, has the United States moved out of the center of the bull's eye, so to speak, in its international monetary relationships or are other countries more tuned in and listening better to what you have to say?

SECRETARY SHULTZ: Well, we have been listened to and we have been very much in the picture all the way along. We have a very good working relationship with others around the world and I think people do look to the U. S. for leadership and we ought to try to give it.

QUESTION: There is no perceptive change?

SECRETARY SHULTZ: There is a relation among these things.

There is no doubt about the fact that the brilliant diplomacy of the President and Henry Kissinger helps everything we do internationally because it has been a good piece of leadership on the part of the United States. That is to everybody's benefit, the better it works.

QUESTION: Are you, in any way concerned about where the dollar has been going up against other currencies as the result of all these recent things?

SECRETARY SHULTZ: We certainly have felt that the dollar had been way overvalued, and the second devaluation was appropriate under those circumstances and we have seen a result that, at least in part, can be attributed to those changes in our own balance of trade.

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The market is sorting out. We felt that the market fell a little bit last summer and the dollar became considerably underdevalued. We said that at the time.

Just what the current situation is is hard to know. I think there is a tendency for the swings to have a little wider amplitude than they deserve but we will see.

The answer to your question about where will the investment flow is certainly connected with all this and the market, I would say, is betting that a lot of it will come to the U. S. as your question suggests but that remains to be seen.

If it does not, then we will have to adjust ourselves.

QUESTION: Are we intervening at this point to keep the dollar down or stable?

SECRETARY SHULTZ: Our pattern of intervention, since the Paris meetings, has been generally in the interests of orderly markets. We have sought to give some body to the markets.

Apparently, there was a certain feeling of emptiness and that has been our pattern and we have maintained that.

We have considerable debts around the world. We have the debts to the Belgians, the Swiss and the IMF. We think it is a pretty good time to pay some of those off and we think the Germans hold an awful lot of our currency and it would not be a bad idea to get rid of some of it. 159

It is striking how much of a change has come about. We used to go to these meetings and people used to complain about all of the dollars they had and did not want and now they hold onto them for dear life.

QUESTION: Are you suggesting that European countries with very large balances might publicly be intervening with the dollars rising too rapidly?

SECRETARY SHULTZ: Yes.

QUESTION: Secretary, how do you see the future of the snakes?

SECRETARY SHULTZ: I almost had a crack come to my lips. I would not want to --

Off the record.

At this time,

A few remarks were made off the record.

SECRETARY SHULTZ: I was going to answer your --

(Laughter)

SECRETARY SHULTZ: I think there will be -- if you try to sort of look out over the future, you will see groupings of currencies that move together, sometimes more as the result of articulation than others, but it is interesting that the Mexican, Canadian, and U. S. currencies will probably move together more tightly than the European currencies but we have not said we had a snake or tried to do anything about it in particular but that has happened as a result of the movements of our economies so I think, basically, to the extent that the European economy feels the same influences and moves in a similar way, there will be a great unity of movement as to what happens to their exchange rates but it is doggone hard to hold against a differential effect.

QUESTION: After the Paris meeting, I believe you said that you felt that, generally, the exchange rates that attained as to the second devaluation were more or less appropriate.

Has anything that has happened in the intervening time changed your view with respect to the appropriate value of the dollar?

SECRETARY SHULTZ: The big increase in oil prices is a big event and it affects countries differentially.

I believe it affects us more than most people have taken in, which is the reason why I said earlier that I think, perhaps, America has overdone it somewhat but I am always one to go slow in making a judgment like that but it is important to recall that, prior to this, we were scheduled to be the biggest importer of oil in the world, bigger than anybody in total quantity.

Of course, we have a bigger economy, a bigger total import and so forth, but we have been scheduled to do a lot of importing of oil so we are affected in our international accounts. We are less affected internally than many so I think it is fair to say this has been an event that undoubtedly changes whatever you thought before.

It is going to be a little different and I think, undoubtedly, the dollar looks stronger as a result. How much stronger, is the question.

QUESTION: Mr. Secretary, would you venture a guess on the impact of European unity that has developed in the last couple of years on the French action?

SECRETARY SHULTZ: Well, I am sure that must have been weighed very heavily and discussed and I have since sensed and seen and heard discussions among leading European finance ministers of the importance they attach to the Common Market and the unity of work among them, so I think there is a very strong feeling there and I am sure it is still there, but I do not have any special insights to offer on that. That is essentially a European problem.

QUESTION: At what point, Mr. Secretary, is the rather understandable de facto devaluation such as the Japanese had earlier and the French over the weekend -- at what point do they become concerned about competitive devaluations?

How many more have to do it, in other words?

SECRETARY SHULTZ: Well, most of the world is now more or less floating so I do not think who is going to declare themselves floating all of a sudden -- I do not consider floating in a legitimate way to be the equivalent of competitive devaluation.

QUESTION: In the light of the Rome meeting, do you see -- or, how much chance do you see of the consumer countries being able to adopt a common policy on the February eleventh meeting and do you have any idea how they can possibly implement the policy to get down prices?

SECRETARY SHULTZ: It is a question of what you mean by a common policy.

I do not think anybody expects some sort of broadly and fully articulated common policy across the board at all, but rather the first step in a process of understanding and of the creation of some sense of common purpose; not only among the consuming countries, but, as this process unfolds, assuming it does the way we would like it to, with the producing countries.

We have a dialogue of that kind in Rome to a certain extent because, after all, everybody was there -- developing, oil producing, oil consuming -- and we had a good, strong discussion all around.

It was interesting and gratifying that quite a large number of countries spoke just apropos of -- no, it was not on the agenda or anything, but they spoke very favorably of the February eleventh meeting the President has called. They made suggestions about it and so on. They seemed to exhibit a constructive attitude to make and get a worthwhile meeting so that seemed to be the general attitude.

There were some who were a little critical but were kind of worrying about the confrontation possibilities involved but that was not too strong and I think there is nothing wrong with stating the facts honestly and clearly, which is what we tried to do.

QUESTION: Mr. Secretary, coming back to Jack Norman's question, and you said most of the world is floating and you do not consider floating competitive; most of the world was floating at the Rome meeting.

What, then, were you pointing to? What were you concerned about at Rome when you warned about the possibility of the danger of competitive devaluations?

SECRETARY SHULTZ: Just a process of trying to maintain yourself at the expense of others that might develop in a situation of tension of this kind.

We tried to say it and I imagine others tried, too, but in the talks I gave, as you know, tried to set it not only in terms of the monetary system, but other aspects of trading relationships as well.

We spoke about the importance of doing our work in monetary reform, of pushing our work forward in the area of trade negotiations so that we maintained the things of a developing structure of world relationships that gives you the opportunity to work out problems in a mutually constructive way.

So, I think there is a sort of a fierce danger inherently, analytically you can see in a situation. I believe everybody wanted to remind themselves and to let the world know, in the communique, that we are aware of that and that every effort will be made to try to prevent it from happening which, I think, is a healthy thing.

QUESTION: Would you amplify on your belief that you will see developments on the oil supply side?

SECRETARY SHULTZ: I am a believer in the responsiveness of both demand and supply to price and, as you know, that has been one of my long standing beliefs; not very popular around but I still cling to that notion that, if the prices go way up, people will buy less and, also, it creates great incentives to produce more.

You can see this just obviously in some examples and I think the economic history of our country or of the world is just replete with examples of how ingenuity and effort, where the big incentive comes, ends those problems of this kind.

Just take the fact, as I understand it -- in a typical pool of oil in this country and the prices that did

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prevail -- something like forty per cent of the oil was taken out of the pool, on the average, and the rest was left there because it was not worth taking out at those prices. It cost too much.

So double the prices and there is oil there that is now worth taking out; how much will depend upon the conditions in that pool and, in some cases, not very much will come out but, in other cases, a fair amount will and so on, as you go down the road.

What will happen in the shale oil developments I have no idea. I do not know the geology or the technology of that but already you see several alternative methods being talked about and argued over and I hope we can somehow construct a situation where it is possible to try them out and so on.

I have always enjoyed in this respect, as much as any writing, the chapter in Mark Twain's book, Life on the Mississippi, the River Boat Pilots and if you have not read that, I think you might want to read something that is good economics. Read it.

QUESTION: If set about, in this country now, developing a lot of oil, we could not develop before because prices were too low, in the event the Arabs should suddenly lower their price on oil, would this not lower the domestic activity here?

SECRETARY SHULTZ: That, I think, is a point increasingly being made and realized and we have to, I think, put ourselves to the test of whether we really mean it -- that project independence.

What Project Independence means is, if necessary, we will pay more to have our own sources of supply secure than, in the short run, we would have to pay, say, in the world market.

Now, we had a situation of that kind, to a mild extent, up until about three years ago and, in my judgment, the program we had had an ideal in it that was right. It was a poor program and partly that was because not very many people were convinced of the validity of the purpose but if we had much broader support for the validity of the purpose and then tried to implement it, I think we can figure out how to implement it in a better way.

Now, maybe some sort of variable levy system would be helpful to us. I think we have to guard against the temptation to jump too quickly at what a reasonable long term supply price is for Project Independence. We do not know the answer to that.

We can speculate about it and people have ideas about it but, what we can be sure of is that what we think now is going to change as this technology moves and we need

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a system that does not lock us into something unnecessarily.

So, it is, I think, a challenge to our economic policy management.

Thank you.

(The conference concluded at 5:40 P. M.)

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TESTIMONY BEFORE THE SENATE

SELECT COMMITTEE ON NUTRITION AND

HUMAN NEEDS

January 22, 1974

JOHN SAWHILL, DEPUTY ADMINISTRATOR,
FEDERAL ENERGY OFFICE,

ACCOMPANIED BY

DON WORTMAN, DEPUTY ASSISTANT SECRETARY,
FOR PROGRAM SYSTEMS, HEALTH, EDUCATION,
AND WELFARE

Good morning. We welcome the opportunity to appear before you this morning and discuss the impact of the energy crisis on the low-income groups.

I would like to outline for you first the general dimensions of the fuel shortage and our strategies for dealing with it, before going into the specific problems of poor and low-income people and our provisions for assisting them.

IS THERE A SHORTAGE?

There is absolutely no doubt in my mind that this country is currently facing a serious energy shortage. You cannot receive the daily phone calls that pour into my office -- from utilities with only 27 days reserve of residual oil on hand, from school districts unable to get bids on contracts for gasoline or heating oil, from independent truck drivers faced with gallonage limits on diesel fuel at truck stops -- and dismiss the reality of the shortage. Here are our best estimates of its nature and extent:

Under normal conditions, consumption of petroleum this year would be expected to reach over 19.1 million barrels per day, an increase of 1.5 million barrels per day over 1973. This represents a continuation of the historic trends in demand growth. Domestic supply, on the other hand, leveled off in 1971 and has been steady or declining since then. We have made up the difference between demand and domestic supply with imports; the result has been ever increasing levels of imports and a growing dependence on Arab crude oil and products refined from Middle East oil. In October the Arabs announced an embargo on shipments to the U.S. For the first quarter, the effect of the embargo is to reduce supplies of both crude and product by 2.7 million barrels a day below anticipated demand. Since the embargo, imports have been steadily declining, until -- in the week ending January 11 -- they fell 2.3 million barrels a day below the peak pre-embargo level. The existence of a shortage simply cannot be denied.

In developing our estimates of the shortage, a realistic, worst case situation has been used. We assumed normal growth in demand, a fully effective embargo and inventory drawdowns to minimum operating levels. We could have assumed embargo leakages or larger inventory drawdowns, but we felt these were irresponsible assumptions for policy making. Leakages could be stopped and in fact appear to be; our latest report indicates imports are down to the level one would expect with a fully effective embargo. Lower levels of inventories would only leave us more vulnerable to other as yet unexpected contingencies. We would like to be surprised by favorable events, but we cannot afford to have programs developed which are not adequate to cope with the maximum expected shortage. To some extent, we are the victims of our own modest success. In early December, the FEO was created and we began a crash program to manage the shortage. In this effort, we have benefitted from a tremendous response by the American people to our conservation initiatives, from warmer than normal weather, and from leakages in the embargo. The result has been a build up in our inventory position, and some confusion in discussion of the shortage estimates.

Let me elaborate, since this is an important point. In October of 1973 we actually imported 6.7 million barrels of oil a day, a figure based on statistics submitted directly from Customs to the Office of Oil and Gas in the Department of the Interior. For the week ending January 10, the American Petroleum Institute reported 4.96 million barrels a day of imports. This level of imports has been checked independently and is accurate to within 1.5%, based on the preliminary runs of our new import reporting system operated by the Customs Bureau. These recent import levels mean that we are importing 1.7 million barrels a day less than just two months ago, and thus are 2.7 million barrels a day below expected needs. This shortage will quickly reduce our inventories to dangerously low levels unless we continue our programs to reduce demand and allocate the available supplies. For example, heating oil inventories are at about 200 million barrels, almost 30% above last year. But with a fully effective embargo and an abnormally cold winter, these inventories would be reduced to levels where spot shortages might occur by mid-March. In fact, our crude oil inventories at refineries have decreased for the last four weeks, and are now four percent below normal minimum levels. Refineries are operating at their lowest weekly level since January of 1973.

HOW GOOD IS OUR INFORMATION?

In order to develop fair and equitable policies to deal with the energy shortage, we need a comprehensive energy information system. The information we now have to work with is not adequate and its reliability cannot be checked. Without exception I feel we need more accurate, timely and comprehensive data, and we intend to get such data.

The data we now use come from a variety of sources. Data on the domestic petroleum supply system are currently gathered by the Bureau of Mines (BOM) and by the American Petroleum Institute (API). The Bureau of Mines data are gathered primarily through a monthly report by refining companies, supplemented by monthly data gathered from terminal operators.

The API has a much less detailed reporting system than the Bureau of Mines, but it receives and publishes data on a weekly basis, collecting refinery information from about 60% of the refiners which account for over 90% of domestic operations.

We have made cross-checks which indicate that these data are reasonably accurate; however, there are still significant deficiencies in these systems. Let me briefly summarize the problems.

First, industry coverage by the API for the weekly statistics is not complete; smaller refiners and importers are not included.

The second major problem deals with secondary stocks -- those petroleum inventories not held by refineries and major terminal operators. In contrast to the primary supply system, where both the Bureau of Mines and the API provide comprehensive, although not completely adequate data, information about secondary stocks and consumption can only be pieced together from a number of sources, but even the combination of all these data sources does not provide complete information.

There are two additional deficiencies in most of our current energy data: lack of regional and seasonal differences in consumption. To make our allocation programs work properly, we must know where and when the different petroleum products are needed, by state and by month.

One final point must be made. All of our current sources of data are voluntary and for many of the programs we now must operate this is simply not enough. We now clearly need mandatory reporting systems and mechanisms to check and enforce their proper operation.

We are dealing with these problems in these ways:

- We have instituted immediate daily reporting of tanker arrivals by the Bureau of Customs, so that petroleum imports data can be available and processed with minimum lag.

- We are establishing a system for obtaining, on a sample basis, measures of actual consumption of home heating oil, adjusted for the weather.

- We have been working with the FPC to establish a rapid reporting and forecasting system for the consumption and stocks of all fuels, including petroleum, used to generate electricity.

- We are developing a weekly reporting system for all refiners, major bulk terminal operators and pipeline companies to give FEO production, yields, and stocks information directly from industry.

- We are meeting with state regulatory agencies to see what can be done to get more accurate and timely information on reserves, capped wells and maximum recovery rates.

- We are installing a refinery audit program. Monthly reports, certified by company officials of refiners, pipeline companies and bulk terminal operators will be required. FEO audit teams, assisted by the IRS will make continuous field checks of the information contained in these forms. We expect that every major refiner will be audited at least partially four times each year.

- Finally, we will be asking for specific mandatory reporting legislation. We need more appropriate sanction and enforcement provisions, expansion to other energy sources besides petroleum, and inclusion of information on reserves, capped wells, and the like as well as current operating information.

We fully expect that confidentiality limitations on this data will be relatively narrow, and that most of the information we gather will be widely available.

WHAT IS OUR STRATEGY FOR DEALING WITH THE SHORTAGE?

Our basic goal is to minimize economic disruption and dislocation, at the expense of some personal luxury or comfort. The American people clearly would choose to turn down thermostats in their homes and at their jobs, and switch from private cars to carpools or public transportation, rather than undergo widespread unemployment and other economic distress.

This preference is reflected in the measurable response to our previous appeals for energy conservation. To date, the response has been almost completely voluntary. And it has been dramatic:

-- In New England, our most recent figures show that home heating fuel demand is down 16 percent from last year even after taking into account the warmer weather.

- Reports indicate that consumption of electricity is down 10% below expected demand.

- Natural gas consumption for the Nation is down by six percent from last year. This is the first time that absolute demand for that fuel has not risen from one year to the next.

- Gasoline consumption for the month of December was 8.7 percent below projected demand.

Our analysis indicates that the bulk of nonessential petroleum use is in gasoline. Consequently, we are seeking shifts in the patterns of production from our Nation's oil refineries. Refiners are being encouraged to produce less gasoline and more of the essential products that we depend upon in our homes and our work: heating fuel and diesel oil, residual fuel oil, and petrochemical feedstocks. Cost of Living Council regulations have already been revised to discourage gasoline production. We can take further steps: our mandatory petroleum allocation regulations give us the authority to mandate refinery shifts, and we will do so if necessary. Current reports indicate that refinery yields of gasoline are averaging 42% of the barrel of crude oil input, rather than the normal 45% for this time of year.

Once refineries have shifted production away from gasoline by 500,000 barrels/day, we will still have product shortages, but ones that we feel are manageable. Our mandatory allocation regulations, published in final form on January 15, are designed to handle these shortages in various ways. By product, our shortages and plans are as follows:

-- Kerosene jet fuel -- 154 thousand barrels per day (15 percent of projected demand). The airlines have already reduced schedules to make up this shortage.

-- Naptha jet fuel -- this is principally consumed by the military and must be provided to them for reasons of national security. Each quarter, we will be carefully scrutinizing the total DOD fuel requests.

-- Middle Distillates, primarily diesel fuel and #2 home heating oil -- 500 thousand barrels per day (12 percent of projected demand). Allocation regulations require six degree reductions in residential heating and ten degree reduction in commercial and other space heating to make up this shortage.

-- Residual fuel oil -- 375 thousand barrels per day (11 percent of projected demand). To be made up by heating reductions, voluntary electrical energy conservation, a return to Daylight-Savings Time, and switching electrical utilities from oil to coal.

-- Gasoline -- after the refinery shift, gasoline shortfall will equal about 1.2 million barrels per day (about 19 percent of demand). This shortfall will be met by drawing down inventories and by conservation actions, including the mandatory 55 m.p.h. speed limit and the Sunday station closings, and other voluntary measures, including the ten gallon limit.

The aim of all of the conservation and gasoline allocation programs is to spread the shortage equally and equitably. One of our objectives is to avoid gasoline rationing and the inevitable bureaucracy and confusion it would entail. We feel at this point that with full voluntary cooperation we can avoid rationing. We are carefully monitoring the situation, however, and checking for abuses such as long waiting lines or price gouging.

WHY ARE PRICES SO HIGH?

This Committee is legitimately concerned with rising prices and their impact on low income consumers. We share that concern. Prices have risen; gasoline, for example, has gone from 25.3 cents per gallon (before taxes) one year ago to 33.5 cents now. This is a 32% increase in one year. To explain these increases, it is first necessary to say a word about price controls.

The Cost of Living Council control system for petroleum, now managed by the Federal Energy Office, was set up to meet the dual objectives of controlling inflation, but not stifling domestic production. To meet these objectives a two-tier system was established: oil already being produced (old oil) was controlled, while prices of newly discovered and produced oil were left uncontrolled to encourage domestic production. Of our total supplies of available crude, 51% is controlled old oil, 28% is imported and not subject to controls, and 21% is new oil or oil from stripper wells which was decontrolled by Congress. In addition to crude, we import substantial amounts of petroleum product so that imports actually account for 38 percent of total petroleum consumption.

A significant portion of the price increase we experienced last year, was the result of actions by the Organization of Petroleum Exporting Countries. The world price of crude oil almost tripled in 1973. Canada, though not a member of OPEC, also increased the price of the oil she sells to the United States by tariff action. These greatly increased import prices are a principal cause of the higher prices the American people now must pay for gasoline and heating oil. If these import prices hold and we import in 1974 at the same rate as 1973, the U.S. bill for imported oil would rise from $7 billion to $21 billion.

We are deeply concerned about the emotional levels the OPEC nations are now asking and receiving for crude oil, and we recognize the hardships that these higher prices will mean for many Americans. The FEO expects to work closely with your Committee in providing information about price and consumption levels by income class so that you can structure special programs to assist those who need help in coping with the energy shortage.

WHAT PROBLEMS WILL POOR AND LOW-INCOME FAMILIES ENCOUNTER?

There are a number of questions we must answer in order to understand how the energy crisis affects the poor. For example, do the poor use relatively less or more energy than others? Are the poor and near-poor more or less likely to be subject to energy-related unemployment? These answers are essential for sound policy-making. We are working with the Department of Health,

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Education and Welfare to obtain better answers to these questions, but neither they nor we are yet satisfied.

We can postulate two types of impacts likely to fall on low income households — emergency problems and income problems. Some questions that have already been raised for us are:

1) What do COD customers do for heating oil?

- The majority of COD customers for heating oil are in center cities. They are served by small one-to-three truck heating oil firms, known in the trade as gypsies. The regulations call for using a degree-day/usage factor system in heating oil, but for this system to work, the supplier/purchaser relationship must be constant and the supplier must have historical records, etc. Neither of these conditions, however, are met in this case. Therefore, we have urged that normal deliveries continue to be made. Furthermore, we have specifically established a state set-aside to be used to handle emergencies and hardships. We intend to instruct the states to give special attention to the COD problem in doling out this set-aside. We have initially established a four percent set-aside; if this proves insufficient, we will increase it.

2) What about people who are not heating to excessive levels?

- Many poor families have always kept their thermostats at 68° to save money. Family members with certain diseases may not be able to tolerate a 6° temperature reduction. They can take actions equivalent to a six degree reduction to increase the heating efficiency of their home, such as putting plastic sheeting over the windows, weather-stripping the doors, and so forth. If this is not sufficient, they can appeal to their State Office for adjustment or for an allocation from the State set-aside. Working with HEW, we will provide to the State offices information on those diseases and physical conditions which require sustained heating levels; we will also suggest ways in which public health officials and doctors can certify to individual health needs so that State offices can move ahead with relief for legitimate cases.

3) How does a low-income family which has normally been advanced credit for the purchase of its heating oil meet its needs when their supplier demands cash on delivery?

- Section 210.62 of the allocation regulations specifically prohibits such actions. It states: "No supplier may require or impose more stringent credit terms or payment schedules on purchasers than the normal business practice of the supplier for that purchaser..." Further, we intend to have people in

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the field responding to complaints and enforcing this provision.

4) A poor person runs out of money and can no longer afford to pay for fuel?

- A low income family budgeting its monthly needs carefully could run out of cash because of a sustained cold spell at the end of the month and need more fuel. Their supplier may have been delivering oil on a COD basis. If the family cannot get credit, they can go to their county or city welfare office. Title IV of the Social Security Act authorizes funds for an Emergency Assistance Program, which can be used to provide cash payment or assistance in-kind for emergencies to: (1) female headed families not eligible for AFDC; (2) male headed needy families; and (3) AFDC migrants. The Federal-State matching formula for this program is 50-50; however, only 28 States participate. For those low income families who are on AFDC, emergency and special assistance can be provided through that program directly.

Longer term income problems and potential program adjustments are covered more completely in the statement that HEW will submit for the record. A brief summary includes:

- Social Security: a 7% benefit increase is scheduled for March, and another 4% for June. The automatic cost-of-living increases called for in the Act will first take place in June, 1975.

- Supplemental Security Income: Benefits will increase 4.3% for individuals and 9% for couples in July, 1974.

- Food Stamps: Shelter and utility costs in excess of 30% of family income are excluded from income calculations, thus permitting a partial immediate off-set to increased costs. The next face value increase for the food coupons is scheduled for July.

- Aid to Families with Dependent Children: Benefit levels are at State discretion; they may modify assistance payments to eligible individuals as the situation demands.

Will We Have A Food Crisis as Well as a Fuel Crisis?

This has been a difficult year at the supermarkets for all of us, rich and poor alike. Food prices have risen at their highest rate since the Korean War. While I am no agricultural expert, I understand that this Committee is deeply interested in addressing questions of food and nutrition.

The American agricultural production machine will be running at full tilt this year. Two years ago we had 62 million acres in reserve; last year we dropped it to 12 million; this year we will have no set-aside whatever, and we expect a record 341 million acres to be devoted to crop production.

To make sure that our nation's food producers receive all the fuel they need, we have made special provision in our regulations. Agricultural production, which includes farming, dairy, poultry, livestock, horticulture, forestry and fishing activities directly related to the cultivation, processing and distribution of food, fiber, timber and tobacco, is to receive 100 percent of its needs for propane, butane, middle distillate, motor gasoline, and residual, the principal agricultural fuels.

Initial projections from the Department of Agriculture indicate that we can expect:

- A 2 billion bushel wheat harvest, up 17 percent over last years' record level.

- 228 million tons of feed grains, an 11 percent increase over last year.

- 1.775 million bushels of soybeans, an increase of 9 percent above last year.

- 6,354 million bushels of corn, up 12 percent from last year.

Production of red meat and poultry dropped in 1973 because of a host of uncertainties that plagued the farm economy, including bad weather, the ban on DES, market disruptions and high feed prices. However, producers are expected to respond to rising consumer demand and to step up output moderately in 1974.

Beef production this winter will continue to trail year earlier levels because the number of cattle placed on feed in recent months has been down. But with a much larger feeder cattle supply this year, beef production will go above 1973 levels in the spring and then stay above during the rest of 1974. First half pork output will be 3 to 5 percent smaller than during January-June 1973, reflecting last year's smaller fall pig crop. Second half pork production will be as large or larger than in July-December 1973, because farmers plan a slight increase in the spring pig crop. Veal and lamb supplies will continue to decline in 1974.

Broiler producers are taking steps to increase output this year, following the slight decline in 1973. Egg production, down about 5 percent last year, will surpass 1973 output during the remainder of the year.

We are hopeful that this substantially increased supply made possible by the combination of our agricultural and our fuel allocation policies will mean that the American consumer has access to a plentiful array of food this year at reasonable and stable prices.

Summary

We have tried to be sensitive in the Federal Energy Office to the needs of poor and low income people:

- We have recommended that school closings be considered a measure of last resort in the effort to save fuel, both because we believe in the importance of education in creating an equitable society, and because we realize that many children, non-needy and needy alike, would be deprived of that portion of their daily nutritional needs provided by the school lunch program.

- We have recommended strongly that school busing not be curtailed as an energy saving device; our regulations specifically allocate school buses 100 percent of their current requirements for fuel.

- Our proposed gasoline rationing program will issue an equal number of coupons to each person 18 years and over who holds a valid driver's license. These coupons can then be sold if the recipient chooses to use less than his ration of gasoline. We consciously chose distribution by driver's license over distribution on the basis of registered vehicles, because of the unacceptable regressive effects of the latter course of action.

- We have submitted and continue to urge passage of the Job Security Assistance Act, legislation which will extend unemployment insurance coverage and increase the benefit levels to those workers now prevented from receiving adequate income replacement. In addition, we are considering an energy emergency unemployment benefit plan that would be triggered by two consecutive months of 6 percent unemployment, where this is 20 percent higher than the monthly average for the corresponding quarter of October 1972 to September 1973. Those who exhaust their normal unemployment insurance benefits would receive an additional 13 weeks at 50 percent of normal benefit levels, bringing their total coverage to 52 weeks. Those otherwise ineligible for unemployment insurance would be deemed eligible for 100 percent of regular benefits for up to 26 weeks.

The two key words we have used in developing our energy policies to date have been equity and flexibility. We are engaged in a massive, difficult, and critical task, and we expect to make some mistakes. If our regulations and our programs work undue hardship on particular groups, we will move rapidly to change our practices and correct these abuses. I will be happy to answer any questions you may have.

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STATEMENT OF THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
Wednesday, January 23, 1974

Mr. Chairman and Members of this Committee:

I am pleased to be with you today to make this statement on windfall profits.

Before analyzing the provision in the Emergency Energy Act of 1973, let me briefly provide some background relevant to consideration of any windfall profits proposal. First of all, it will take time to increase substantially the supply of crude in the United States. New reservoirs must be discovered and drilled. Old wells previously uneconomical must be rehabilitated. Processes such as secondary recovery must be put in place. Processes such as oil shale will commence to come on line only over a period of years as producers conclude that they can count on price levels which make that recovery economic, and then there will be time lags in solving technical problems and building plants.

We believe that supply and demand will come into normal balance over a period of several years. However, before this occurs, the abrupt nature and magnitude of the current shortage could, in a free market, cause the price of crude oil to shoot substantially above the levels required to bring supply and demand into balance. Such a situation produces a "windfall"--a price to producers which is more than producers could have anticipated when investments were made and more than that required to produce all that we can in fact expect to be supplied.

For example, suppose that a price of $7 a barrel for crude oil would be sufficient after two or three years to induce increased supplies and to dampen demand, so that shortages would disappear. Such a price would be "the long-term supply price." If in the interim, the price goes to $8 or $9 a barrel, the excess of the $8 or $9 price over the long-term supply price is a "windfall"--it is more than the price required to produce all that is in fact being supplied or is likely to be supplied in the next several years. The windfall and the tax would, of course, be even greater if prices should, on a temporary spot basis, shoot to the range of the $17 prices paid in some recent foreign auctions.

No one knows exactly what the long-term supply price is, as no one can predict the future that clearly. Our best estimate is that it would be in the neighborhood of $7 per barrel within the next few years.

Likewise, no one knows what level the price of crude would reach in the next few months if it were freed from all controls. If prices were freed, we could expect erratic behavior for several weeks, after which the price might settle in the $8 to $9 range, and that thereafter the price would decline gradually to the lower long-term supply price.

There is no doubt that some windfall profits have been made during the past few months and have contributed to the sharply increased overall reported profits of oil producers. As a means of addressing this issue, last December the Administration asked that Congress consider a proposal for an Emergency Windfall Profits Tax to deal with excess or windfall profits resulting from escalating crude oil prices. The proposal is designed to deal effectively with the problem which exists; it is coordinated with a total energy program; and it is workable. The Committee on Ways and Means is expected to begin consideration of the proposal shortly. I strongly urge that you give the proposal, and related energy proposals, your careful attention as soon as possible.

While prompt action against windfall profits is essential, it is equally essential that it be done in a way consistent with the larger goal of attaining early independence from foreign energy supplies. In this connection, I believe that the windfall profits proposal contained in Sec. 110 of the Conference Report dated December 20, 1973, on the Energy Emergency Act would be ineffective and unworkable and could seriously prolong our quest for energy independence.

Sec. 110 is based on traditional excess profits tax concepts, which means that the government has to determine how much profit is "too much" profit. That kind of determination involves the selection of base periods and acceptable profit levels or rates of return from historical profit information. That in turn requires a determination that some rate or amount of profit was "normal" for affected taxpayers during the historical period chosen. In fact, the assumption of normality is false and most of the complexities of excess profits taxes have come from trying to adjust the tax for the abnormalities which always exist. I have attached as an appendix to this statement a brief discussion of excess profits taxes, which describes some of the complexities involved.

In prior excess profits tax laws, the complicated guides for determining the amount of excess profits have consumed pages and pages of the statute books. Sec. 110, on the other hand, expresses the test for excess profits in terms of "reasonable profits," "average profits" and "windfall profits." An administrator of those provisions would, accordingly, have no workable guide for making decisions. Furthermore, the administrator selected for this awesome task is the Renegotiation Board. This Board was designed for the entirely different and limited purpose of reviewing profits from certain types of contracts. While its personnel are able and conscientious, the Board is ill-equipped from the standpoint of concept, size and expertise to deal with a matter of this scope and complexity. Consider, if you will, that excess profits tax controversies numbered over 50,000 and are still going on 20 years after the tax expired, and that the Internal Revenue Service was the only party with standing to complain about the profit levels of a taxpayer. Compare that situation with the private and individual relief provisions embodied in Sec. 110, under which anyone interested could invoke the entire redetermination procedure of prices already administratively approved. The potential volume of cases which could arise is staggering to contemplate.

We agree that action should be taken with respect to windfall profits but we believe that Sec. 110 provides an unsatisfactory way to go about it. It would be administratively unworkable and it would create such great uncertainties as to what price the Renegotiation Board or a court might several months or years from now determine to be fair, that intelligent investors would be discouraged from making the investments which will be necessary if oil supplies are to be increased. Billions of dollars of investment are needed to increase energy supplies, and total uncertainty as to the profitability of that investment will surely discourage it. And if additional supplies are not forthcoming, prices can only escalate further as consumers bid up the prices for the existing supplies.

Further, this Section would take effect January 1, 1975, but apply retroactively to profits derived during 1974. This would create great uncertainty throughout the industry for the entire year. Although legislation during 1974 could supercede this Section, any such legislation would be subject to innumerable special interest amendments because of the feeling that it would not be subject to veto.

The Emergency Windfall Profits Tax provides a much more careful and satisfactory solution since it:

. Focuses directly on the problem by taking away the windfall part of the price increase in crude oil.

. Phases out over the period over which supplies will be increased, thus not discouraging the needed new investment to obtain additional supplies.

. Falls on the producer, not the consumer, since it merely takes away unexpected profit rather than adds costs which must decrease expected profit or be passed on.

. Is simple to administer--it involves no complex calculations, no complex returns and no complex concept.

At this critical time we must be sure that any solution devised for windfall profits does not work at cross purposes with the goal to achieve independence from foreign supplies. Further, it is a difficult and highly technical task to design a tax or other mechanism to deal fairly and efficiently with "excess" or "windfall" profits. It would be most unfortunate to proceed without heed to the lessons learned from our extensive experience with similar taxes.

I urge that you consider this problem as quickly as is possible, consistent with a technically satisfactory solution. My staff and I would welcome the opportunity to discuss in detail with you and your staff the operation of the Emergency Windfall Profits Tax and the problems inherent in Sec. 110, as outlined above.

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EXCESS PROFITS TAXES

While prior excess profits taxes differed significantly, they contained the common elements of (i) a determination of profit in excess of some base amount, (ii) the application of a high rate of tax to the excess amount and (iii) complex exceptions designed to alleviate the penal nature of the high tax rate in situations in which the general rule determination of excess profits yielded an inequitable result. The following problems existed in prior excess profits tax laws:

. Determination of base period and fair rate of return. No period can be selected which was a normal period for all taxpayers. That is to say, during any taxable year or years selected, some taxpayers' rates of return on investment or profits will be higher or lower than others for many extraneous reasons, such as strikes, floods, etc. Two basic methods have been used to determine a normal profit for the base period. One method is to compute a rate of return on invested capital during the base period, treat that as a normal profit rate, and impose a tax on any profits realized in excess of that rate. The other is to treat the absolute amount of profits realized during the base period as normal profits and impose a tax on any profits realized in excess of that amount. Combinations of the two basic methods have also been used. The assumption of normality of any historical rate of profits or any absolute amount of profits for a particular taxpayer for a particular period is subject to challenge because of the infinite variations in taxpayer's situations. For example, during whatever base period is selected, some taxpayers' businesses were contracting, some expanding; some used heavy amounts of equity capital, some relied heavily on debt; some engaged in heavy research and development expenses and others maximized earnings by postponing research and development expenses, and on and on.

. Exceptions for abnormalties. Because of the problems referred to above and others, complex machinery has always been required to adjust the inevitable inequities arising from the selection of base periods and the calculation of base period profits. Administrative boards and courts become entangled for years over these questions. The World War II and Korean War excess profits tax cases spawned over 54,000 applications for over $6 1/2 billion of relief because of claimed abnormalties in the computation of excess profits. Thousands of lawsuits, the last of which has not yet been decided, required large expenditures of time and manpower for both government and taxpayer in complex economic arguments over how much was too much profit.

. Incentive for wasteful expenditures. Since the tax is conventionally imposed at a high rate and only on net profits, it has the effect of causing expenditures which would not otherwise be made and which are wasteful. For example, the corporate taxpayer at a 48% income tax rate must use 52 cents of its own money for every $1.00 expended.

However, if the marginal tax rate is raised to 85% by the addition of an excess profits tax, only 15 cents of every $1.00 of excess profits spent by the taxpayer comes from its pocket--the other 85 cents will be taken in taxes if not spent. Experience teaches that this leads to wasteful practices and inefficiencies which increase or maintain product prices to consumers without creating corresponding benefits to society.

Applying an excess profits tax only to the net profit of oil production would be even more difficult, for the following reasons:

. Increased coverage. The expected windfalls will accrue to all owners of oil, who include thousands of individuals, trusts, estates, specially taxed corporations such as insurance companies, and other corporations not generally associated by the public with oil companies. Accordingly, the windfall tax must apply to all owners of oil, not just to large oil companies, if it is to be effective. The World War II and Korean War excess profits taxes have applied only to corporate taxpayers. It is safe to say that as complex to administer as prior taxes have been, an excess profits tax affecting thousands of noncorporate taxpayers would be greatly more complex.

. Determination of excess profits. It would be necessary to determine the excess profits from oil production alone if the tax were to be confined to the windfall. Complex allocations of income and expense would have to be made. In the case of the numerous individuals, estates and trusts who keep minimum formal records, the allocation problem would be even more sizeable.

. Taxable income management. Taxable income management through wasteful expenditures would be easier to achieve for oil producers since their incomes are reduced currently through the deduction of most of the costs of new wells and percentage depletion. Wasteful drilling practices and wasteful expenditures for overhead items could reduce the impact of the tax to a large extent without corresponding benefits to society from productive new wells or research.

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FOR IMMEDIATE RELEASE JANUARY 22, 1974

REFINERY FORMULA

Forty-three U. S. refiners that have crude oil in excess of 76.31 percent of their rated capacity will have to furnish that excess to some 87 other refinery operators in the Nation under a formula established by the Federal Energy Office (FEO) today.

However, Federal Energy Office Administrator William E. Simon said this provision of the allocation formula doesn't pertain to all crude oil available to the refiners. Simon said the regulation exempts imports in excess of the 1973 level for each refiner now importing above that level.

"In other words the program provides an incentive for refiners to look for additional sources of crude because they will be allowed to keep the imports above the 1973 level," Simon explained.

Simon added that the refinery capacity formula will be published in the Federal Register of January 22 and will cover the period of February 1 through April 30, 1974.

The Federal Register notice lets the crude sellers and crude buyers develop the details of the buy-sell program themselves. However, the FEO can step in if the parties don't agree by February 5 (15 days after publication of the notice). At that point, the FEO can order sale of the excess crude.

The FEO formula was derived from crude figures supplied by each of the refiners in the United States.

With the exception of four refiners that are special cases, the lowest amount of crude that will be made available to a refinery on the "buy" list is 1,360 barrels over the three-month period. The high amount that can be purchased by any one refiner is over 7.9 million barrels. The four special cases include three refiners that have on hand or contracted for the amount of crude that each can handle. The fourth is not in operation.

The refinery formula was worked out in accordance with the crude oil subpart contained in the Federal Register on January 15 which established the Petroleum Allocation and Price Regulations under the Emergency Petroleum Allocation Act of 1973. A complete listing of refiner-sellers and refiner-buyers follows.

Attachment

-FEO-

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FEDERAL ENERGY OFFICE

CRUDE OIL ALLOCATION PROGRAM

S/C RATIOS AND ELIGIBLE TRANSACTIONS

FEB.-APR. 1974

REFINER NAME	S/C RATIO	ELIGIBLE SALES (BARRELS)	ELIGIBLE PURCHASES (BARRELS)
TEXAS FUEL&ASPHALT	1.0498	5893	0
ROAD OIL SALES	1.0418	13642	0
UNION TEXAS	1.0005	198554	0
CROSS OIL OF ARK	.9791	67278	0
HUNT OIL	.9781	287095	0
SKELLY OIL	.9692	1311787	0
BAY REF./DOW	.9535	199024	0
CONOCO	.9485	5648558	0
AMERADA-HESS	.9315	8030462	0
CLARK OIL&REFINING	.9268	1559112	0
GULF OIL	.9135	11900268	0
DIAMOND SHAMROCK	.8987	559937	0
ORIENTAL REFINING	.8936	14529	0
PLATEAU	.8924	59817	0
APCO OIL	.8843	399000	0
PHILLIPS	.8751	4054371	0
CHAMPLIN	.8688	1317559	0
DELTA REFINING	.8618	241530	0
FAMARISS OIL	.8607	43399	0
LA GLORIA	.8517	186013	0
CITIES SERVICE OIL	.8507	2089729	0
DORCHESTER GAS	.8426	7072	0
SHELL	.8372	7167126	0
TENNECO	.8234	545104	0
AMOCO	.8194	5065994	0
MOBIL	.8145	4387819	0
INDIANA FARM BUREAU	.8137	56215	0
BEACON OIL	.8096	50078	0
KERR-MC GEE	.8088	215264	0
FLETCHER	.8075	59220	0
NAVAJO	.8074	82450	0
OSCEOLA REFINING	.8031	33769	0
CANAL REFINING	.8023	11158	0
KOCH	.7991	351921	0
ALLIED MATERIALS	.7922	11092	0
AMERICAN PETROFINA	.7900	443423	0
YOUNG OIL	.7888	5702	0
SOCAL	.7797	1497967	0
SOUND	.7745	3448	0
EXXON	.7675	452708	0

FEDERAL ENERGY OFFICE

CRUDE OIL ALLOCATION PROGRAM

S/C RATIOS AND ELIGIBLE TRANSACTIONS

FEB.-APR. 1974

REFINER NAME	S/C RATIO	ELIGIBLE SALES (BARRELS)	ELIGIBLE PURCHASES (BARRELS)
PASCO	.7646	5237	0
UNION OIL	.7644	51922	0
ALABAMA REFINING	.7640	1133	0
FED RATIO	.7631		
OIL SHALE	.7620	0	7049
HUSKY	.7516	0	47168
TEXACO	.7511	0	1266079
VICKERS	.7472	0	42570
LUNDAY-THAGARD	.7449	0	4860
CALUMET	.7413	0	4666
CRA-FARMLAND IND.	.7410	0	118133
SUN OIL	.7390	0	1200466
CARIBOU FOUR CORNERS	.7350	0	18019
TOTAL LEONARD	.7336	0	110958
CRYSTAL OIL&GAS	.7315	0	41554
NATIONAL COOP.	.7244	0	186811
QUAKER STATE	.7236	0	86174
MID-AMERICA REF.	.7228	0	10760
MURPHY OIL	.7217	0	398626
LITTLE AMERICA	.7191	0	86218
ARCO	.7038	0	4071034
UNITED REF.	.6944	0	254285
ROCK ISLAND	.6932	0	183612
MARATHON	.6907	0	1945206
THE REFINERY CORP.	.6823	0	118665
THUNDERBIRD RESOUR.	.6730	0	126648
TESORO	.6699	0	549136
WINSTON REF.	.6690	0	0
NEWHALL REF.	.6662	0	73313
CHARTER OIL	.6586	0	769653
SOHIO	.6445	0	3894294
PENNZOIL	.6389	0	574654
SEMINOLE ASPHALT	.6367	0	50632
FARM. UNION CENT. EX.	.6353	0	483554
ASHLAND	.6347	0	4054453
POWERINE	.6334	0	329150
SO. WESTERN REFINING	.6233	0	2367
EDDY REFINING	.6223	0	11250
SOUTHLAND OIL	.6189	0	269511
MOHAWK	.6160	0	340506
LAKESIDE REFIN	.6123	0	53679

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FEDERAL ENERGY OFFICE

CRUDE OIL ALLOCATION PROGRAM

S/C RATIOS AND ELIGIBLE TRANSACTIONS

FEB.-APR. 1974

REFINER NAME	S/C RATIO	ELIGIBLE SALES (BARRELS)	ELIGIBLE PURCHASES (BARRELS)
VULCAN	.5884	0	54430
TONKAWA	.5798	0	81601
GLADIEUX REFINERY	.5762	0	91504
WARRIOR ASPHALT	.5392	0	59781
CLAIBORNE GAS	.5376	0	130480
LAKETON ASPHALT REF.	.5366	0	128418
COASTAL STATES	.5365	0	2403046
BAYOU STATE	.5339	0	71411
M.T.RICHARDS	.5206	0	1360
HAWAIIAN INDEP.	.5163	0	878729
TEXAS CITY	.5098	0	1603043
FLINT CHEMICAL	.5056	0	27506
KENTUCKY OIL	.5036	0	11549
GOLDEN EAGLE REFINING	.5000	0	304446
EVANGELINE	.4940	0	95803
SOUTHWESTERN O&R	.4925	0	2388528
MACMILLAN	.4907	0	385533
SOMERSET REFINING	.4794	0	75757
THREE RIVERS	.4715	0	7503
PRIDE REF.	.4677	0	100125
WITCO CHEMICAL	.4628	0	721711
O K C	.4579	0	0
EDGINGTON OIL	.4493	0	824064
SUNLAND	.4130	0	0
GETTY OIL	.4005	0	3421409
EDGINGTON OXNARD	.3918	0	82613
COMMONWEALTH	.3770	0	7939266
CRYSTAL REFINING	.3661	0	219094
SAN JOAQUIN OIL	.3595	0	969915
CROWN CENTRAL PETR.	.3399	0	3006541
SOUTH HAMPTON	.3304	0	41616
U.S. OIL	.3195	0	631708
THRIFTWAY	.3154	0	156146
DINGMAN OIL&REFIN.	.3101	0	100796
MIDLAND COOP.	.2592	0	491725
NORTH AMER.PETROL	.2079	0	810469
JET FUEL REF.	.2049	0	22358
WEST COAST OIL	.2048	0	645548
ARIZ. FUELS	.1865	0	266003
SAGE CREEK	.1616	0	44002

FEDERAL ENERGY OFFICE

CRUDE OIL ALLOCATION PROGRAM

S/C RATIOS AND ELIGIBLE TRANSACTIONS

FEB.-APR. 1974

REFINER NAME	S/C RATIO	ELIGIBLE SALES (BARRELS)	ELIGIBLE PURCHASES (BARRELS)
GOOD HOPE REF.	.1615	0	1039992
YETTER	.1124	0	57915
HOWELL	.0840	0	1175503
WIREBACK	.0399	0	77240
J&W REFINING	0.0000	0	575002
MOUNTAINEER REFINING	0.0000	0	0
WOOD COUNTY	0.0000	0	203757
GARY WESTERN	0.0000	0	427200
GUAM	0.0000	0	2003608
INGOT OIL&REFINING	0.0000	0	2003608

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE January 23, 1974

The following statement was issued simultaneously by Secretary of State Henry A. Kissinger and Secretary of the Treasury George P. Shultz regarding the House of Representatives' action today in voting down the Administration's proposal for replenishment of the International Development Association, the concessionary loaning affiliate of the World Bank.

"The Administration deeply regrets the action of the House of Representatives today in voting down the Administration bill for a four-year replenishment of the International Development Association totaling $1.5 billion. This money formed part of an equitably shared effort among all industrialized nations to provide the capital and know-how to help the poorest of developing countries. In this most critical of times for international amity and harmony, this action represents a major setback to our efforts of cooperation and to the ability of the U.S. to provide leadership in a world where there is an increasingly serious tendency for nations to believe their best interest lies in going it alone.

We intend to confer immediately with members of both parties of the Congress in an effort to find a way in which the U.S. can continue to play a role of leadership fully consistent with our own economic situation."

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S-352

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FEDERAL ENERGY OFFICE
Public Affairs
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Washington, D. C. 20461
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FOR IMMEDIATE RELEASE JANUARY 22, 1974

SIMON DECIDES AGAINST ORDERING CHANGE IN GASOLINE YIELDS

The cooperative effort by domestic refineries in lowering gasoline production plus conservation by the Nation's drivers resulted in the decision not to impose mandatory refinery production fractions in January, William E. Simon, Administrator, Federal Energy Office (FEO), said today.

"Once again, the American people have shown a magnificent response to our voluntary conservation program," Simon said. "And, our domestic refineries, realizing the importance of producing more middle distillates and residual fuel oil to heat our homes and run our factories, also turned the valves to make more of these two essential fuels available.

"The result of these actions will allow refineries to produce more gasoline as we approach spring, because our investigations have shown that we have high middle distillate stocks," Simon added. "An upward turn in gasoline production will also allow added production of petrochemical feedstocks."

Administrator Simon warned that the current supplies of home heating oil, diesel, and other fuels in the middle distillate range "doesn't mean that we are out of the woods yet.

"What it does mean is that we are in a better picture than we thought we would be in. If we have a long period of harsh weather, our current middle distillate stocks could decline sharply. In this event, we might have to go into assigning production fractions," Simon emphasized.

He said he feels that at the present time the gasoline yields should not be imposed adding, however, that the FEO will monitor them closely and impose appropriate fractions should the yields start to rise.

"Because of this possibility, we are recommending refineries to continue producing less gasoline than is their normal practice, as well as blending distillate fuel with residual oil to increase overall residual supplies," he said.

As a final recommendation, Administrator Simon asked refineries to consider reducing asphalt output in the near term to pick up additional quantities of residual fuel.

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE January 24,1974

DAVID H. MARTIN NAMED
LEGAL COUNSEL TO SECRET SERVICE

Treasury General Counsel Edward C. Schmults has announced the appointment of David H. Martin as Legal Counsel to the United States Secret Service.

Prior to his appointment as Legal Counsel, Mr. Martin had served as a Trial Attorney in the Organized Crime and Racketeering Section of the Criminal Division, Department of Justice since July 1968.

Mr. Martin was graduated from Western Maryland College with a B.A. degree in 1962, and was graduated from George Washington School of Law in 1967. From 1963 to 1965 he served as a 1st Lieutenant in the U.S. Army, Corps of Engineers.

Mr. Martin, 33, is a native of Bedford, Virginia. He is married to the former Carol Dianne Briggs. They live in Potomac, Maryland and have two children, a daughter, 4, and a son, 1.

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TESTIMONY BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SENATE FINANCE COMMITTEE
THURSDAY, JANUARY 24, 1974

Mr. Chairman and Members of this Committee:

I am pleased to be here today to discuss the Energy Revenue and Development Act of 1973 and, beyond this, how the Administration plans to resolve the long-term energy problems facing our Nation. The Bill is a comprehensive piece of legislation and I plan today to identify those features of the Bill which we support and those about which we have some reservations or modifications.

Before doing this, I think it would be useful to outline briefly the five-fold approach we are taking with respect to energy policy.

First, we must establish a central energy organization in the Federal Government. The creation of the Federal Energy Office is the first step toward bringing all energy policy under one roof. We certainly need a statutory base for this organization and the pending Federal Energy Administration bill, which has already passed the Senate (S.2776), will provide it. However, we must press forward in the creation of a cabinet-level Department of Energy and Natural Resources to bring together all energy related responsibilities.

Second, we must establish a permanent "conservation ethic" in this country. We have been too extravagant in this country: with but 6 percent of the world's population, we consume 35 percent of the world's energy. The recent embargo has forced us to reduce this consumption, and we must be sure that an attitude of conservation becomes a permanent part of our lives.

Third, we must push forward in the development of our domestic energy resources, through Project Independence. This includes further development of oil and gas in Alaska and the outer continental shelf, greater utilization of coal, of which we have a supply unmatched by any other country in the world,

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further development of oil shale and nuclear power, and added efforts toward development of geothermal and solar power.

Fourth, we must forge a new relationship between Government and industry. Our energy policy calls for a joint effort between government and industry as we seek to develop our domestic resources. Further, we need industry cooperation in providing adequate information about the energy situation. The information we now have to work with is not adequate and its reliability cannot be checked. We must develop a permanent energy information system with a built-in auditing program on every aspect of the energy situation -- reserves, refining operation, inventories and production costs -- so that we will then be in a better position to assure the American people that our energy data is accurate and not subject to the charge that it can be manipulated by industry.

Fifth, we must establish a framework of international cooperation among producing and consuming countries. The potential impact of shortages of energy supplies on the world economy is staggering and we must strive for a compatibility between our domestic policy and international relations. Thus, we must seek international cooperation with respect to conservation efforts, research and development, and pricing policy. We must work together in developing energy resources and maintaining a healthy world economy in which energy exporting and energy importing nations prosper together.

Development of Self-Sufficiency

With this general framework in mind, let me turn to the specifics of our energy policy and the relationship of this Bill to that policy. Our Nation has become aware of energy shortages in an atmosphere of crisis. That is not to say that there weren't adequate warnings. Many have been warning about the potential shortage for years and I have been testifying and giving speeches about it for months, but it took the embargo to wake us up. Because of that embargo, we have had to consider emergency taxes, we have had to allocate petroleum and petroleum products, we have had to institute many voluntary or mandatory conservation measures and we have had to put into place a standby rationing plan.

Although the current embargo and the resulting shortage has thus awakened us, it is important to realize that our energy shortages have been developing over the past two decades. Let me briefly review with you how this happened. For many years the United States has been the leader in the development of energy sources. We were among the first countries to apply nuclear power and have since exported our nuclear technology to scores of countries. American equipment and manpower are used for drilling, processing, refining, and delivering oil throughout the world. Yet, in recent years, domestic supply has not

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kept pace with demand. Demand has been rising at an annual rate of 4 to 5 percent. However, domestic exploration peaked in 1956 and domestic production peaked in 1970. There are a number of reasons for this.

1. The exploration and development of both the North Slope and the Outer Continental Shelf has been delayed in part because of the failure by the government to expedite leasing and in part because of litigation which not only prevented timely construction of the Trans-Alaskan pipeline but also prevented Outer Continental Shelf lease sales for two years.

2. Until April, 1973 the Mandatory Oil Import Program's volumetric quota system discouraged construction of refineries in the United States. Further, environmental restrictions have delayed construction of refineries.

3. Most of our natural gas resources lie unused and, in many cases, unexplored as the result of government regulation of the well-head price of natural gas.

4. Nuclear power, in which rested so much hope a decade ago, still provides only 1 percent of our energy needs after 30 years of development. It could provide 10 percent by 1985 if we make the necessary commitments now.

5. Perhaps one of our greatest failures is that this Nation, with 53 percent of the world's coal reserves, has not properly exploited this wealth, largely because of

economic factors as well as environmental constraints.

We need not continue as we have. Our nation has always risen to meet serious challenges to our economy and security. The experience of the United States with synthetic rubber during World War II provides an appropriate example. The U.S. was consuming upwards of two-thirds of total world consumption of rubber. The United Kingdom, which controlled 75 percent of the world's rubber, instituted export restrictions. By holding back on exports, they were able to raise the price paid for rubber from 14 cents per pound to $1.23 per pound. In 1941, the Government and industry undertook a massive effort to develop synthetic rubber, and by 1944 not only was the total annual output enough to satisfy demand, but the quality of the products was far superior. Just as in 1944, we can now demonstrate again that a genuine industry-government commitment can bring us self-sufficiency. There is no reason why we cannot achieve self-sufficiency in energy. We have the tehnical competence. We have the natural resources. What we need is leadership and funding to launch a concerted long-term program that will increase our production and conserve our use of energy.

This program must be a two-pronged attack. In the short run, we must both expand production and exploit untapped reserves of existing energy sources. Longer range solutions will be provided by the development of new technologies to utilize untapped resources of new and existing fuels.

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Specifically, this program should include the following:

1. We must find ways to exploit our coal reserves more effectively. We have 1 trillion 500 billion tons of identifiable coal reserves, or half of the non-communist world's reserves, 425 billion tons of which are economically recoverable now. We must develop ways to utilize this abundant resource. We must develop techniques for mining surface coal that do not destroy the landscape. We must also develop ways to deep mine coal that protect the health and safety of miners. Until we achieve these breakthroughs, we should avoid measures that could seriously weaken the coal industry and lessen coal production. In particular, Amendment 612(b) to S.425, the strip mining legislation that recently passed the Senate would prohibit surface mining of federally-owned coal where the United States does not own the surface rights, thus effectively preventing development of 63 percent of our low-sulfur western coals.

2. We have talked for years about the development of our oil shale. We have an estimated 1 trillion 800 billion barrels of oil shale resources in the U.S., and just those reserves that we presently know are exploitable could satisfy our needs for oil for decades. The problem is that we need further research and development that will yield techniques to extract this oil in environmentally sound ways. What we

need is an increased effort toward the development of this potentially productive resource.

I am especially encouraged by recent progress in the in situ processes for extracting shale oil. This progress suggests that it may be possible to produce shale oil at considerably less than the landed cost of Persian Gulf crude after recently announced price increases by OPEC go into effect. In situ extraction should also have minimal impact on the environment and its development should be encouraged.

3. We also have to push forward in the development and utilization of nuclear power. The Administration will soon submit legislation to expedite the licensing and construction of nuclear power plants which are an essential part of our program for achieving energy self-sufficiency. For the period beyond 1985, we should also develop a broader nuclear program which looks toward liquid metal and gas-cooled breeder reactors. Further, top priority should be given to assuring that nuclear power plants are built and operated safely and with acceptable environmental impact.

4. There have been many problems relating to the construction of energy facilities, and we are going to submit expanded legislation in this area shortly.

5. We have also talked for years about development of such relatively distant alternatives to fossil fuels as fusion, geothermal and solar energy. These alternatives are still very much in the research and development stage of growth and they could not come into widespread use until after 1990. Although we have to invest in the development of these alternatives, our primary focus now must be on nearer term measures for expanding energy supplies. We must focus most heavily on coal and oil shale. Also, we must concentrate on commercial development, and not just long-term research.

All of this will require a significant commitment of both private and government resources.

6. Further we cannot concentrate solely on expanding our energy sources. Over 30 percent of our energy is wasted in one way or another--wasted in conversion from one form to another, wasted in trasmission, and wasted in unnecessary usage. As a part of our long-term program for self-sufficiency, we must establish a permanent conservation ethic and mount a major attack on waste. Over the long term, conservation of energy will require investment in insulation of homes and offices, use of more efficient automobiles, development of mass transit, changes in methods of handling freight, and central heating plants for groups of buildings and towns.

In the meantime, we are asking the American people to make temporary sacrifices, to drive less and to keep their homes cooler in winter and warmer in summer. We are finding an encouraging response by the American people to our requests. In New England, for instance, consumption of heating oil by homes has been 16 percent below normal in December after adjusting for degree days.

In order to assist the American people in knowing how much energy various products require to operate, we will submit legislation requiring all major appliances and automobiles produced or imported into the United States be clearly labeled to indicate their energy use and efficiency.

Energy Trust Fund

The Energy Trust Fund proposed by this Bill offers one approach in a national effort to achieve the ability of self-sufficiency in energy. Such a fund could help to assist in the commercial application of new sources of energy and a major investment program in energy conservation. In connection with the Administration's proposal for an Emergency Windfall Profits Tax, we suggested the possibility of an Energy Development Bank to accelerate the pace of technological change and capital investment to provide new energy supplies. However, there are problems inherent in the creation of any broad scale trust fund, for priorities do change and maximum flexibility is always desired. Still there is no question that a massive commitment to the development of energy resources is needed -- a commitment comparable to the synthetic rubber experience in World War II or the Manhattan project or the space efforts -- and I welcome the opportunity to discuss this approach as well as others with you.

Tax on Energy Sources

Section 202 of the Bill would impose a BTU tax on the extraction of oil, gas and coal and on the production of electricity. We must carefully consider the merits of such a proposal and I would like to point out some of the problems.

The apparent purpose of the tax is to raise revenue for the Energy Trust Fund. Your staff estimates that the tax would produce revenues averaging $5 billion a year over the next 10 years. However, it is important to point out that such a tax would cause an initial price increase of approximately 5 percent in the case of oil and in the neighborhood of 13 percent in the case of the less expensive grades of coal. These major amounts would have significant impacts on the relative uses of different fuels and would generally be passed on to consumers. Moreover, during the period when imported oil is more costly than domestic oil, the proposed tax would weigh more heavily on domestic oil.

There is some appeal to the thought that those presently using energy should pay for the cost of the energy research. However, the beneficiaries of the research and development will be future generations and not present consumers, and any benefits will be diffused among the population as a whole.

Further, certain energy users should not be taxed at all. For example, we should not levy a tax on a taxpayer who generates electricity from solar power. Such a taxpayer would not be taking any energy source away from any other taxpayer, and in development and installing such a system, he would doubtless have already paid handsomely for research and development whether incurred by himself or others.

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Similarly, we should not tax users of coal when we are, in fact, trying to promote use of that fuel in preference to other fuels. A tax on BTU's would typically represent a greater percentage increase in the price of coal than in the price of oil, thus discouraging the very thing it is hoped to promote.

Finally, the $5 billion a year revenues from such a tax are very large. In fact, they are equal to about 2 percent of the total revenues presently collected by the federal government. Although energy research and development is extraordinarily important and we should see that it is adequately funded, we must not be wasteful. Like any other government activities, the research and development operation should be subject to the normal budgetary discipline of choosing which expenditures are worthwhile and which are not.

Termination of Price Controls on Natural Gas, Oil and Oil Products

The Bill also provides for deregulation of new natural gas and a gradual phasing out of price controls on petroleum and petroleum products. Further, it provides for termination of price controls on steel products used by the energy industry.

Natural gas is an ideal fuel. Its combustion causes virtually no pollution. There is minimal loss in transit, and it is relatively easy to clean and store. Unfortunately, control of the well-head price of natural gas, imposed after the Phillips Decision in 1954, has been very damaging to our nation's welfare. Drilling for new gas has fallen steadily since peaking in 1961. Production has declined since 1970. Yet we have trillions of cubic feet of gas both on and off-shore which remain unutilized. Here we have a good example of well-meaning government intervention having undermined what was once a healthy industry.

Natural gas is seriously under-priced. New natural gas, controlled by the FPC, now sells at a price of about 45 cents. If you converted, on a BTU basis, an amount of new natural gas equivalent to a barrel of imported crude oil, the gas would sell for about $2.70. A barrel of imported crude oil now sells under contract for about $9. Is there any wonder why investors have been discouraged from drilling for natural gas?

It is important to emphasize that if the price of new gas were decontrolled, it would not mean a sharp increase in the price paid by the consumers. New gas would account for only a small proportion of all natural gas produced each year. It would take 5 to 10 years before the consumer felt any substantial impact from the price increases. Additionally, it is important to note that the well-head price constitutes only a small fraction of the price paid by the homeowner in most areas. The bulk of the rate charged is for transmission and distribution expenses, which should not increase as a result of well-head deregulation. The deregulation of new natural gas prices is urgent and we support it. We also support a provision authorizing the Federal Power Commission to establish limits on absolute price increases.

With respect to the decontrol of petroleum prices, I am concerned that decontrol within one year could result in very substantial price increases. I would favor a provision decontrolling petroleum prices after several years. The President should have the discretion to advance this time schedule if conditions warrant it. It will take at least three years to build the refineries and pipelines and to produce the crude oil necessary to increase supply significantly. Nevertheless, any decontrol of petroleum should be structured in such a way as to provide incentives to industry expansion while, at the same time, avoiding excessive prices and profits at the expense of the consumer.

With respect to deregulation of products used by energy industries, there is no question that we are faced with a general shortage of steel for many of the same reasons that we are faced with a general shortage of energy. Again, any decontrol must be structured carefully. The Cost of Living Council is carefully considering this issue.

Windfall Profits Tax

At the same time that we need to encourage the development of our domestic energy resources, we must not allow the petroleum industry to profit at the expense of the consumer. To be sure of that, we proposed the Emergency Windfall Profits Tax on December 19, 1973. In lieu of the tax proposed in section 601, I strongly urge the Committee's consideration of the Administration proposal.

The Emergency Windfall Profits Tax is designed to deal effectively with the problems which exist; it is coordinated with a total energy program; and it is workable.

I am concerned that the tax proposal in section 601 is focused on an elusive concept of excessive profits rather than the real culprit, excessive crude oil prices. Profits, we all know, can be up or down because of the level of revenues and the level of expenditures. We want to encourage energy producing expenditures, but not wasteful expenditures aimed at keeping taxes down. Prior excess profits tax laws did encourage wasteful and inefficient expenditures.

I am even more concerned that the tax proposal in section 601 will be a very real economic as well as a psychological barrier to much needed increases in energy producing investments. A 40 percent excise tax -- which does not phase out or have a time limit -- on top of a 48 percent corporate income tax rate would be enough to discourage any intelligent investor. The credit for qualifying reinvestment goes a long way, to be sure, toward reducing that discouragement, but the rules for how to get credit for the qualifying reinvestment and when the credit has to be given back have to be so complex to be workable and fair that they will have a substantial deterrent effect on increased investment in energy producing facilities. And if additional investments to produce additional supplies are not forthcoming, oil prices can only escalate further as consumers bid up the prices for the existing supplies.

Furthermore, our experts in the field of tax law administration believe that the proposal would be very complicated to administer because it requires an allocation of income and expenses of taxpayers between energy items and non-energy items. In the case of many taxpayers, this allocation would be very complicated. Taxpayers would find it difficult to comply with the law and the government would find it difficult to enforce the law.

The Administration's Emergency Windfall Profits Tax proposal would provide a much more satisfactory solution to the problem of high crude oil prices since it:

. Focuses directly on the problem by taking away the windfall part of the price increase in crude oil.

. Phases out over the period during which energy supplies will be increased, thus not discouraging the needed new investment to obtain additional supplies.

. Falls on the producer, not the consumer, since it merely takes away unexpected profit rather than adds costs which must decrease expected profit or be passed on.

. Is simple to administer -- it involves no complex calculations, no complex returns and no complex concept.

At this critical time we must be sure that any solution devised for windfall profits does not work at cross purposes with the goal to achieve independence from foreign supplies. The Emergency Windfall Profits Tax is consistent with our goals.

Foreign Depletion Allowances

In addition to the need for a windfall profits tax, we must review carefully our policy with respect to the tax treatment of foreign operations. U.S. companies that produce oil overseas have been granted the same 22 percent depletion allowance abroad that is granted to U.S. companies producing oil in the United States. Both allowances provide an incentive for oil production. As we move toward U.S. self-sufficiency in energy, however, we want to encourage greater development of U.S. energy resources rather than foreign resources. Therefore the President has asked the Congress to eliminate these foreign depletion allowances, while retaining the depletion allowance for domestic oil production.

However, we cannot support the provision calling for repeal of intangible drilling allowances. Unlike percentage depletion, intangible drilling costs are real costs -- the money has actually been spent -- and a deduction should be allowed at some point. It is not really a question of total disallowance but of when the tax is imposed. To some extent, what we do with intangible drilling expenses for U.S. purposes makes little difference for foreign production, for the same reason that depletion is largely irrelevant on foreign production: namely, because foreign governments can be expected to tax at a level sufficient to absorb the full U.S. tax. Nevertheless, there are some situations where abuses are possible and in April of last year, the Administration made proposals, which are carefully tailored to such problems and I would urge that such an approach be considered by the Committee.

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Further, although not specifically addressed in this Bill, it is important to point out that a very large portion of the amounts which are paid by international oil companies to the countries in which they produce are designated as income taxes and therefore give rise not to a deduction but rather to a credit against their U.S. taxes.

We think this subject needs to be addressed in view of the changing world conditions. The total amounts of these payments have grown so large that it appears unrealistic to continue to treat them entirely as a tax. Obviously, however, the oil producing countries, like any other country, have the right to impose taxes and some reasonable portion of the payment should be treated as a creditable tax. We are working on legislative proposals which would cause a part of these amounts to be designated as tax and the balance to be designated as deductible payments.

Sections 901 and 902 double the investment credit from 7 to 14 percent on plant and equipment invested in energy facilities and extend the credit to intangible drilling costs, secondary and tertiary recovery costs and geological and geophysical expenses up to $50,000 per well.

We proposed last April an exploratory drilling tax credit structured to reward success by offering a higher credit for a productive well. In part, such a credit was devised because of the high degree of risk involved in exploration. At this point, we would not recommend the expansion of such a credit beyond exploratory activities where no extraordinary risk factors are present. As to plant and equipment, I believe the 7 percent level pertaining to industry generally is adequate, but I would welcome any special evidence you may have suggesting a different conclusion.

Residential Energy Conservation

The proposed tax credit for residential energy conservation expenditures poses many problems. Almost any home improvement could be designed to include energy conservation features and, therefore, become eligible for the 50 percent credit. There is a high risk of abuse of this provision and its benefits would go mostly to the middle and upper income home-owning group. We therefore would oppose this provision as both difficult to administer and inequitable.

Controls on Imports

Section 701 provides for duties on petroleum and petroleum product imports to the extent that the average domestic price exceeds the price of the import for that month. This provision would be inoperative today because virtually all petroleum imports are more expensive than domestic production. In the future, however, it might become necessary to assure investors in domestic resource development that the government would not allow future domestic prices to be undercut by foreign oil, which because of its lower costs of production, could be sold at reduced prices. While the purpose of this provision is commendable, if it proves to be necessary, the same result could be achieved under the license fee system of our existing Mandatory Oil Import Program without raising many of the basic trade policy and tariff negotiation problems that would be inherent in tariff legislation. Insofar as providing necessary assurances to encourage investment, an alternative approach may be a governmental price guarantee to those willing to undertake commercial development of new technology.

Moreover, the Bill's proposed restrictions on imports from particular Arab countries are not desirable. We are determined to move rapidly toward self-sufficiency in energy and this will ultimately mean a reduction in our dependence on oil from the Arab countries. However, an outright legislative restriction on future Arab imports would work against both our long-range goal of building a stable relationship with the Arab producers as well as the shorter term objective of expanding Arab production so that United States and world demand is met. If we legislate a five percent limit on Arab imports within the U.S. now, we will in effect mandate continued shortages, with all the attendant economic consequences, since over the next three to five years, U.S. oil demand can only be met by expanding Arab oil imports beyond the five percent limit.

Negotiations with Oil-Importing Countries and Relaxation of Import Controls

President Nixon has invited other major oil-consuming nations to come to Washington on February 11 for the purpose of explaining those actions which might be taken to stabilize the world oil situation. This conference will lead to a meeting of both oil-consuming and oil-producing nations. The present Arab embargo has highlighted for us all the interdependence of oil consuming and producing countries. We must seek to avoid an aura of confrontation or coercion among or between consumers and producers. To this end,

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legislation which would appear to threaten those nations that did not abide by the U.S. viewpoint might be misinterpreted and could lead to a rejection of the diplomatic initiatives already undertaken. I would recommend the deletion of Section 704.

Export Controls

We already have authority under the Export Administration Act to limit exports of any product which would adversely affect the national security. This legislation, therefore, is not necessary because it gives us authority which we already have.

We have looked closely at monitoring of oil exports through the export licensing system administered by the Department of Commerce. Our total level of oil exports is about 235,000 barrels per day. This represents less than two-tenths of one percent of our total petroleum consumption. Moreover, most of these exports are shipped to countries from which we import larger amounts of petroleum and petroleum products. Further exports of crude oil and major petroleum products amounted to about 40,000 barrels per day for the period from January to June 1973. To cut off our low level of exports of petroleum to other countries in the face of our dependence upon them for petroleum imports could result in a net overall reduction in our petroleum supplies. We will continue to monitor the flow of petroleum exports and will not hesitate to impose controls to limit exports to historically low levels. In the case of distillates, residual fuel oil, motor gasoline and aviation fuel, such controls are already effective.

Exports of drilling and mining equipment during the last six months were higher than during the entire fiscal year 1973. However, I have been informed by the Department of Commerce that the industry is expanding and that it should soon be capable of meeting both our domestic and foreign requirements. A cutoff of exports means not only reduced employment, but also the possible loss of future markets for American industry. For this reason, I would hesitate to take any action that would encourage or force other nations to develop this capability. Restricting exports of mining and drilling equipment should be a last resort. I do not feel, therefore, that Title VIII is necessary and urge that it also be dropped from the legislation.

Increased Production of Energy from Federal Lands

We have asked repeatedly that Congress open up Naval Petroleum Reserves No. 1. We are faced with a major threat to our security and well-being and, for this reason, now is the time to bring these

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reserves into production, and an Administration bill for this purpose, Senate Joint Resolution 176, has passed the Senate. I hope the House will act on this promptly.

The Elk Hills reserve is able to produce 100,000 barrels per day within 60 days and 160,000 barrels per day within 90 days, and to maintain a level of production of nearly 300,000 barrels per day over a 5-year period. If opened to the public, this source of crude could help alleviate oil shortages on the west coast.

Naval Petroleum Reserve No. 4 in Alaska is virtually unexplored and Senate Joint Resolution 176 would provide this. The potential of this reserve is enormous. However, the Navy estimates that adequate exploration to prove the amount of oil in this reserve would require about ten years and would cost $200 million.

The oil "lost" to the Government from opening up Elk Hills could be replaced in an emergency by the Government's royalty oil. Production of this royalty oil has been averaging about 220,000 barrels per day. It would have the advantage of being readily available, rather than potentially available as is the oil from our existing naval petroleum reserves.

Commission on Energy Technology Assessment

The provision calling for a commission on energy technology assessment has much to recommend it. However, there appears to be considerable duplication between this commission and the Energy Research and Development Administration which we hope will be established in the very near future. We expect that both the Federal Energy Administration and the Energy Research and Development Administration will conduct the kind of studies and provide the in-depth reports that are contemplated by the provisions of Title IV. The establishment of a third group, we think, represents needless duplication in a field already crowded with over-lapping bureaucracies.

Establishment of the Federal Energy Administration

Finally, as I said, there is need for a permanent organization to coordinate energy policy and implementation. The Federal Energy Administration is a needed first step and gives us needed authority to do the job before us. We must also press for the creation of a full cabinet-level Department of Energy and Natural Resources.

In conclusion, I would say that this Bill is a comprehensive legislative approach to many of our energy problems. It should set the framework for needed discussion. I believe that we all share common goals with respect to energy policy - we all want a strong domestic energy industry, and I hope that

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we can work closely with your Committee in developing legislation that will further this goal. It is only through such cooperation that we can move our Nation toward self-sufficiency.

THANK YOU.

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Imports and Exports of Petroleum and Petroleum Products

By Country

(Barrels per day, January-June 1973)

	Imports	Exports
Canada	1,388,166	28,438
Mexico	18,768	46,611
Bahamas	185,407	637
ElSalvador	232	--
LW & WW Is.	4,192	--
N. Antilles	588,126	5,700
Panama	3,906	690
Trinidad	256,539	--
Argentina	840	--
Brazil	14,674	6,439
Chile	762	--
Columbia	11,320	--
Ecuador	48,486	--
Peru	2,746	--
Venezuela	1,013,723	--
Belgium	24,911	13,810
Denmark	3,061	927
France	2,801	1,670
Greece	1,950	--
Italy	114,176	7,504
Netherlands	49,475	13,448
Romania	11,934	--
Spain	33,757	1,216
Sweden	4,597	--
Turkey	3,370	275
U.K.	10,663	5,692
U.S.S.R.	23,491	--
W. Germany	1,028	14,191
Bahrain	13,563	--
Iran	167,164	--
Iraq	1,696	--
Kuwait	53,497	--
Oman	110	--
Qatar	1,022	--
S. Arabia	375,687	296
U.A.E.	11,038	--
Yemen	1,138	--
Norway	569	2,712
Israel	1,707	--
Pakistan	276	--

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	Imports	Exports
Indonesia	186,468	--
Japan	5,983	32,940
Malaysia	12,238	--
Singapore	12,188	--
Algeria	158,860	--
Angola	32,022	--
Egypt	16,066	327
Ghana	641	--
Libya	175,131	--
Nigeria	437,498	--
Tunisia	19,226	--
Australia	1,320	2,076
Chad	6	--
South Africa	11	--
Philippines	94	--
FR. P. Is.	--	577
India	--	934
Other	--	23,621
U.S. Territories		
Hawaii FTZ	3,668	
Puerto Rico	99,866	
Virgin Is	332,455	
	6,004,253	210,731
Miscellaneous Products not elsewhere classified		25,000
		235,731

Jan-Jun 1973

EXPORTS BY PRODUCT TYPE

	Barrels	B/D
Crude Oil	133,007	735
Unfinished Oils	9,369	52
Av. Gas	37,764	209
Gasoline	464,984	2,569
Kerosene	522,602	2,887
Distillate	609,068	3,365
Residual Fuel Oil	5,200,333	28,731
Lubricating Oils	4,634,718	25,606
Mis. non-fuel, non-lube oils	3,363,178	18,521
Butane	295,837	1,635
Propane	1,833,410	10,130
Natural Gas Liquids	3,290,218	18,179
Petroleum Pitch	281,104	1,553
Petroleum Coke	17,328,996	95,734
Asphalt	138,442	765
Misc. grease, waxes & petroleum	4,525,000	25,000
	42,668,085	235,731

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE January 25, 1974

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
BEFORE THE AMERICAN SOCIETY OF ASSOCIATION EXECUTIVES
FRIDAY, JANUARY 25, 1974, AT 2:30 P.M.
WASHINGTON, D.C.

As you all know, the end of January is the time the President brings out his State of the Union Message, the Budget and the Economic Report. While I didn't come here to disclose the contents of those messages as they relate to the economy, I can give you the larger brush strokes that form the background for our policy decisions.

Almost every economic question is tangled up in the oil situation. It has created the greatest sense of uncertainty in the world since World War II or the 1930's. The capricious action of a few countries is affecting directly or indirectly the lives of every person on earth--not just the cosmopolites of the industrial world, but the people of the poorest countries whose glimmer of hope for a better future clouded as the price of oil trippled.

To get a fair assessment of where we are going, including the positive as well as the negative factors in our economy, we have to reflect back on 1973. In most respects it was a good year for the economy:

1. The economy expanded substantially.
2. Nearly three million workers were added to the payrolls.
3. The dollar was more properly valued than it had been for a decade at least.
4. Our balance of trade took a healthy turn.

On the negative side was the very rapid inflation, which was caused primarily by higher raw materials and food prices, which in turn reflected strong demand from the simultaneous booms in industrialized nations throughout the world. It would be a mistake, however, to take this one negative factor as a basis for saying the economy in 1973 was a disaster. In fact the reverse is true: in most respects the economy has been powerfully good.

Turning now to 1974, our concern over the energy situation is justified. The oil embargo and skyrocketing prices of oil have impacted us in two ways:

1. First, it is producing a marked discontinuity in our rate of growth. If you visualize a chart you can understand what I mean. The line showing the rate of growth plotted on a graph suddenly drops down one step as a result of the boycott and high oil prices.

   To put it another way, having to abruptly pay out more money abroad to acquire the same or a smaller amount of oil takes something out of our standard of living. However, it doesn't mean we suffer a continuing decline; after going down a step presumably the economy can get back on the same growth path as before.

2. Second, the oil embargo and higher prices, with their attendant uncertainties, are causing some major changes in our lifestyle. People are switching to smaller cars, and they are reexamining entertainment patterns and vacation plans. Business and industry are taking another look at the advisability of building more of those almost-all-glass towers that characterize America's metroscape. The higher cost of energy is reemphasizing the need for modernizing plant and equipment and raising productivity.

Thus the energy crisis is having a significant effect on our current economic situation. However, the problems it has created, while serious, are not unmanageable. I think a closer focus on our economic prospects may dispell some of the gloom that has settled on the country. There are favorable and unfavorable signs. On the good side:

1. Capital spending continues to increase rapidly.
2. There is strong demand for credit.
3. The volume of new orders is high, and unfilled order backlogs continue to rise.
4. State and local spending will be expanding.
5. The level of inventories is modest.
6. The dollar is strong.
7. Our goods are priced competitively in world markets.

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On the unfavorable side, inflation will continue to be a difficult problem. The increases in energy prices, which have been enormous, will have to work their inevitable way through the economic system. When you add this to the many other inflationary pressures that are in the system, it is a sure thing that our price indexes are going to be climbing rapidly over the next few months.

Without minimizing the problem, let me mention a couple of forces that also will be working in the opposite direction:

1. Last year the dollar was devalued in February and continued to decline into the summer, which had the effect of raising the prices we paid for imports. Now the dollar has strengthened. Although we don't want to see it get so strong that it adversely affects the competitiveness of our goods around the world, the fact that it is stronger does reduce one source of inflationary pressures.

2. We will see all-out production of food. Weather permitting, we'll have another record year. And although we'll continue to have a problem in food prices, we won't have the gigantic escalation that we had last year.

3. Finally, you all know how much the prices of raw materials were bid up all around the world and how that affected end prices. Now the other industrialized economies, like ours, are cooling off. Thus, with less demand, we can expect some relief from the price pressures on many raw materials--except oil.

To summarize, we expect the economy to pretty well adjust to the energy shortage and higher prices during the current quarter, then resume a growth pattern later in the year. Most economists make about this same projection.

But it should be recognized that we have never gone through this kind of transition before. This will be a test of the flexibility and responsiveness of the economy to major shocks. We are positioning economic policy in such a way that we will be able to respond quickly, in case some unforeseen movements develop in the economy. We have to have policies ready to cover a range of possibilities for the economy in 1974, because no one can predict with certainty what will happen.

It is at a time like this, when there is more uncertainty about the economy than usual that we should have a better system of unemployment compensation in place. That is a natural way of cushioning shocks to individuals who lose their jobs--whether the unemployment is caused by changes of consumer preference, imports, or an economic slowdown. It not only helps the unemployed, but it helps the whole economy by serving as an automatic fiscal stabilizer. About ten months ago, President Nixon proposed reform in the system of unemployment compensation which would have raised benefit levels. As yet, no Congressional hearings have been held. I think many people will regret that.

In closing, let me reemphasize the need for fiscal policy and monetary policy to be prepared to meet different contingencies. If the economy grows faster or slower than we think, we need to be ready. We are thinking about economic policy in terms of contingency planning to a greater degree than usual.

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Department of the TREASURY NEWS
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MEMO TO CORRESPONDENTS: January 25,1974

Attached is a Public Notice of Invitation to Bid by financial institutions on a $30 million loan to the Government of Turkey guaranteed by the United States Government under the Foreign Military Sales Act, as amended.

Attachment

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UNITED STATES OF AMERICA
THE DEPARTMENT OF THE TREASURY
15TH AND PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D. C. 20220

PUBLIC NOTICE OF INVITATION TO BID BY FINANCIAL INSTITUTIONS ON A LOAN TO THE GOVERNMENT OF TURKEY GUARANTEED BY THE UNITED STATES UNDER THE FOREIGN MILITARY SALES ACT, AS AMENDED

I. INVITATION TO BID--CLASSES OF BIDDERS

The Secretary of the Treasury, acting for the Secretary of Defense by this notice and under the terms and conditions hereof invites bids on the interest rate on a $30,000,000 loan to the Government of Turkey, hereinafter referred to as the borrower. The loan is described in Section V hereof. Bidding hereunder shall be subject to the "Regulations Governing the Sales of Treasury Bonds Through Competitive Bidding" (31 CFR 340) insofar as applicable.

The purpose of the loan is to provide private financing for the purchase by the borrower of defense articles and services from United States sources in furtherance of the Foreign Military Sales Act, as amended, P.L. 90-626, October 22, 1968, 82 Stat. 1326; 22 U.S.C. 2571-2793 and Executive Order 11501, December 22, 1969, 34 F.R. 20169.

Bids will be received only from incorporated banks, trust companies, recognized dealers in investment securities, and other financial institutions doing business in the United States. Bids must be submitted to the Federal Reserve Bank of New York in accordance with the provisions of the last section hereof.

II. UNITED STATES GOVERNMENT GUARANTY OF LOAN

The loan agreement provides that the obligation of the lender is to be conditioned upon the issuance by the United States of a guaranty of timely payment of 100 percent of the principal and 100 percent of the interest thereon by the borrower. The guaranty will further provide that the United States agrees that any claim which it may now or hereafter have against any beneficiary for any reason whatsoever shall not affect in any way the right of any other beneficiary to receive full and prompt payment of any amount otherwise due under this guaranty.

In addition, the borrower covenants at Section 5(b) of the loan agreement that

> "Any claim which it may now or hereafter have against any person, corporation, firm or association or other entity (including without limitation, the United States, DOD, any Bank, any assignee of any Bank, and any supplier of the Defense items) in connection with any transaction, for any reason whatsoever, shall not affect the obligation of the Borrower to make the payments required to be made to the Undersigned under this Loan Agreement, or under the Notes, and shall not be used or asserted as a defense to the payment of such obligation or as a setoff, counterclaim, or deduction against such payments."

The guaranty, which is authorized by the Foreign Military Sales Act, will be made by the Government of the United States acting through the Department of Defense. The Act provides that "any guaranties issued hereunder shall be backed by the full faith and credit of the United States."

III. TAX EXEMPTIONS

(a) There will be <u>no</u>--

(1) Federal income tax resulting from Section 7.1 of the loan agreement which will provide that the borrower shall pay to the lender

the guaranty fee charged to the latter by the Department of Defense; (The lender will be acting merely as a conduit.)

(2) Federal stamp tax;

(3) interest equalization tax; or

(4) tax imposed by the borrower.

(b) The interest paid on the loan by the borrower will constitute income from sources without the United States in the hands of the lender or any holder of the promissory notes or participations in the loan. Since the interest is foreign source income, there will be no United States withholding under any circumstances.

IV. THE LOAN, PROMISSORY NOTES, PARTICIPATIONS--
ELIGIBILITY FOR PURCHASE BY NATIONAL BANKS AS
COLLATERAL FOR TREASURY TAX AND LOAN ACCOUNTS, ETC.

(a) Because of the guaranty, the loan, the promissory notes and the participations are deemed to be fully and unconditionally guaranteed obligations of the United States backed by its full faith and credit. Accordingly, they will not be subject to the lending limits of national banks or to the limitations and restrictions concerning dealing in, underwriting and purchase of investment securities.

(b) Section 1.4 of the loan agreement authorizes the sale of participations to legal entities doing business in the United States. Such participations will be acceptable from special depositaries of public money at their face amount to secure deposits under Department of the

Treasury Circular No. 92, current revision (31 CFR 203), provided that they adequately identify the loan and meet the following conditions:

(1) The participation certificate contains the following provision: "Participant may assign or endorse over this participation certificate to the (Name of the Federal Reserve Bank or Branch of the territory in which the participant is located) in connection with a pledge of collateral security to protect a Treasury tax and loan account under Treasury regulations published at Title 31 Code of Federal Regulations, Part 203. In the event that this participation certificate is assigned to (Same bank or branch as above), it shall not be further assigned or sub-divided without prior written notice to that bank and the prior written consent of this bank."

(2) The participation certificate is supported by the original or certified copies of the guaranty agreement relating to the basic loan and the necessary power of attorney and resolution in favor of the Reserve Bank as prescribed in 31 CFR 203.8(d).

(3) The guaranty agreement provides that the guaranty referred to therein is transferable to any participant or beneficiary.

V. DESCRIPTION OF LOAN AGREEMENT

(a) The principal features of the loan are as follows:

(1) There will be a commitment fee payable semiannually of one-quarter of one percent (1/4 of 1%) per annum on the daily average

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unused amount of the commitment. The commitment fee will be calculated on a 365-day basis and actual days elapsed.

(2) There will be a commitment period from the "date of execution" of the loan agreement to and including December 31, 1974 or such earlier date as the entire commitment of the lender shall have been utilized. For this purpose, the "date of execution" will be the date on which the loan agreement is signed on behalf of the borrower or the date on which the Department of Defense executes the guaranty agreement, whichever is later.

(3) The minimum drawdown under the loan agreement will be 1/50th of the principal amount bid.

(4) The principal is to be repayable in seven consecutive semiannual installments commencing on January 1, 1976 as indicated in Exhibit C attached to the loan agreement. Interest is payable on a fixed semiannual basis beginning on July 1, 1974 and thereafter on January 1 and July 1 of each year until the entire principal has been repaid. Principal is payable with interest beginning on January 1, 1976.

(b) Bidders should fill in the blanks in the loan agreement and should furnish three signed copies when submitting the bids. Most of the blanks are self-explanatory. At section 7.1., the guaranty fee will be 1/400th of the amount of the principal liability under the guaranty.

VI. SUBMISSION OF BIDS--ACCEPTANCE AND OPENING OF BIDS

Each bid shall be submitted in triplicate on the letterhead of the bidder and shall specify a single annual rate of interest which shall apply on a 365-day basis only to the portion of the loan in use.

The rate shall be expressed as a percent per annum not to exceed three decimals, for example, 5.125 percent. Each bidder may submit a bid for the entire amount of the loan or portions thereof in multiples of $5,000,000.

The bids should be enclosed in sealed envelopes and must be received in the Securities Department of the Federal Reserve Bank of New York, 33 Liberty Street, New York, New York 10045, not later than 11:00 a.m., Eastern Daylight Time, on February 8, 1974.

Bids will be opened at the Federal Reserve Bank at 11:00 a.m., Eastern Daylight Time, on February 8, 1974. In determining successful bids, those specifying the lowest rate of interest will be accepted to the extent required to attain the aggregate amount of the loan. Upon the award of bids, the Government of the United States will promptly secure the signature of the borrower to the loan agreement, as well as to necessary copies thereof, and will return one copy.

George P. Shultz

Secretary of the Treasury

Date: JAN 24, 1974

FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
Washington, D. C. 20461
Telephone: 395-3537

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FOR IMMEDIATE RELEASE JANUARY 24, 1974

FEDERAL ENERGY OFFICE ADMINISTRATOR SIMON
APPLAUDS COOPERATION BY I.C.C. - TRUCKERS

Federal Energy Office (FEO) Administrator William E. Simon today applauded the "cooperative spirit" shown by the Interstate Commerce Commission, the trucking industry and labor to alleviate hardships caused by fuel shortages.

At a late Wednesday meeting chaired by Simon, ICC Chairman George Stafford listened to direct appeals from Teamster President Frank Fitzsimmons, and trucking company representatives and agreed to immediately help expedite truck rate increases, brought about by higher fuel costs.

Also attending the session at the Department of the Treasury were Secretary of Labor Peter Brennan, Secretary of Transportation Claude Brinegar, Presidential Assistant and Director of Federal Mediations W. J. Usery, Jr., and FEO Deputy Administrator John C. Sawhill.

Simon, who has been meeting regularly with those affected by the fuel shortages, indicated that he would continue to use flexibility in administering the mandatory petroleum allocation program. He further told the truckers and Fitzsimmons:

**They may apply for an allocation adjustment based on unusual actual growth since the base period (1972), or current hardship or emergency requirements. Under the provisions of the program, truckers receive 110 percent of 1972 base period need.

(more)

E-74-32

**FEO will keep a tight surveillance on price gouging in a continued effort of "Operation Truckstop Sweep."

The FEO Administrator also released today the latest figures of "Operation Truckstop Sweep," which reveal 5,564 checks of pump prices have been made at truckstops in every state; 1,463 violations have been netted; and $200,344 has been returned to truckers. At Simon's direction, IRS agents have been conducting the continuous sweep for the past six weeks.

-FEO-

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TESTIMONY BY THE HONORABLE WILLIAM E. SIMON
ADMINISTRATOR OF THE FEDERAL ENERGY OFFICE
BEFORE THE
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Friday, January 25, 1974

Mr. Chairman and Members of this Committee:

I welcome the opportunity to appear before you this morning to discuss our energy data requirements.

First I would like to briefly review our overall approach to energy policy, and secondly, I would like to outline the general dimensions of the current fuel shortage, and our strategies for dealing with it, and finally our specific data needs.

Five-fold Approach to Energy Policy

Let me start by briefly outlining the five-fold approach we are taking with respect to energy policy.

First, we must establish a central energy organization in the Federal Government. The creation of the Federal Energy Office is the first step toward bringing all energy policy under one roof. We certainly need a statutory base for this organization and the pending Federal Energy Administration bill, which has already passed the Senate (S.2776), will provide it. However, we must press forward in the creation of a cabinet-level Department of Energy and Natural Resources to bring together all energy related responsibilities.

Second, we must establish a permanent "conservation ethic" in this country. We have been too extravagant. With 6 percent of the world's population, we consume 35 percent of the world's energy. The recent embargo has forced us to reduce this consumption now, but even more important we must be sure that an attitude of conservation becomes a permanent part of our lives.

Over 30 percent of our energy is wasted in one way or another -- wasted in conversion from one form to another, wasted in transmission, and wasted in unnecessary usage. Over the long term, conservation of energy will require investment in insulation of homes and offices, use of more efficient automobiles, development of mass transit, changes in methods of handling freight, and central heating plants for groups of buildings and towns.

Third, we must push forward in the development of our domestic energy resources, through Project Independence. This includes further development of oil and gas in Alaska and the outer continental shelf, greater utilization of coal, of which we have a supply unmatched by any other country in

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the world, further development of oil shale and nuclear power, and added efforts toward development of geothermal and solar power. Project Independence must be a two-pronged attack. In the short run, we must both expand production and exploit untapped reserves of existing energy sources. Longer range solutions will be provided by the development of new technologies to utilize untapped resources of new and existing fuels.

Specifically, this program should include the following:

-- We must find ways to exploit our coal reserves more effectively. We have 1 trillion, 500 billion tons of identifiable coal reserves, or half of the non-communist world's reserves, 425 billion tons of which are economically recoverable now. We must develop ways to utilize this abundant resource. We must develop techniques for mining surface coal that do not destroy the landscape. We must also develop ways to deep mine coal that protect the health and safety of miners.

-- We have talked for years about the development of our oil shale. We have an estimated 1 trillion 800 billion barrels of oil shale resources in the U.S., and just those reserves that we presently know are exploitable could satisfy our needs for oil for decades. What we need is an increased effort by both the Federal government and private industry to the development of this potentially productive resource. I am especially encouraged by recent progress in the in situ processes for extracting shale oil. This progress suggests that it may be possible to produce shale oil at considerably less than the landed cost of Persian Gulf crude after recently announced price increases by OPEC go into effect. In situ extraction should also have minimal impact on the environment and its development should be encouraged.

-- We also have to push forward in the development and utilization of nuclear power. The Administration will soon submit legislation to expedite the licensing and construction of nuclear powerplants which are an essential part of our program for achieving energy self-sufficiency. We should also develop a broader nuclear program which looks toward liquid metal and gas-cooled breeder reactors. Further, top priority should be given to assuring that nuclear powerplants are built and operated safely and with acceptable environmental impact.

-- We have also talked for years about development of such relatively distant alternatives to fossil fuels as fusion, geothermal and solar energy. For the next decade these alternatives are still very much in the research and development stage of growth and they could not come into widespread use until after 1990. Although we have to invest

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in the development of these alternatives, our primary focus now must be on nearer term measures for expanding energy supplies. We must focus most heavily on coal and oil shale. Also, we must concentrate on commercial development, as well as research.

Fourth, we must forge a new relationship between Government and industry in several key areas. First, the information we now have to work with is not adequate and its reliability cannot be checked. We must develop a permanent energy information system with a built-in auditing program on every aspect of the energy situation -- reserves, refining operation, inventories and production costs -- so that we will then be in a better position to assure the American people that our energy data is accurate and not subject to the charge that it can be manipulated by industry. Secondly, there must be a new government role in the international activities of the oil industry. And, finally, there must be a new partnership to assure the development, extraction and use of our domestic energy sources. And, nowhere will the need for the combined efforts of industry and Government be greater than in energy research and development. If we are to see the successful culmination of Project Independence, the Federal Government must work in partnership with American industry.

For the last five years, the President has provided for a continual expansion of our efforts in energy research and development. Federal funding increased almost 75 percent from $382 million in fiscal year 1970 to $672 million in fiscal year 1973 and was then raised to $1 billion for fiscal year 1974. Last June the President announced a commitment to an even more rapid acceleration of this effort through a $10 billion Federal program over the next five years, and he stressed that we would spend whatever additional sums were reasonably necessary.

On Wednesday, the President announced that in fiscal year 1975 -- the first year of the five year energy R&D program -- total Federal commitment for direct energy research and development will be increased to $1.8 billion, almost double the level of a year ago. It is only through such an accelerated research and development program that we can achieve real self-sufficiency in energy.

Fifth, we must establish a framework of international cooperation among producing and consuming countries. The potential impact of energy supplies on the world economy is staggering and we must work together in developing energy resources and maintaining a healthy world economy in which energy exporting and energy importing nations prosper together. Greater cooperation on research, new ways to conserve energy and most important energy prices must be initiated.

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Is There a Shortage?

With this general background in mind, let me turn now to the current energy shortage. Many people still do not believe there is a shortage, but let me assure you that the shortage is not contrived. Certainly it is not contrived that the demand for energy in the United States has been growing at a rate of four to five percent a year for the past 20 years. It is not contrived that if the present trend continues, our energy needs by 1990 will be twice as great as they were in 1973. It is not contrived that domestic exploration peaked in 1956. It is not contrived that domestic production began to decrease in 1970. All these things are real, and have led to our current energy crisis. The very fact that even with the embargo, we are importing about 5 million barrels a day and post embargo, that we will import about 7 million barrels a day, shows the imbalance between domestic supply and demand.

We now estimate that for the first quarter, the effect of the Arab embargo is to reduce supplies of both crude and product by 2.7 million barrels a day below anticipated demand. Since the embargo, imports have been steadily declining, until -- in the week ending January 11 -- they fell 2.3 million barrels a day below the peak pre-embargo level. The existence of a shortage simply cannot be denied.

In developing our estimates of the shortage, a realistic, worst case situation has been used. We assumed normal growth in demand, a fully effective embargo and inventory drawdowns to minimum operating levels. We could have assumed embargo leakages or larger inventory drawdowns or success in conservation or demand elasticity, but we felt these were irresponsible assumptions for policy making. What we are doing is managing a shortage so as to preserve jobs and not forecasting what we think might happen. Leakages could be stopped and in fact appear to be; our latest report indicates imports are down to the level we forecast with a fully effective embargo.

Lower levels of inventories would only leave us more vulnerable to other as yet unexpected contingencies. We would like to be surprised by favorable events, but we cannot afford to have programs developed which are not adequate to cope with the maximum expected shortage. To some extent, we are the victims of our own modest success. In early December, the FEO was created and we began a crash program to manage the shortage. In this effort, we have benefited from a tremendous response by the American people to our conservation initiatives, from warmer than normal weather, and from leakages in the embargo. The result has been a build up in our inventory position, and some confusion in discussion of the shortage estimates.

Let me elaborate since this is an important point. In October of 1973 we actually imported 6.7 million barrels of oil a day, a figure based on statistics submitted directly from Customs to the Office of Oil and Gas in the Department of the Interior. For the week ending January 10, the American Petroleum Institute reported 4.96 million barrels a day of imports. This level of imports has been checked independently and is accurate to within 1.5 percent, based on the preliminary runs of our new import reporting system based on direct reports by Customs Bureau inspectors to the FEO. Again in the week ending January 17, our new system indicated imports at just slightly over 5 million barrels per day.

These recent import levels mean that we are importing 1.7 million barrels a day less than just three months ago, and thus are 2.7 million barrels a day below expected needs. This shortage will quickly reduce our inventories to dangerously low levels unless we continue our programs to reduce demand and allocate the available supplies. For example, heating oil inventories are at about 200 million barrels, almost 30 percent above last year. But with a fully effective embargo and an abnormally cold winter, these inventories would be reduced to levels where spot shortages might occur by mid-March. In fact, our crude oil inventories at refineries have decreased for the last four weeks, and are now four percent below normal minimum levels. Refineries are operating at their lowest weekly level since January of 1973.

Current Information Sources

The information we have had to work with in the past was not adequate and its reliability could not be checked. The data used came from a variety of sources. Data on the domestic petroleum supply system have been gathered by the Bureau of Mines (BOM) and by the American Petroleum Institute (API). The Bureau of Mines data have been gathered primarily through a monthly report by refining companies, supplemented by monthly data gathered from terminal operators. Additional information on crude oil production have been obtained from state agencies, and additional information on imports, primarily imports of refined products, have been obtained through Census Bureau reports based on information gathered by the Bureau of Customs. The Bureau of Mines reporting system is voluntary. There is a very high degree of cooperation by the petroleum refining companies, and the response rate is in fact higher than that achieved in many supposedly mandatory information reporting systems.

The API has a much less detailed reporting system than the Bureau of Mines, but it receives and publishes data on a weekly basis. For example, API collects refinery information from about 60 percent of the refiners which account for over 90 percent of domestic operations. These data include refinery crude runs, production and yields of all major refined products and inventories of crude oils and finished products. Detailed information on imports are also compiled by the API.

We have already completed preliminary cross-checks of these reporting systems and have found them to be reasonably accurate and quite consistent over long periods of time although on a week-to-week or month-to-month basis differences of up to several hundred thousand barrels per day can and do occur. For example, during the first 10 months of 1973 API reported imports differed from the data published by the Bureau of Mines (based on Customs Bureau data) by less than one half of one percent.

While these cross-checks indicate that the data appear sufficiently accurate for management decisions, today and in the years ahead we need better data on every aspect of energy -- reserves, refinery operations, inventories and production costs. Nevertheless, we are in an emergency situation and we must make decisions even as we are building these new systems. We must and are using and modifying the systems we now have until new, better ones can be developed. We need data that we can check, verify and cross-check. Without exception I feel we need more accurate, timely and comprehensive data, and we intend to get such data. Let me briefly summarize the problems.

First, industry coverage by the API for the weekly statistics is not complete. Smaller refiners and importers are not included and the statistical techniques used to extrapolate the sample to industry totals may not be completely adequate in these times of shortage and rapid change.

The second major problem deals with secondary stocks -- those petroleum inventories not held by refineries and major terminal operators. Complete data on actual consumption by industrial and other users, including wholesalers, marketers, and jobbers is also lacking.

Particularly in times of shortage, information on all inventories and actual use rates are important, but our reporting systems are inadequate. Information on reserves is also inadequate. While not critical in dealing with the embargo, accurate reserve data is needed if we are to develop sound public policy on energy resource development, pricing policies, or research and development programs.

In contrast to the primary supply system, where both the Bureau of Mines and the API provide comprehensive, although not completely adequate data, information about secondary stocks and consumption can only be pieced together from a number of sources, but even the combination of all these data sources does not provide complete information. However,

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selected data are available. The Federal Power Commission compiles data on the use of all fuels, including petroleum, for the generation of electricity.

The Civil Aeronautics Board collects data on the use of aviation fuels by certified carriers. The Bureau of Census collects data on fuels and electric energy consumed in manufacturing industries once every five years of manufacture, and estimates are provided in intervening years. From all of these data sources one can build only an incomplete picture.

There are two additional deficiencies in most of our current energy data: lack of regional and seasonal differences in consumption. To make our allocation programs work properly, we must know where and when the different petroleum products are needed. Current needs must be determined in large part by reference to past consumption levels and trends, but data on past consumption patterns are not available by states and by month. Further breakdowns of consumption by industry or other users are not available. This kind of data has not been available. Until recently, we didn't need it, but now it is essential.

One final point must be made. All of our current sources of data are voluntary and for many of the programs we now must operate this is simply not enough. We now clearly need mandatory reporting systems and mechanisms to check and enforce their proper operation.

New Reporting Systems

We have already instituted a number of actions to correct the deficiencies I have cited. These actions will enable us to collect better and faster energy data and to improve our management capabilities.

We have instituted immediate daily reporting of tanker arrivals by the Bureau of Customs, so that petroleum imports data can be available and processed with a lag of only about one week instead of the month or two required for complete Census Bureau processing of all Customs imports data, including petroleum. This will provide a direct check on imports as presently reported by the API and give the Federal Government a timely and independent measure of the import situation.

We are establishing a system for obtaining, on a sample basis, measures of actual consumption of home heating oil, adjusted for the weather. Data have been coming from New England for a month, through the cooperation of the New England Fuels Institute, its member dealers, and their computer service bureaus. The results, which we report weekly, indicate that significant reductions in use of heating oil due to conservation measures has resulted. Broader coverage will be achieved as additional companies or associations are brought into this program.

We have been working with the Federal Power Commission to establish a rapid reporting and forecasting system for

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the consumption and stocks of all fuels, including petroleum, used to generate electricity. These data are needed to operate our allocation programs properly.

I and some of my staff have just completed a visit with the Texas Railroad Commission this week. We reviewed their reporting system, including the forms and reports on production and distribution. We agreed to set up a system to share data and information and also coordinate our respective reporting systems. Shortly, we will meet with other state regulatory agencies to discuss what can be done to get more accurate and timely information on reserves, capped wells and maximum recovery rates.

The FEO working with the National Oil Jobbers Council is now beginning a survey of storage capacity and inventories of about 15,000 jobbers and wholesalers. The responses will give us a much better indication of secondary stock levels for kerosene, diesel fuel, heating oil and gasoline.

These systems represent just a start in the overall mandatory reporting systems we are now developing. Most important perhaps is an integrated mandatory reporting system for petroleum products. FEO is now developing and implementing such a system for all refiners. It has three essential parts. First, reports of expected refinery operations during the coming quarter and reports of expected inventories and shipments to each state for the coming months will be required. This information will provide the back-bone for planning and operating our allocation programs.

Secondly, we are now developing a weekly reporting system for all refiners, major bulk terminal operators and pipeline companies to give FEO production, yields, and stocks information directly from industry. This system will obviate our need to rely on API aggregated data.

Finally, monthly reports, certified by company officials of refiners, pipeline companies and bulk terminal operators will be required. FEO audit teams, assisted by the IRS will make continuous field checks of the information contained in these forms. We expect that every major refiner will be audited at least partially four times each year. The forms, computer systems and implementing regulations are now being developed and the complete system will be operational in about 6 weeks. This system will provide the detailed, verifiable information we must have to operate. The system will be further expanded to include secondary stocks as soon as possible. I am advised that we have sufficient legal authority under both the Economic Stabilization Act and the Emergency Petroleum Allocation Act to require these reports be filed and enforce legal sanctions if they are not.

None of these systems will provide all of the information we need during the crisis. There will continue to be important

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facts or questions that only targeted spot checks can confirm. Reports of price gouging, hoarding or the possibilities of ships off-shore awaiting higher prices are all cases in point. We have already dealt with problems like this. We used over 1,000 IRS agents late last year to sweep forty-eight states looking for price gouging. The Coast Guard used its District Commanders and major port personnel to make checks on unusual tanker activities. Let me assure this Committee that we intend to maintain sufficient flexibility and manpower resources to continue these activities as needed to cope with the shortage.

New Legislation on Energy Reporting

While we have sufficient authority to mandate the petroleum data we now need, I still feel that specific mandatory reporting legislation is required. First tailored sanctions and enforcement provisions may be more appropriate than those in our current authorities. Secondly, expansion of mandatory reporting to other energy sources, such as coal and uranium, is a necessity in the months ahead and may not be practical under our existing authorities.

We are now developing the information needed to propose specific mandatory reporting legislation. Such legislation will go beyond information on petroleum inventories, imports and refinery operations and will include the more complex problems of reserves. Further, in order to carry out Project

Independence and develop alternate energy sources, we need information about non-petroleum products such as coal and uranium, and we will seek to obtain such data.

Public Disclosure

A central issue, and one which is very important, is the extent to which the information which is reported to us ought to be made available to others. The public has a right to complete and accurate information on the energy situation. This policy should give way only where limitations are imposed by statute and where important public policy considerations dictate otherwise.

For example, there will undoubtedly be national security constraints upon the release of certain information about military fuel supply levels. Further, competitive considerations will dictate confidentiality in cases where disclosure of future production or shipment plans could be used for anti-competitive or predatory purposes. We will be conferring with the Justice Department and Federal Trade Commission on the anti-trust risks involved in disclosure, on a company-by-company basis, of certain sensitive commercial information. But I would expect these limitations to be relatively narrow and that most of the information would be more widely available.

Both the government and the public are entitled to much more information about the petroleum industry than is now

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available. We intend to see that it is gathered and made available. To this end, we will be presenting proposals recognizing three categories of information disclosure. The first will be that information generally available to the public; second is that information which should be available only to other government bodies with a legitimate interest in and need for the material; and, third, that information which ought properly to be limited to FEO in the carrying out of its responsibilities. I believe these proposals will alleviate concerns about excessive confidentiality, and will greatly broaden public acceptance of the information which the government collects and publishes on this subject.

Summary

In summary, the Federal Energy Office fully intends to get all the information needed to do our job and fairly present the facts to the American people. We have already made substantial progress in our energy data systems. Under the authorities we now have, we will implement mandatory reporting requirements for the petroleum industry. And, under authorities which we are now evaluating, and would hope to work closely with Congress in finally formulating, and developing the broad-based energy information systems needed not only to deal with our current problems but with the challenges in the decade ahead.

In addition to this prepared testimony, I am submitting for the record, detailed responses and reports which cover the questions raised in the attachment to your January 14, 1974 letter to me.

THANK YOU.

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FOR IMMEDIATE RELEASE January 29, 1974

ADDRESS
BY
GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
UNITED STATES SAVINGS BOND COMPAIGN LUNCHEON
CHICAGO, ILLINOIS, JANUARY 29, 1974

Today I am going to talk about the prosperity of this country, about the quality of our life, about energy, housing, the environment, spending on new plant and equipment, growth in our standard of living. These subjects, of concern to everyone, are bound together by the essential relationship each has to our capital markets.

In each of these areas, the demand for capital is growing and, taken together, the growth is of massive proportions. Private industry in the years ahead will need hundreds of billions of dollars to maintain and update its productive capacity, to develop the technologies to clean up our environment, to build new housing, and to apply the innovations that Project Independence will produce. These massive sums must be raised in our capital markets and, to a significant degree, in the form of equity capital.

American markets for equity capital get and deserve high marks for efficiency, both absolutely and relative to foreign markets. This efficiency has been promoted by the very large number of investors, the very large number of security analysts, the system of communication which rapidly and widely disseminates information, the system of regulation, and the market mechanism itself, through which prices respond quickly to the changes in views which are caused by new information. Taken together, these attributes lead to the liquidity so fundamental to effective capital markets.

Because the system has been efficient and equitable, it has attracted a flow of individual and institutional savings to American corporations. It has reduced the corporate cost of capital and provided investors with opportunities for profit.

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In recent years, however, increasingly serious questions about the operation of these markets have been raised by people within the securities industry as well as those outside it. Widespread failure among brokerage firms, loss of public confidence in the market, the emergence of institutional investors with relatively large funds at their disposal, fragmentation of the market place, and numerous inefficiencies indicate that important changes are needed.

Changes in public as well as private policy are involved. But before discussing any operational issues, I would ask you to stand back for a moment with me and consider first some of the desirable characteristics of capital markets. The greater sense we can develop of the objectives of public policy, the better able we will be to determine what resolution of current issues will best serve the public interest.

We in the Administration have been fortunate in our work on this subject to have had the benefit of studies and hearings conducted by Committees of the Congress, the extensive materials developed by the SEC and the views of all segments of the industry, expressed to us in discussion as well as in written form. James Lorie, Professor in the Graduate School of Business at the University of Chicago, has coordinated our efforts and contributed his own vast knowledge of the industry and its problems.

OBJECTIVES OF PUBLIC POLICY

The general objective of public policy is to have markets that operate in a fair and efficient way. Fairness and efficiency lead to confidence on the part of the investing public that returns will be reasonably related to risks, that the institutions through which they deal have financial integrity, and that the individual investor is not at a serious disadvantage compared with the institutional investor. The principal and best method of ensuring this result is well known: competition. I turn now to four components of this general statement of objectives.

1. Efficiency in Determining Prices of Securities

One desirable characteristic of capital markets is efficiency in determining the prices of securities. "Efficiency" in this context means the ability of capital markets to function so that prices of securities react rapidly to new information. Such efficiency will produce prices that are "appropriate" in terms of current knowledge, and investors will be less likely to make unwise investments. A corollary is that investors will

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also be less likely to discover great bargains and thereby earn extraordinarily high rates of return. Efficiency makes it difficult to be either a fool or a genius in selecting securities, although some investors may enjoy very high rates of return through luck, daring, or ability and others may suffer greatly through a variety of mistakes or from assuming great risks.

Although efficiency eliminates much of the opportunity for extraordinary enrichment and may therefore seem undesirable to some, efficiency does insure that individual investors are not at a significant disadvantage compared to institutional investors in selecting securities and does increase the likelihood that savings will be channelled into investments in accordance with the risks and the promise of profit of the corporations whose securities are bought.

2. Efficiency in Transferring Ownership of Securities

It is desirable that the costs of transactions be low. The liquidity of capital markets and the prompt reaction of prices to new information are facilitated by efficiency in buying and selling securities. Transaction costs have three main components; the cost of brokerage, the cost of using the capital and bearing the risks which are necessary when market makers maintain inventories, and the cost of physically effecting transfers of ownership. This last cost is large -- unncessarily large.

- MORE -

Although there have been improvements in the machinery for making such transfers, the current system is far from optimum in terms of what existing technology and existing plans for its use would make possible. Efforts by the New York Stock Exchange, the regional exchanges, and the National Association of Security Dealers to develop new systems for clearing and settling transactions have progressed but the efforts have been incomplete and have fallen far short of what is achievable.

3. Efficiency in Executing Orders

The costs of transacting could also be reduced by cutting the costs of executing orders. Such costs have two components. The first is the cost of brokerage, which is the cost of doing the communicating, keeping the records, and doing the other things which a broker does in his role as financial agent for an investor. The second is the cost of maintaining inventory and bearing risks, costs which are incurred by dealers, including specialists on the organized exchanges.

In order for these costs to be low, it is essential that there be no artificial impediments preventing adjustment of the prices of services to the costs of performing them. Such impediments inevitably create inefficiencies. Obviously the issue of fixed versus competitive rates for brokerage services is relevant in pursuing the goal of efficiency in executing orders.

Competition among brokers and among dealers also fosters efficiency. In this area, as in others, public policy should minimize restraints of trade and other obstacles to full and effective competition unless it can be shown that such competition is contrary to the public interest.

4. Equity in the Relationships between Investors and Their Financial Agents

Participation in the capital markets is encouraged by equitable relationships between investors and their financial agents. Equity has four dimensions: prices of services, provision of information, execution of orders, and the absence of conflicts of interest.

Equity requires that the prices of providing services be approximately proportional to the costs of providing them. This requirement will be met whenever there is effective competition.

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Investors also need to feel that they are not discriminated against by brokers or other financial firms from whom they receive the information upon which their judgments about investments are based. "Discrimination" is hard to define in this context. Different investors desire different kinds of information. Equity does not require that all clients of a given firm receive identical information. The service provided by the firm may differ according to the desires of clients, and prices for different services can differ. Equity does require, however, that prices for identical services be identical.

Equitable treatment of investors in executing orders requires that they be executed in the order of receipt, taking account of prices which investors are willing to pay or accept. The problem arises in a particularly difficult form when large blocks are sold. The Securities and Exchange Commission has proposed that small investors be allowed to participate in block transactions when it would be to their advantage. On the exchanges, the specialists book of limit orders makes this possible. It is more difficult in the third and fourth markets, but existing technology is adequate to solve this problem.

Perhaps the most serious problem in achieving equity has to do with conflicts of interest. American capital markets suffer far less than most foreign markets from such conflicts, and this condition has fostered wide-spread participation by the American public in the American markets and accounts in part for the great interest by foreigners in investments here. Although not all conflicts can ever be eliminated, public policy should have as a principal objective the elimination of conflicts of interest.

THE ISSUES

My meetings in recent months with representatives of the securities industry and of those influencing and influenced by its operation show that many issues of broad significance are hotly debated. Of pivotal importance, however, is the structure envisaged for the "central market" and the rules for operating in it, including the question of "competitive rates". I will comment on what I believe to be critical questions about structure and rules. I will then conclude with remarks about a development that will improve the competitive position of our capital markets in relation to those in other countries.

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The Central Market

Almost all -- perhaps all -- informed commentators on the evolution of our system of capital markets have agreed that we should move toward a single, central market. The term, "central market" is ambiguous, however, and many of those who advocate it are advocating different things.

The Securities and Exchange Commission defines the central market as a system of communications by which the various elements of the market place are tied together for the purpose of exchanging information about bids and offers as well as the prices at which securities are bought and sold. Implicit in the existence of a complicated system of communications is a set of rules governing participants in their activities in the sytem and a means of ensuring compliance.

Development of the communication systems itself poses many intricate and technical issues: the creation and nature of a consolidated tape and decisions about securities to be included, the display of all bids and offers, and the improvement of the system for clearing and settling transactions.

Beyond these issues, in themselves of profound significance for the objectives of equity and efficiency, are two additional ones to which I will give more extended comment here.

First, who should have access to the new communications system, or new market? The major question concerns the desirability of membership of firms, other than pure market-makers, which execute orders on their own account or on behalf of funds which they manage for others.

The most recent rule promulgated by the SEC on this question would limit membership to firms doing at least 80 percent of the volume of securities transactions on behalf of non-affiliated persons or institutions. Three strong arguments can be made for raising this percentage to 100 or to providing that the proportion not in the non-affiliated category be negligible.

First, such a restriction clears away a major potential source of conflict of interest between the firm and its public customers. Effective elimination of conflicts of interest is central to public confidence in the integrity of the system with which it deals.

Second, the requirement that only firms doing 100 percent of business with the public be allowed access to the new central market will serve to strengthen the broker-dealer community, while, with competitive rates, not jeopardize any important objective of public policy. Likely changes in public policy regarding American capital

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markets will cause some disruption and financial distress to some broker-dealers. Although many persons compellingly argue that broker-dealers can thrive under the new environment--perhaps better than at present--prudence suggests that broker-dealers be protected from threats which can be minimized without harming any important public interest.

Third is the elimination of grounds for a feeling of special advantage: that institutions which trade on their own behalf and have direct access to the central market could have some advantage as compared with the general public in buying and selling securities. The advantage would derive from the superior knowledge and the speed of reaction which are possible for direct participants as compared with those who must deal through others.

Competitive Rates

Now I would like to discuss the second major issue related to the new central market--that of competitive or negotiable rates for brokerage services.

In terms of the liquidity of capital markets and their ability to cause prices to react promptly to new information, the lower the costs of transacting and executing orders, the better.

This means that there should be no artificial impediments to selling service at the cost of performing it. The prices of providing services will tend to be approximately proportional to the costs.

The issue of fixed versus competitive rates for brokerage services has been discussed at length in Congress, before the SEC and at informal meetings at the Treasury Department and other places. The SEC'S current policy requiring fully competitive rates after April 30, 1975 is, in my judgment, admirable. Indeed, competitive rates are the only rival to the new systems of communications in their promise of benefits both to the financial community and to the general public. But there is a lot of disagreement with this policy. I would, therefore, like to discuss three main arguments which are still seriously advanced in favor of fixed rates.

The Arguments and Counter Arguments

Some argue that competitive rates will favor large firms and cause the failure of many smaller, regional firms. The consequence would be a reduction in the ability of the broker-dealer network to raise capital for small, new enterprises.

No compelling evidence has been advanced to support that position. To the contrary, most competent studies of the economics of the brokerage industry show that there are no overwhelming economies of scale in the industry. And in fact, they show that regional firms have an advantage in serving regional needs and have been among the most prosperous.

A second argument advanced against competitive rates is that they would increase the costs of brokerage on small orders and would therefore further discourage investments in equities by individual investors. Almost certainly, the costs of brokerage itself would decline. There has been abundant testimony to this effect before Congressional Committees and the Securities and Exchange Commission. It is quite possible that the charge for bundles of service now provided would rise for the small investor, but the variety of bundles of service would increase. Individual investors would have a much greater choice of services, and brokerage firms would offer different bundles of services on terms which would make their sale profitable. At the present time many firms feel that it is not profitable to serve small accounts, whereas banks and others find arrangements which provide profit to the institution and reduced costs to small investors. In the market system of the future, there is no reason why brokerage firms should not have the same opportunities and freedoms which the banks and other institutions now enjoy in serving the small investor. They should be able to offer "bare bones" brokerage rates, rates which would almost certainly decline, as compared to those fixed at present levels.

A final argument predicts the demise of the auction market if rates are competitive and off-board trading is allowed. A further result would be a loss of incentives for membership on exchanges.

It is possible that competitive rates combined with the new central market system, which permits trading in listed securities in the over-the-counter market, will decrease and conceivably destroy the importance of trading floors and specialists who operate on them. Even though this outcome is unlikely, the changes being proposed are sufficiently important and their ramifications are sufficiently complex and uncertain to require that one take seriously the possibility that trading floors and specialists will lose their importance.

This issue has recently been the subject of an informative public controversy between the New York Stock Exchange and the Securities and Exchange Commission. Fixed commissions, it is argued, are an all-important incentive to exchange membership in a system which permits non-member broker-dealers to trade in listed securities. Since the New York Stock Exchange feels that the demise of the exchanges would damage the public interest, they urge that after April 30, 1975, when fully competitive rates presumably will exist, trading in securities listed on exchanges

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be limited by law to those exchanges. The damage to the public interest which the New York Stock Exchange seeks to avoid -- and it is a matter of quite legitimate concern -- is the destruction of the auction process for buying and selling securities and the debasement of standards which would result from the elimination of the exchanges as self-regulators. The Securities and Exchange Commission, by contrast, believes that the exchanges would continue as viable, effective organizations and that the auction-agency system would flourish in the new market environment, even if the exchanges became much less important.

The argument that trading floors would disappear contains an anomaly which has not yet evoked public comment. It is alleged that the auction system as it now exists on the New York Stock Exchange and other American exchanges is a more efficient system than any other because it permits the crossing of public orders without the necessity of a dealer's spread. As a result, the cost of transacting is reduced. The anomaly is that this efficiency and this benefit to customers is not put forward as an important incentive to exchange membership. To the extent that the efficiency and benefit are important, the incentive to membership should be important.

Normally in a competitive environment, business flows to those firms with the greatest efficiency or best service. Why would this normal result not be evident in the brokerage business? Those who fear the demise of the specialists and even of exchanges themselves in an era of competitive rates and a third market should strive to create competitive advantages for exchange members and their customers. The primary incentive for exchange membership should be superior ability to serve customers rather than the opportunity to profit from collusively determined rates.

Of course, there may be costs associated with exchange membership which offset or more than offset the advantage just described. The cost which the New York Stock Exchange emphasizes is the cost of maintaining high standards and of ensuring compliance with them. To the extent that different standards exist and to the extent that surveillance and enforcement procedures differ in effectiveness among markets, there is an opportunity for constructive governmental remedies.

No one contends that public regulation should bear unequally on competing firms. Equal safeguards should be

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provided by the government to the public investor whether he chooses to trade through an exchange or in the third market. The same standards should exist with respect to financial strength, disclosure of transactions, priority for public orders, and other things. The Securities and Exchange Commission is the appropriate agency for devising, imposing, and enforcing those standards.

In summary, preservation of the essentials of the auction process is of great significance. But would it be jeopardized in the new national market system, even if the exchanges became less important? With the new system, market makers, whether specialists on the floor, block positioners, or third market firms will compete so that would-be buyers and sellers can easily know all bids and offers in the market at any time. The new system will contain the essence of the action process. At the same time, it must be recognized that the stakes are high and uncertainties do exist. Should the feared adverse consequences appear, effective remedies should be imposed promptly, if only temporarily -- perhaps through the prohibition which the New York Stock Exchange seeks.

An International Dimension

The reform of our international economic affairs initiated by the President on August 15, 1971, continues to bring tangible benefits to the nation. In that process, a major milestone has been reached with the final elimination of all of the balance of payments controls on the foreign investing and lending activities of U.S. citizens. The problems posed by these controls for our own financial markets were repeatedly called to our attention in discussions this past fall with financial leaders.

A year ago, at the time international agreement on further moves in the foreign exchange markets was announced, a public commitment was made to phase-out the controls by the end of 1974. Since then we have moved gradually, to avoid creating disturbances in foreign exchange markets and to avoid any misunderstandings with our trading partners. But we have been able to accomplish the final objective many months ahead of the deadline.

Back when we were riveted to an exchange rate which had grown out of line with current economic conditions, those controls had a purpose and some effect in limiting dollar outflows. Yet the effect was probably far less than the surface statistics seemed to show, for many of the funds borrowed by businessmen abroad rather than in the U.S. as a result of the program were probably U.S. funds which had found their way abroad despite the program. Whatever net restraint really existed, the cost was high.

There was a loss of freedom for Americans. Perhaps the freedom to invest your funds where you think the prospects are most promising is not the most basic freedom, but I rejoice in seeing that freedom restored.

There were the real administrative costs for the government and there were even larger administrative costs for our business firms.

There were losses of income and of jobs in our financial community. It was no accident, I am sure, that the past decade of extremely high growth of international financing activities in London and certain other traditional financial centers coincided with the period of restraints on the competitive activities of our financial institutions.

With controls removed, I believe that our institutions will be able to earn more income and to provide more jobs for Americans by providing more services of all kinds on a competitive basis -- on funds flowing out of the United States, on funds flowing into the United States for reinvestment abroad, and on funds flowing from abroad into the U.S. economy.

When we had the controls, we tried to assure foreign investors that the controls should not reduce their interest in the United States. Our story was not altogether convincing. Apparently, many foreign investors hesitated to invest in a country that needed a fence around it to keep money in. They were afraid the controls would somehow, someday prevent them from getting their money out when they wanted it. Our new actions should dispel those fears. The result of our removal of controls on the outflow of investment will probably mean at the same time an increase in the flow of investment to our economy. We have added one more significant attraction to investment opportunities which are already attractive. And we have taken a step which will enlarge and help refresh our capital markets and financial community.

A Final Comment

Our discussion has focused on capital and particularly equity markets, but the underlying theme has been broader. Fairness and effectiveness have been linked to competition on as broad a basis as possible. The reorganization of markets for foreign exchange so that flexibility allows reflection of market forces will lead to greater freedom in the flow of capital across our boundaries and therefore within them as well. When added to earlier proposals of

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the President for greater freedom for and competition among financial institutions, these emerging developments promise a flourishing financial system to support of system of enterprise. Who knows, perhaps some day we will once again have relatively free markets for goods and services as well. Fairness and effectiveness, let alone freedom for labor and enterprise will then not be the exception, but the rule.

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REMARKS BY THE HONORABLE WILLIAM E. SIMON
ADMINISTRATOR, FEDERAL ENERGY OFFICE,
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE

CONSUMER FEDERATION OF AMERICA
STATLER HILTON HOTEL
WASHINGTON, D.C.
JANUARY 25, 1974

Good morning, and thanks for the chance to speak to Consumer Assembly '74. Let me apologize now for not being able to stay and answer some of your questions. I had hoped there would be time do do so after this talk, but I am due to testify before Senator Jackson at ten o'clock. We have been busy testifying and answering questions on the Hill a great deal lately, but I feel this is an important part of my responsibility. It's only through an open exchange between the Executive Branch of our government and Congress that we can develop the necessary energy policies to bring us to self-sufficiency.

I really appreciate the opportunity to be with you this morning, because I want to work with you on a continuing basis. The 180 public interest and consumer groups represented here have outstanding records. You not only study your problems; you solve them.

In the area of energy, you have continually taken a leadership role. Last year, you established an Energy Task Force and named as your chairman Lee White, a man for whom I have great personal regard. When Lee was Chairman of the Federal Power Commission, he established himself as a dedicated and intelligent public official.

ENERGY ADVISORY COMMITTEE

That is why I appointed Lee as co-chairman of our Consumer Energy Advisory Committee. Lee and I agree on some things...and we disagree on others, but this is healthy. We need a wide range of views in order to develop sound energy policy.

The Consumer Advisory Committee was set up for the express purpose of bringing to my attention the viewpoints and needs of the American consumer. Your Consumer Federation President, Helen Nelson, and Vice President, Currin Shields, are members. I thank them for serving. More importantly, you should thank them for representing your interests and you should continually give them your ideas, so they can carry your thinking to us.

As I am sure all of you know, last week we published in the Federal Register a contingency plan for gasoline rationing. We published it because <u>we want to know</u>: what do Americans think is a fair approach to gasoline rationing? Two days ago, the Consumer Advisory Committee

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met to discuss this proposal with the Federal Energy Office. We discussed a specially marked non-negotiable coupon for hardship cases. The Committee recommended safeguards against people cheating the system, and they suggested that states be able to give the coupons to poor people for free. We also discussed coupons for drivers under 18, and priorities for handicapped drivers, and those who drive the handicapped. Suggestions like these illustrate how helpful these advisory committees can be and we will give thorough consideration to all of these recommendations.

I would like to talk to you about the impact of the energy crisis upon consumers. I also hope to enlist your help, as community leaders and leaders of consumer groups representing some 30 million Americans, to educate the American people about the reality of the energy crisis.

MEANWHILE, BACK AT CREDIBILITY GAP

A central concern of many Americans today is whether there really is an energy crisis or whether it is all contrived. Many people just don't believe that we are really short of energy or understand why.

In the Washington Post last week, Humor Columnist Art Buchwald explained it this way, with a series of Questions and Answers:

QUESTION: If there is an energy shortage, why can we still get gasoline?

ANSWER: Because people <u>believe</u> there is a crisis, which there is <u>not</u>, at the moment. If people didn't believe there was a crisis, there would <u>be</u> one, because then they would avoid conserving fuel.

QUESTION: You mean in order <u>not</u> to have an energy crisis you have to believe there is one?

ANSWER: Exactly. The people who are angriest about the crisis are the ones who can get all the fuel they want. They believe that if they can get oil that means the crisis is a fraud.

THE ONES WHO SAY, DON'T KNOW . . .

There is a lesson of sad truth in Buchwald's Catch-22 humor. The energy crisis is extremely complex, and easily misunderstood or distorted. It's easy for all of us to point the finger of blame. It's not so easy for everyone involved to accept a share of the fault, and to help resolve the crisis.

The important thing to understand is that the energy crisis was not contrived. The very fact that even with the embargo we are importing about 5 million barrels a day, and post-embargo we will import some 7 million barrels a day shows that domestic demand is greater than supply.

Further, it is not contrived that the demand for energy in the United States has been growing at a rate of between four and five percent a year for the past 20 years. It is not contrived that if the present trend continues, our energy needs by 1990 will be twice what they were last year. And that's just seventeen years from now!

It wasn't contrived that domestic oil exploration peaked in 1956 and production peaked in 1970. All these things are real, and in part resulted from Government action and inaction.

In order to educate the American people and bring all the facts to them, we need more comprehensive data on every aspect of energy -- reserves, refinery operations, inventories and production costs. We are now building a new information system. At the same time, however, we must use and modify the systems we now have. Let me briefly describe how we currently obtain our data.

We get information from many sources. Data on domestic petroleum supply are currently gathered by the Bureau of Mines and by the American Petroleum Institute.

The Bureau of Mines reporting system is voluntary, but the refining companies cooperate, and their response is in fact higher than that achieved in many supposedly mandatory reporting systems.

The American Petroleum Institute has a much less detailed reporting system than the Bureau of Mines, but it receives and publishes data weekly.

We have already made preliminary cross-checks of these reporting systems and have found them to be reasonably accurate and quite consistent <u>over long periods of time</u>. However, on a week-to-week or month-to-month basis, differences can and do occur.

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It is interesting to note that for the first 10 months of 1973, imports data reported by API differed from the data published by the Bureau of Mines by less than half of one percent. Nevertheless, there are still significant gaps in our current system. Further, all our current information sources are voluntary, and for many of the programs we now must operate this is simply not enough. We now clearly need mandatory reporting systems and mechanisms to check and enforce their proper operation.

While we have sufficient authority to mandate the petroleum data we now need, I still feel that specific mandatory reporting legislation is required. First, tailored sanctions and enforcement provisions may be more appropriate than those in our current authorities. Secondly, expansion of mandatory reporting to other energy sources, such as coal and uranium, is a necessity in the months ahead and may not be practical under our existing authorities.

We are now developing the information needed to propose specific mandatory reporting legislation. Such legislation will go beyond information on petroleum inventories, imports and refinery operations and will include the more complex problems of reserves.

A central issue, and one which is very important, is the extent to which the information which is reported to us ought to be made available to others. The public has a right to complete and accurate information on the energy situation. This policy should give way only where limitations are imposed by statute and where important public policy considerations dictate otherwise.

Both the government and the public are entitled to much more information about the petroleum industry than is now available. We intend to see that it is gathered and made available.

The Chinese philosopher Lao-Tzu once wrote to a friend, "Send me a man who is seeking the truth. Don't send me one who has found it." It's a shame to find that many people have stopped looking for the truth about the energy crisis, before getting all the pertinent facts.

It is certainly very popular today to talk about conspiracies and to conjure up villains. It's harder to come to an understanding of our mutual responsibility. My job is to put the facts before the American people.

Further, my job is to manage the energy crisis so as to minimize dislocations.

There's no question that we will experience spot shortages this winter, but shortages would have occurred even without the embargo. It's important to realize that this is not an embargo-induced problem. With demand exceeding domestic supply, we were straining the world's ability and willingness to produce.

What the embargo did was to heighten our awareness of the gap between domestic supply and demand. We put many conservation measures into place in order to reduce demand, and I have been most encouraged by the response of the American people.

Private industry has also been achieving dramatic savings. We called on industry to establish energy audit committees to assess the level of energy consumption and the potential savings that can be made. We will be receiving reports about the results of these audits. More than 12,000 companies have already filed their responses.

CONSUMER EDUCATION

Consumer organizations can make a significant contribution to our efforts to conserve energy. You can educate consumers, not only as to how they can save money and energy, but as to why their efforts can really make a difference. Your groups are already in the forefront in this effort.

Consumers control how much gasoline will be available to motorists this summer. Did you know that for every gallon of home heating oil you save, we can provide an additional gallon of gasoline at the pumps? And, for every thousand cubic feet of natural gas you save, we can provide eight more gallons of gasoline.

In a year's time, a typical home reducing its consumption of electricity, natural gas, and heating oil by 10% will generate an extra 100 to 120 gallons of gasoline for automobiles.

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How does saving electricity help you get more gasoline? If you save electricity, the generating stations don't need as much residual fuel oil to burn, to make electricity. So refineries can produce less residual fuel and more gasoline.

I am sure you all have plenty of ideas on saving energy. Transmitting them to your constituencies will help us both in the short run to ease the current crisis--and, more importantly, in the long run to help us establish a permanent "conservation ethic" to reduce national energy demand.

Eventually, we will solve our energy problems by developing our domestic resources. We have the necessary technical know-how, we have the resources; all we need is the commitment to make the necessary investments now.

As consumer representatives, I know you are concerned about rising fuel costs and so am I. We are presently controlling the price of oil and we will do whatever is necessary to maintain reasonable prices. In the foreseeable future fuel won't be as cheap as it has been for most of our lifetimes. But we can prevent prices from rising to emotional levels.

In the long run, the best way to keep the price of fuel down is to increase the supply, by bringing on other energy sources. Our alternative is to import more oil and thereby subject ourselves to cutoffs and prices that are set at the discretion of the oil-exporting nations.

In conclusion, I believe that we all share common goals with respect to energy policy--we all want to have sufficient energy at a reasonable cost and I know that we can work closely with you in achieving this goal. It is only through such cooperation that we can move our Nation toward self-sufficiency.

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FOR IMMEDIATE RELEASE JANUARY 25, 1974

SPECIAL IMPACT OFFICE TO AID LOW-INCOME ENERGY CONSUMERS

John C. Sawhill, Deputy Administrator of the Federal Energy Office, today announced creation of a Special Impact Office to review and act upon the concerns of low-income consumers affected by the energy crisis.

Sawhill announced that the new office will report to John A. Hill, Assistant Administrator for Policy, Planning and Regulation.

"Our fundamental guideline in designing the mandatory petroleum allocation regulations has been to save jobs, minimize economic disruption and make sure that no one suffers inequitably," Sawhill said.

"We recognize that lower income people may experience particular hardships as a result of the energy crisis, and we have a general responsibility to help them," he added.

"The Special Impact Office will perform such a role," Sawhill said. "It will provide a research and policy base for the Federal Energy Office to determine whether Federal regulations and programs work undue hardships on particular groups."

The new office will be a focal point for getting information on how the energy shortage and energy programs are impacting on various groups. This information will provide the basis for working with them to formulate special programs directed at lower income people.

E-74-33

It will also provide training in FEO programs to groups currently dealing with the poor, such as churches, community action agencies and welfare offices. The new office will serve as the FEO liaison with the Department of Health, Education and Welfare, the Department of Labor, the Office of Economic Opportunity and other Federal agencies concerned. It will also work closely with state and local governments for an equitable distribution of the state "set-aside" fuels to hardship cases.

There will be special efforts to maintain one-to-one contact with the poor and under-privileged through speeches, flyers, brochures and walk-in offices in various cities.

-FEO-

E-74-33

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FOR IMMEDIATE RELEASE JANUARY 25, 1974

SIMON: ENERGY CRISIS NO HOAX

Federal Energy Office Administrator William E. Simon today disputed contentions that the energy crisis is a hoax.

"No matter how much documentation, litigation, and legislation there is, we still face severe energy shortages in the years ahead," he said.

"There is an intense debate that the 'Great American Energy Crisis' is a hoax motivated by a quest for unabashed profit-taking, and leading us down a road marked with environmental and economic disaster," Simon said.

"The energy crisis is here and it is not contrived," he said. "It is a global crisis that literally threatens the integrity of the world economy, to say nothing of our own national security."

Simon prepared the remarks for delivery before the American Society of Association Executives (ASAE) here (in Washington) today. The ASAE is composed of 5,000 executives from trade associations and professional societies which represent some 28 million business and professional men and women.

E-74-34 (more)

Simon said that the need for the nation to become self-sufficient in energy "is simply no longer an alternative. It is an imperative." He outlined a five-part policy set forth by the President and himself to achieve this self-sufficiency:

-- to conserve energy by reducing consumption, and increasing the efficiency of energy conversion processes;

-- to accelerate and increase domestic oil and natural gas production;

-- to increase the use of coal;

-- to expand nuclear energy production;

-- to expand the use of renewable energy sources like the sun, water, and the earth's internal heat.

Until these goals are met, Simon said, "No one -- the Congress, the Administration, industry, or the consumer -- can allow energy to become a political issue. The crisis we face demands strong and deliberate action now."

"The energy joyride is over," Simon said. "It is incredible that our most premium resource is oftentimes being sold in a marketplace which discourages exploration, inhibits production, and once marketed, actually encourages waste."

-FEO-

E-74-34

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Public Affairs
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FOR IMMEDIATE RELEASE

OIL TUBULAR STEEL SUPPLIES UP; DISTRIBUTION UNEVEN

Federal Energy Administrator William E. Simon today reported that factory output of steel drilling pipe and casing -- a key element in oil well development -- will be up in 1974, but that uneven distribution and stockpiling has created spot shortages that the FEO is working to resolve.

"There should be ample tubular steel for oil drilling in 1974," Simon said. "Production is expected to total 1.85 million tons in 1974, up more than 15 per cent over 1973. But current inventory is concentrated in relatively few companies and consequently spot shortages exist."

Simon said that "intense forward buying" had cut sharply into distributors' and producers' stocks and had resulted in reports of tubular steel shortages. He also said that demand for additional steel goods probably would be higher in 1974, and could possibly exceed supply, if it were not for concurrent shortages of drilling rigs, associated services, and manpower. In addition, there could be specific shortages in individual types, weights, grades and sizes of tubular goods, he said.

E-74-35

Simon based his statements on a survey made by the Commerce Department, the FEO Price Policy Office, and the Cost of Living Council. Simon said the survey team has begun a series of meetings with steel industry officials to discuss ways to resolve supply and distribution problems. He said the team will also survey the drilling rig situation.

Simon pointed out that the 22 largest oil companies' tubular steel inventories were 30 per cent above average monthly inventories between January, 1972 and October, 1973. Further, he said, much of the excess inventories were held by a few larger companies, but even these firms had some spot shortages of specific tubular goods.

The survey showed that steel jobbers' inventories were down 60 per cent on December 1. Simon called that figure "disturbing" because, he explained, these jobbers supply the smaller firms, which account for three-fourths of the wells drilled in the U.S.

"I urge all oil and gas producers not to order casing and tubing in excess of their immediate needs," Simon said. "This restraint, coupled with heavier than usual first quarter shipments by manufacturers from production and inventory, should provide sufficient tubular goods to meet industry needs this year."

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FOR RELEASE MONDAY A.M. JANUARY 28, 1974

FEDERAL ENERGY OFFICE ADMINISTRATOR SIMON ANNOUNCES NEW ALLOCATION LEVELS FOR UTILITIES

New allocations to provide utilities enough residual fuel oil supply to meet approximately 95 percent of their power needs in February were announced by Federal Energy Administrator William E. Simon today.

This action would allow power growth for utilities using residual fuel oil of two to four percent over 1973 levels.

Simon's announcement marks the first in a series of monthly allocations FEO will be issuing for utilities using residual fuel oil. The February announcement includes 148 utilities in 39 states, located primarily on the East and West Coasts.

Under the plan, each utility would receive enough fuel deliveries to provide power for the month, and to have at least a 12-day oil inventory by March 1. Residual fuel oil deliveries to these utilities, under this new allocation program, will be about five percent below February 1973 levels.

The allocation will be changed monthly as the supply-demand situation warrants. However, utilities are expected to conserve fuel by cutting power loads by at least five percent below normal trends, and are urged to impose stringent methods to achieve even more power conservation so that inventory draw-downs can be kept to a minimum.

E-74-36

(more)

In calculating each monthly allocation, FEO considers the following factors: reliance on residual fuel, along with other sources of power; ability to purchase power from other inventories; conservation programs, and inventory.

"In an effort to assure that our residual oil supply is spread to each user equitably, I have initiated this allocation program for the utilities," Simon stated. "Some utilities are down to dangerously low stock levels and this action should help alleviate the situation."

Utilities with better than average reserves will see a draw-down of their inventory, Simon indicated, but it is not our desire to arbitrarily deplete any utility reserve, unless the country is in such a position that we can go no place else for the product.

Each utility will be notified of their delivery level, and proper procedure of obtaining future supply, if needed, in the Federal Register of January 29.

Supplies will be provided primarily by historical customer-supplier relationships, unless FEO must order new suppliers, and pricing will be controlled under Phase Four guidelines.

Some utilities listed by FEO as receiving zero deliveries in February were determined to be reliant primarily on other sources of power and could eliminate their residual oil needs through conservation measures; while others use residual oil for standby purposes.

Simon underscored that this program should not slow actions by utilities wishing to switch from oil to coal as FEO will continue an aggressive program in this area.

Other points made in the latest FEO announcement include:

- Utilities needing more supply than announced, due to unusual circumstances or seasonal conditions, may apply directly to the National FEO (Operations and Compliance Office) for review;
- Utilities are urged to buy and sell power to each other;
- Utilities are urged to seek other sources of power; i.e., coal, nuclear, hydro; and
- Residual allocations will be adjusted monthly, based on supply and demand at the time.

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FACT SHEET
Oil Country Tubular Steel

In recent weeks numerous reports have circulated of shortages of steel tubular goods. The uncertainties created by such reports appear to be a major deterrent to maintenance and expansion of our domestic petroleum exploration and development effort. A joint study team from the Commerce Department, the Cost of Living Council, and the Federal Energy Office has completed a preliminary investigation into these reports. William E. Simon, Federal Energy Administrator, revealed the results of the survey today.

The study team's investigation revealed that in terms of total tonnage of oil country tubular goods, the supply in 1974 should meet the projected industry demand.

Government and industry experts project that drilling will be expanded in 1974 to 156 million feet total, which will require an estimated 1.75 million tons of oil country tubular goods. Manufacturers have scheduled production of 1.85 million tons. The above demand figure is restrained by the availability of oil drilling rigs. If adequate rigs were available, the demand for tubular goods to meet industry's desired drilling program, or even to sustain the current level of production, would be significantly greater.

Although supply-demand is in balance, in terms of total steel tonnage, there could be specific shortages in individual types, weights, grades and sizes of tubular goods.

The study also revealed that shortages are real to the independent operators, in particular, and to some of the major oil companies as a result of higher than normal inventory of tubular goods by some of the major companies. On average, as of December 1, 1973, the stockpiles of the 22 largest oil companies were 30 percent greater than their monthly average since January 1, 1972. Further, eight of these compaines hold 74 percent of the inventory. The effect of this maldisturbution of available supplies is compounded by the fact that the majority of drilling activity is performed by the independent operators. Historically, the independent operators, and to some extent major companies, have depended on stocks held by the manufacturers and distributors. The inventories held in these sources as of

December 1, 1973 were more than 60 percent below the average monthly volumes held between January, 1972 and October, 1973. Under the extreme buying pressures being currently experienced, these inventories are believed to have diminished even more since that time. Further, any existing inventory is probably committed. The total supply channel appears to have undergone a rapid change to a system whereby material is available only on a steel mill order basis. An order placed now by a consumer either with the mill or, more normally, through a distributor will not be completed for some nine to twelve months.

The study further revealed that, although U.S. exports of tubular goods did significantly increase in 1973, the export total was only about 10 percent of U.S. production. Until 1973, these exports were more than offset by imports to the U.S. The exports are largely to the foreign operations of American companies; consequently, in some measure they do contribute to the U.S. supply of petroleum.

Mr. Simon emphasized that the overall positive results of this study should serve to quell immediate buying pressure and apparent excessive stockpiling and unnecessary forward buying practices. The joint task force will continue its investigation and will develop recommendations to correct the current maldistribution.

The survey covered steel producers, the 22 largest oil compaines, and 26 major distributors. Conducted under the Defense Production Act, the survey included information on inventories, capacity, past practices, and anticipated sales and use.

In addition to its work to correct the tubular goods distribution situation, the survey team has begun to look into the problem of oil development limitations due to a short supply of drilling rigs, associated services and manpower.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE 6:30 P.M. January 28, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on January 31, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing May 2, 1974		26-week bills maturing August 1, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	98.040	7.754%	96.210	7.497%
Low	98.030	7.793%	96.195	7.526%
Average	98.034	7.778% 1/	96.200	7.516% 1/

Tenders at the low price for the 13-week bills were allotted 61%.
Tenders at the low price for the 26-week bills were allotted 2%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 85,175,000	$ 26,370,000	$ 82,915,000	$ 10,415,000
New York	5,150,820,000	2,154,890,000	2,723,680,000	1,275,715,000
Philadelphia	69,825,000	23,115,000	43,710,000	11,510,000
Cleveland	87,725,000	34,725,000	48,860,000	25,855,000
Richmond	38,710,000	23,020,000	48,145,000	17,845,000
Atlanta	24,885,000	20,455,000	44,525,000	15,720,000
Chicago	441,060,000	92,580,000	245,410,000	25,285,000
St. Louis	89,490,000	26,155,000	58,250,000	38,800,000
Minneapolis	27,560,000	5,260,000	34,750,000	5,255,000
Kansas City	37,770,000	28,235,000	29,985,000	23,035,000
Dallas	40,750,000	19,250,000	37,235,000	15,235,000
San Francisco	301,765,000	52,395,000	543,695,000	335,720,000
TOTALS	$6,395,535,000	$2,506,450,000 a/	$3,941,160,000	$1,800,390,000 b/

a/ Includes $383,750,000 noncompetitive tenders accepted at the average price.
b/ Includes $235,180,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.04 % for the 13-week bills, and 7.92 % for the 26-week bills.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE January 29, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 7, 1974, in the amount of $4,302,550,000 as follows:

91-day bills (to maturity date) to be issued February 7, 1974, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated November 8, 1973, and to mature May 9, 1974 (CUSIP No. 912793 TL0) originally issued in the amount of $1,800,915,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated February 7, 1974, and to mature August 8, 1974 (CUSIP No. 912793 UJ3).

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, February 4, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own

(OVER)

account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on **February 7, 1974**, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **February 7, 1974.** Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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January 29, 1974

NOTE TO CORRESPONDENTS:

EFFECTIVE TERMINATION OF CAPITAL OUTFLOW RESTRAINT PROGRAMS

As indicated in separate announcements by the three agencies, the Treasury and Commerce Departments and the Board of Governors of the Federal Reserve System have taken coordinated actions which effectively lift the restraints which have been in force, in varying forms, since 1963 on capital outflows from the United States.

The actions are appropriate in light of the recent improvements in the U.S. balance of payments position, the strong position of the dollar in the exchange markets, and the desirability of avoiding official restrictions on the flow of capital to points of need at a time when the balance of payments positions of many countries have been sharply changed by the repercussions of the higher oil prices.

While the programs of active restraint have been ended, certain reporting requirements will be retained for the time being to assist in monitoring balance of payments flows and the international transactions of U.S. businesses and financial institutions.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE January 29, 1974

REDUCTION OF INTEREST EQUALIZATION TAX RATE TO ZERO

The Treasury Department announces that the effective rate of Interest Equalization Tax (IET) has been reduced to zero, in accordance with an Executive Order signed by the President. The new zero rate will be applicable to trades and acquisitions of any foreign stock or debt obligations made after January 29, 1974.

Under the Interest Equalization Tax legislation, the President has the authority to reduce the rate of the IET to zero when that action is consistent with the balance of payments objectives of the United States. The IET has been applied since July 1963, in order to help restrain the outflow of capital from the United States into portfolio investments in other developed countries. The rate of tax has been changed from time to time. The last such change became effective January 1, 1974, when the rate was reduced from 11.25 percent to 3.75 percent with respect to foreign stocks and from a rate equivalent to a charge of approximately 0.75 percent per annum to a rate of approximately 0.25 percent per annum on foreign debt obligations.

The Internal Revenue Service will provide guidelines on the effect of this order on reporting and compliance procedures in forthcoming information releases.

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UNITED STATES DEPARTMENT OF
COMMERCE
NEWS
WASHINGTON, D.C. 20230

OFFICE OF
FOREIGN DIRECT
INVESTMENTS

FOR RELEASE 9:30 A.M. TUESDAY
JANUARY 29, 1974

FDI 74-1

Enslow (202) 343 7327

Robert H. Enslow, Director, Office of Foreign Direct Investments, U.S. Department of Commerce, announced today that the foreign direct investment controls administered by the Office are terminated effective immediately. This action includes rescission of the controls on repayment of outstanding foreign borrowings announced on December 26, 1973.

The Foreign Direct Investment Program administered by OFDI was instituted on January 1, 1968, in response to the deterioration in the U.S. balance of payments position.

Mr. Enslow stated that direct investors will be required to submit reports regarding compliance during 1973 with the Foreign Direct Investment Regulations. The Office will issue simplified reporting forms in the near future for use in gathering economic statistical information on the current and future foreign investment activities of a substantially reduced number of direct investors.

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USDCOMM-DC-16079

FEDERAL RESERVE

press release

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For Immediate Release January 29, 1974

The Board of Governors of the Federal Reserve System announced today the termination of its Voluntary Foreign Credit Restraint Guidelines (VFCR), effective immediately. The program was designed to restrain foreign lending and investment overseas by banks and other financial institutions.

Today's announcement is being made in conjunction with actions by the Treasury Department to reduce the interest equalization tax to zero and by the Commerce Department to terminate its foreign direct investment restriction. The Federal Reserve has administered the VFCR program since early 1965 at the request of the Administration.

In announcing its action, the Board said it will request banks and other financial institutions to continue during 1974 to report their overseas lending and investments to the Board, but in substantially reduced detail.

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FOR IMMEDIATE RELEASE January 29, 1974

Office of the White House Press Secretary

THE WHITE HOUSE

EXECUTIVE ORDER

MODIFYING RATES OF INTEREST EQUALIZATION TAX

WHEREAS I have determined that the rates of tax prescribed under section 1 of Executive Order No. 11754 of December 26, 1973, with respect to acquisitions of stocks of foreign issuers and debt obligations of foreign obligors made after December 31, 1973, are higher than the rates of tax necessary to limit the acquisitions by United States persons of stocks of foreign issuers, and debt obligations of foreign obligors within a range consistent with the balance-of-payments objectives of the United States:

NOW, THEREFORE, by virtue of the authority vested in me by section 4911 (b) (2) of the Internal Revenue Code of 1954, and as President of the United States, it is hereby ordered as follows:

Section 1. Section 1 of Executive Order No. 11464 of April 3, 1969, as amended, is hereby amended to read as follows:

"Section 1. Rates of Tax.

"(a) Rates applicable to acquisitions of stock. The tax imposed by section 4911 of the Internal Revenue Code of 1954 on the acquisition of stock shall be equal to zero percent of the actual value of the stock.

"(b) Rates applicable to acquisitions of debt obligations. The tax imposed by section 4911 of the Internal Revenue Code of 1954 on the acquisition of a debt obligation shall be equal to zero percent of the actual value of the debt obligation measured by the period remaining to its maturity."

Sec. 2. With respect to acquisitions of stock of foreign issuers and debt obligations of foreign obligors made under the rules of a national securities exchange registered with the Securities and Exchange Commission or under the rules of the National Association of Securities Dealers, Inc., this Order shall be effective for acquisitions made after January 29, 1974, but only if the trade date was after January 29, 1974. In the case of other acquisitions of stock of foreign issuers and debt obligations of foreign obligors, this Order shall be effective for acquisitions made after January 29, 1974.

RICHARD NIXON

THE WHITE HOUSE,

January 29, 1974

# # #

FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
Washington, D. C. 20461
Telephone: 395-3537

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EMBARGOED FOR RELEASE UNTIL
4:15 P.M., EDT, FRIDAY, JANUARY 25, 1974

REMARKS OF
THE HONORABLE WILLIAM E. SIMON
ADMINISTRATOR, FEDERAL ENERGY OFFICE
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
AMERICAN SOCIETY OF ASSOCIATION EXECUTIVES
WASHINGTON, D. C.
JANUARY 25, 1974

AS DELIVERED BY JOHN SAWHILL,
DEPUTY ADMINISTRATOR

I especially value the opportunity to meet with your "Association of Associations" -- The American Society of Association Executives, and I thank your Executive Vice President, Mr. James P. Low, for inviting me.

Before turning to the immediate question of our current energy outlook and the progress and direction of our efforts to regain energy self-sufficiency, I would like to make a few personal observations on the events of the last few days.

There is an intense debate in the Congress today that "The Great American Energy Crisis" is a contrived hoax, motivated by a quest for unabashed profit-taking, and leading us down a road marked with environmental and economic disaster.

We have all seen numerous news accounts alleging that the major oil companies conspired to create the energy shortage.

We have heard accusations that there are millions of barrels of oil hidden away in capped-off wells, and even in tankers sequestered off our coasts, waiting only for the next price increase.

And we have heard concerned outrage and demands for an immediate investigation of the oil industry. While some charges <u>may</u> be true, there is so much rhetorical shrapnel in the air, that many of us may be in danger of losing sight of one fact -- the energy crisis is here and it <u>is not</u> contrived.

The fact that our energy demand has been growing at the rate of four to five percent a year for the past 20 years was not contrived.

The fact that domestic exploration peaked in 1956, and that domestic production has been decreasing since 1970 was not contrived.

And, most important today, the fact that we are importing 5 million barrels today -- and even if the embargo <u>were</u> lifted, we would be importing 7 million barrels a day -- was not contrived.

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It is a global crisis that literally threatens the integrity of the world economy, to say nothing of our own national security.

The United States and the other industrialized nations are crossing the threshold into an era where energy -- and many other critical mineral and raw materials -- will be more difficult and costly to obtain. And when they are available, we will be facing soaring world prices.

No matter how much documentation, litigation, and legislation there is we still face severe energy shortages in the years ahead.

Let's look at the facts:

The only industrialized nation in the world today that is wholly self-sufficient in energy today, is the Soviet Union. If we act now -- and I mean on a truly national level -- we can achieve the ability for self-sufficiency in the next decade.

The ability for energy self-sufficiency is simply no longer an alternative. It is an imperative. It is a challenge that we can -- and must meet.

If we are to resolve the energy crisis, we must face some hard decisions -- political and economic choices. But to avoid choosing is to have the future decided for us, by whomever supplies our energy.

We have established a five-part energy policy.

<u>First</u>, to conserve energy by reducing consumption, and increasing the efficiency of energy conversion processes.

<u>Second</u>, to accelerate and increase the domestic production of oil and natural gas.

<u>Third</u>, to increase the use of coal -- first as a supplement, and later as a replacement for oil and natural gas.

<u>Fourth</u>, to expand the production of nuclear energy as rapidly as possible.

And <u>Fifth</u>, to expand the use of renewable energy sources -- such as hydro, geothermal, and solar energy -- and to bring the promise of fusion and central station solar power into the marketplace.

These are the tasks the President has set forth. <u>All</u> of them are critical ingredients of a national energy policy that will lead us into an era of abundant sources of clean-burning energy, at reasonable prices.

Until this goal is met, no one -- the Congress, the Administration, industry, or the consumer -- can allow energy to become a political issue. The crisis we face demands strong and deliberate action <u>now</u>. And I mean action that has the support of <u>everyone</u>.

That is the kind of program the President has proposed. This afternoon, each of you will have an opportunity to gain a first-hand insight into the progress we've made to date and, more important, the tasks we face in the years ahead.

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In my own view we face three major challenges:

First: The immediate problem of matching energy demand with supply, through conservation and allocations that will allow us to manage the energy shortages without severely disrupting jobs, or the vitality of the economy.

Second: A longer term goal of weaning the United States away from such a heavy dependence on energy imports, by accelerating domestic energy production and cutting energy waste.

And Third: To develop new energy sources that will use our fossil fuel more effectively, and bring still more sophisticated energy sources on line including nuclear, geothermal and solar systems.

During the first quarter of 1974 we expected to have 14 percent less oil than we normally would be using. The actual shortfall should be much lower because the American people are conserving fuel, the weather has been warmer than normal, and the Arab oil embargo has not been fully effective.

Let me stress, however, that without a lift in the oil embargo and at least continuing favorable weather we may face shortages -- especially of gasoline -- on a broader scale this summer. Both factors will be major determinants in deciding if we have to go to rationing. Even then, however, we will institute rationing only as a last resort.

The American consumer, at home and on the job, has given strong support to voluntary conservation and we thank them for it.

Later this afternoon, Secretary Dent will give you an accounting of our progress in energy conservation to date. More important, he will be telling each of you what you can do at the trade association or management level to support our vital conservation effort.

Efficient energy use, and a new energy ethic to use all our finite energy sources more judiciously must be an integral part of our quest for energy independence.

The energy joyride is over. We must dampen the tremendous growth in energy consumption. In the century since coal replaced wood as our major fuel, global energy consumption has risen eighteenfold -- almost four times faster than world population.

The facts are clear: The historic trends of growth in energy consumption make even Malthus seem like an optimist.

One of the major causes for the lack of energy efficiency in the United States is the fact that most energy has been priced for short-term exploitation, without regard to the need for development of new sources.

Both energy production and energy efficiency are tied to price.

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However, I am just as opposed to the American consumer paying a dollar for a gallon of gasoline, as I am to seeing us in a world market where oil is posted at $12.00 a barrel.

But, unless we develop our own energy resources, we can expect both.

Just a year ago, energy costs in the United States accounted for only 4 percent of our total Gross National Product, compared with from 8 to 12 percent for most Western European nations. Under current conditions, Americans still pay much less for gasoline than most industrialized nations in the world.

In fact, while the cost of living has more than doubled during the past 25 years, the average price of electricity in the home has actually decreased by a third.

It is incredible that our most premium resource -- energy -- is oftentimes being sold in a marketplace which discourages exploration, inhibits production, and once marketed, actually encourages waste.

Natural gas, our cleanest burning fuel, is sold intra-State without controls for over a dollar per thousand cubic feet at the wellhead. This is at least two to three times the regulated inter-State price.

Is there any wonder then that, since 1968, we have actually been using natural gas faster than we have found it? Or that the number of exploratory wells fell from over 5,000 a year in the late 1950's to less than 3,500 in 1970?

And it's an even greater shock that natural gas is being used to generate electricity -- one of the least desirable and most inefficient uses of this premium fuel.

Fortunately, the United States has vast untapped energy resources. Our coal and oil shale reserves are equivalent to 10 times the known total petroleum reserves, and could serve our needs for hundreds of years.

And we have significant undeveloped deposits of oil and natural gas reserves on the Outer Continental Shelf. To date, however, only about 2 percent of the Outer Continental Shelf has been leased in the twenty-odd years since the Federal leasing program was established.

We must move expeditiously to bring on line our abundant domestic energy resources.

While few of us may accept the fact, America's energy resources are largely undeveloped.

We have the technology to convert coal into gas, crude oil, petrochemicals, and even gasoline, and must now bring this technology into the marketplace.

The time has come to take oil shale research out of the laboratory and press these new-found techniques into production, thus creating another alternative to oil imports.

Some of these ventures are risky. But the payoff of just one major breakthrough could be spectacular: when we produce synthetic oil from either coal or gas, at $5 to $6 a barrel, we will no longer be vulnerable to foreign economic and political blackmail.

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Proposals to develop revolutionary new industries employing a new generation of technology in the span of a few years may seem far-fetched to you.

But look what we did in synthetic rubber during World War II. In 1940 the United States was responsible for more than two-thirds of the world's total annual rubber consumption. The United Kingdom, which controlled 75 percent of the world's rubber, imposed export restrictions driving the price of rubber up from 14 cents a pound, to $1.23 a pound. Faced with soaring market prices and a critical need for this vital resource, Government and industry initiated a vigorous effort to develop synthetic rubber. By 1944 -- in the span of less than five years -- we were able to not only produce enough rubber to meet our needs, but one that was far superior to natural rubber.

I say that there is no reason today, that we can't do this same thing today with synthetic gas, and other new coal and shale technologies.

The final task we face, is to develop new energy sources -- solar, geothermal, nuclear, and others.

Dr. Dixie Lee Ray, Chairman of the Atomic Energy Commission, prepared a report to the President on Energy R & D, The Nation's Energy Future, offering a blueprint for our ultimate independence from fossil fuels. The promise of new energy technology is awesome.

The President has proposed to move the United States forward to meet each of these major challenges. Where we can, without legislation, we have taken strong and immediate action. But Congressional support is needed. Hopefully, the Congress will act on our proposals to:

-- Open oil industry records for government inspection;

-- Provide a "truth in energy" label on cars and major appliances;

-- Establish a fair market price for natural gas to encourage domestic exploration and discourage waste;

-- Expedite procedures for licensing nuclear power plants;

-- Re-orient our tax structure to increase domestic energy development;

-- Reorganize all the energy-related agencies in the Federal Government, to provide genuine leadership in every area of Federal involvement.

The premise underlying the President's energy program is that, with massive untapped energy resources and the world's most powerful economy, America can achieve energy independence. In fact, we can see the day, before the end of this century, if we start moving right now, when we very well could be net exporters of petroleum and coal and other energy commodities.

I share this view, and I hope that each of you share my commitment, and the commitment of the Federal Energy Office, to meet this challenge.

-FEO-

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE January 30, 1974

TREASURY ANNOUNCES FEBRUARY REFINANCING

The Treasury announced today that it will provide funds for retiring the $4.5 billion of publicly held notes and bonds maturing on February 15 by auctioning to the public up to $2.25 billion of 3-1/4 year notes, up to $1.5 billion of 7-year notes and up to $300 million of 19-1/2 year bonds. Additional amounts of the notes and bonds will be allotted to Government accounts and the Federal Reserve Banks in exchange for their holdings of the maturing securities, which total $0.9 billion. The securities to be auctioned will be:

Treasury Notes of Series C-1977 dated February 15, 1974, due May 15, 1977 (CUSIP NO. 912827 DQ2), with interest payable on May 15 and November 15, 1974, and thereafter on May 15 and November 15,

Treasury Notes of Series A-1981 dated February 15, 1974, due February 15, 1981 (CUSIP NO. 912827 DR0), with interest payable on February 15 and August 15, and

an additional amount of the 7-1/2% Treasury Bonds of 1988-93, dated August 15 1973, due August 15, 1993, callable at the option of the United States on any interest payment date on and after August 15, 1988 (CUSIP NO. 912810 BQ0), with interest payable on February 15 and August 15.

The coupon rates for the two issues of notes will be announced on Monday, February 4.

The notes and bonds will be issued in registered and bearer form in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000.

Tenders for the 7-year notes will be received up to 1:30 p.m., Eastern Daylight Saving time, Tuesday, February 5, 1974, tenders for the 3-1/4 year notes will be received up to 2:00 p.m., EDST, Wednesday, February 6, 1974, and tenders for the 19-1/2 year bonds will be received up to 1:30 p.m., EDST, Thursday, February 7, 1974, at any Federal Reserve Bank or Branch, and at the Bureau of Government Financial Operations, Banking and Cash Management, Washington, D. C. 20222; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than February 4 for the 7-year notes, February 5 for the 3-1/4 year notes and February 6 for the bonds. Each tender must be in the amount of $1,000 or a multiple thereof, and must state the price offered, if it is a competitive tender, or the term "noncompetitive", if it is a noncompetitive tender.

The price on competitive tenders for the notes must be expressed on the basis of 100, with two decimals, e.g., 100.00. Tenders at a price less than 99.26 for the 3-1/4 year notes and 98.26 for the 7-year notes will not be accepted. Tenders at the highest prices will be accepted to the extent required to attain the amount offered. Successful competitive bidders for the notes will be required to pay for the notes at the price they bid. Noncompetitive bidders will be required to pay the average price of all accepted competitive tenders for the issue.

The price on competitive tenders for the bonds must be expressed on the basis of 100, with two decimals in a multiple of .05, e.g., 100.10, 100.05, 100.00, 99.95, etc. Tenders for the bonds at a price less than 95.30 will not be accepted. Tenders at the

(OVER)

highest prices will be accepted to the extent required to attain the amount offered. All accepted tenders for the bonds will be awarded at the price of the lowest accepted bid.

Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES (SERIES C-1977 or A-1981)" or "TENDER FOR TREASURY BONDS" should be printed at the bottom of the envelopes in which tenders are submitted.

The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations noncompetitive tenders for $500,000 or less for each issue of notes will be accepted in full at the average price of accepted competitive tenders and noncompetitive tenders for $250,000 or less for the bonds will be accepted in full at the same price as the lowest accepted competitive tender. The prices may be 100.00, or more or less than 100.00.

Commercial banks, which for this purpose are defined as banks accepting demand deposits, may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than commercial banks will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Federal Reserve Banks, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of securities applied for.

Payment for accepted tenders for the notes must be completed on or before Friday, February 15, 1974. Payment for accepted tenders for the bonds, including interest from February 15 to February 28, 1974 ($2.69337 per $1,000) must be completed on or before Thursday, February 28, 1974. Payments must be made at the Federal Reserve Bank or Branch or at the Bureau of Government Financial Operations in cash, 7-3/4% Treasury Notes of Series C-1974 or 4-1/8% Treasury Bonds of 1974, which will be accepted at par, or other funds immediately available to the Treasury by that date. Where full payment is not completed in funds available by the payment date, the allotment will be canceled and the deposit with the tender up to 5 percent of the amount of securities allotted will be subject to forfeiture to the United States.

The Treasury will construe as timely payment any check drawn to the order of the Federal Reserve Bank or the United States Treasury that is received at such bank or office by Wednesday, February 13, 1974, for the notes and Monday, February 25, 1974, for the bonds, provided the check is drawn on a bank in the Federal Reserve District of the bank or office to which the tender is submitted. Other checks will constitute payment only if they are fully and finally collected by the payment date. Checks not so collected will subject the investor's deposit to forfeiture as set forth in the preceding paragraph. A check payable other than at a Federal Reserve Bank received on the payment date will not constitute immediately available funds on that date.

Commercial banks are prohibited from making unsecured loans, or loans collateralized in whole or in part by the securities bid for, to cover the deposits required to be paid when tenders are entered, and they will be required to make the usual certification to that effect. Other lenders are requested to refrain from making such loans.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of the securities bid for under this offering at a specific rate or price, until after the closing hour for the receipt of tenders for each particular issue.

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January 30, 1974

ANNOUNCEMENT BY
THE STATE DEPARTMENT
ON THE
WASHINGTON ENERGY CONFERENCE:

Principal members of the United States Delegation to the Washington Energy Conference will be: the Secretary of State, Henry A. Kissinger, Chairman of the Delegation; the Secretary of the Treasury, George Shultz; the Administrator of the Federal Energy Office, William Simon; the Chairman of the Atomic Energy Agency, Dixy Lee Ray, and the Under Secretary of State for Security Assistance, William Donaldson.

When we have complete information on the composition of the other delegations, we will make it available.

However, at this point I can report that we have been informed by Belgium, FRG, Netherlands, UK, Italy, Canada, Norway and Luxembourg that their delegations will be headed by Foreign Ministers. We have no word as yet from the others (Denmark, Ireland and Japan).

I can also confirm for you on the record that because of the intensive preparations now underway, and in which Under Secretary Donaldson is centrally involved, it has been decided that he will not visit capitals as previously planned. Rather, further exchanges of view with the other participants in preparing for the conference will take place in capitals and through other diplomatic channels.

Let me add that I hope it will be possible to arrange a pre-conference briefing for you and I will let you know when I have something firm on that.

I can tell you that the task force composed of Mr. Donaldson, Mr. Sonnenfeldt, Mr. Lord, and Mr. Hartman from the Department along with Secretary George Shultz or Jack Bennett of Treasury, Charles Cooper of the NSC, William Simon of the Federal Energy Office have been meeting daily with the Secretary on this subject and will continue to do so all this week discussing positions and papers and developing policies for the Conference.

We also are now in the process of an exchange of views with the other participants.

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Washington, D.C. 20461
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FOR IMMEDIATE RELEASE JANUARY 30, 1974

SIMON ANNOUNCES LIMITS
ON PROPANE PRICE INCREASES

Federal Energy Administrator William E. Simon today announced a new regulation to limit future propane price increases.

The new regulation ties propane prices at the refinery level to actual crude oil cost increases but will permit refiners to vary the prices monthly.

"This new rule has the dual advantage of keeping propane prices in line with costs while giving the refiner price flexibility," Simon said. "The refiner will be able to raise his prices by amounts that, on an annual basis, will reflect only a penny-for-penny pass-through of the cost of the crude oil required to produce the product."

Propane is used for home heating,particularly in rural areas;for petrochemicals,and for crop drying. A barrel of crude oil usually yields three percent propane in the refining process.

The regulation change requires a refiner to limit the costs he passes along over one year's time to the percentage of propane sales volume of the refiner's total product sales volume.

E-74-39

It will work like this: If the refiner has total increased costs (i.e., higher crude oil prices) equal to ten cents a gallon for all products over a year, and if his propane sales are three percent of his total sales, he will be able to pass along three percent of the ten cents, or three-tenths of a cent a gallon on propane over a year's time. He may decide to pass along the increase only in the months of October, November and December by raising his prices enough to collect the equivalent of three-tenths of a cent over a year.

"This new regulation change should help protect home owners who must rely on propane for heating against unusual price increases," Simon said.

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EMBARGOED FOR RELEASE UNTIL
1:15 P.M., WEDNESDAY, JANUARY 30, 1974

REMARKS BY THE HONORABLE WILLIAM E. SIMON
ADMINISTRATOR, FEDERAL ENERGY OFFICE,
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
NATIONAL ASSOCIATION OF MANUFACTURERS AND THE
NATIONAL CHAMBER OF COMMERCE
(WASHINGTON HILTON HOTEL), WASHINGTON, D.C.
JANUARY 30, 1974
1:15 P.M.

It is a great honor to participate with you today in the first joint public issues conference of the National Chamber of Commerce and the National Association of Manufacturers. I congratulate both Arch Booth and Doug Kenna on their success in putting this meeting together - you have a great turnout and you have selected a timely topic.

Before turning to the immediate question of our energy outlook over the next months, and the progress and programs we at the Federal Energy Office have made in the last seven weeks, I would like to make a few comments.

Last December 3, on the day before the Federal Energy Office was created, Lou Harris, of the Harris Poll, appeared before a Senate subcommittee to report on a survey of public attitudes of confidence in American Government.

Here's a quote from Mr. Harris' remarks, "There may be islands of hope across the broad land of ours, but a central as well as the National Association of Manufacturers to requests for voluntary energy conservation has been magnificent. Many major enterprises have implemented company-wide energy conservations programs. These are already yielding solid results. The corporate executives of these companies, however, have made their opinions clear on one point. They insist that if the Federal Government sets only broad conservation guidelines, individual companies will achieve those goals in ways which complement their unique corporate circumstances. I agree with this philosophy, and that is our approach to industry conservation.

Because of this flexible approach, hundreds of major companies have achieved, through their own decision-making processes, reductions of 15-20 percent in energy consumption by streamlining operations. We wish to set policy that produces results with a minimum of inconvenience to each industry.

Many of your companies have told me that fuel supply problems are being minimized by adopting energy management programs which include:

-- top management commitment to energy conservation,

-- an audit of all energy usage within the company,

-- tough, measurable goals for energy savings, and

-- an information campaign among employees, suppliers, as well as customers, on the need for energy conservation.

A careful audit of energy use is, of course, a crucial

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Today, even with the oil embargo, we are importing about 5 million barrels of oil a day, and post embargo we will be importing some 7 million barrels of oil a day. This illustrates the imbalance between our supply and our demand.

The fact that demand has been increasing at a rate of between 4 and 5 percent a year over the last two decades--and U.S. production has not increased -- is not contrived.

The energy crisis will not be a question of contrivance or credibility much longer. Like it or not, American consumers-- all of us-- have entered a period when energy shortfalls will become a fact of life.

Our economy must adapt from a low-cost, abundant energy base to a high-cost, scarce energy base. While we expected this change to occur gradually during the 1970's, recent OPEC and Arab actions raising prices and boycotting exports to the U.S. as well as other countries have caused the change to be sudden and traumatic.

Furthermore, we have had an overwhelming response to our requests for energy conservation. As Mr. Harris' findings indicate, our people want to make our institutions work. They are not just interested in knowing how much discomfort they will have to accept today, but what they can do to translate voluntary energy conservation into a new and lasting energy conservation ethic.

The response by members of the U.S. Chamber of Commerce fact is that as a nation, as a people, disaffection and disenchantment abound at every turn. ...On a scale of powerlessness, cynicism, and alienation used by the Harris firm since 1966, an average of 55% of the American people expressed disenchantment, compared with not more than 29% who felt that way only seven years ago."

According to Mr. Harris, the American people are disenchanted with nearly every dimension of the social and economic spectrum: medicine, organized religion, organized labor, major companies -- declined in their expression of confidence.

What most impressed me about these findings, however, was that people want change not change to overthrow the system, but to make it work the way they think it should.

In the two months since the Federal Energy Office was established, I have found myself oftentimes reflecting on these problems. The questions of "confidence," and the "willingness to participate" are crucial to this quest for energy independence.

When people ask me "Is there really an energy crisis?" or "Isn't the energy crisis contrived?", I am disturbed. We are faced today with a very real crisis.

For years now the experts have been warning us that the U.S. and the world's other industrialized nations have been heading for an energy crisis. In fact, it may be the only crisis, that all of the experts agreed upon. The energy crisis is not contrived.

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element in this program. An excellent booklet, "A Guide to Energy Management," has just been published by the American Society of Association Executives, and will be obtainable through your business or professional association.

The strong leadership exhibited within the business community by the U.S. Chamber of Commerce and the National Association of Manufacturers is responsible for this successful energy conservation effort. I have every confidence that they will continue to urge the business community to be responsive to our long-range goal of energy self-sufficiency.

From New England we have evidence that as a result of conservation measures, residential heating oil consumption has been cut by 20 percent, even after allowing for warmer weather.

We believe that these same kind of results are going to translate nationally into a 15 percent reduction because consumers have turned their thermostats down six degrees and industry 10 degrees.

Energy conservation, which we can influence, and weather, which we cannot, are our greatest cushions against rationing.

As you know, we have taken vigorous action:

-- we established a mandatory allocation program,

-- we set voluntary conservation measures,

-- we proposed key legislation to revitalize domestic energy production,

-- and we implemented new policies to provide incentives for increased domestic production.

Our energy policy has been directed at one goal: to balance supply and demand through energy conservation measures, increased domestic production, and allocations without cutting back jobs, or infringing on the long-term vitality of our economy.

I believe, however, and I think the majority of the American people share this view, that rationing should be implemented only as a last resort. Because what we're really talking about is adding 17,000 employees and one and one-half billion dollars to the Federal budget to administer a program which -- no matter how equitable -- cannot guarantee that there will be gas for your car, heating oil for your home, or electrical power for your business. This is not to mention the imposition of this terrible burden on the American people and subsequent loss of an important freedom.

The critical challenge we face in the months and years ahead will be to translate our energy policy into new attitudes, values, and patterns of action that will give us the ability for energy self-sufficiency.

In order to achieve this, we are taking a five-fold approach to the development of sound energy policy:

First, we must establish a central energy organization. The creation of the Federal Energy Office is a major step in that direction. In the long run, however, it is essential

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that we have legislation to create a Department of Energy and Natural Resources. It's worth noting that every Commission on government reorganization since the Hoover Commission has recognized the need for a Cabinet level department to oversee natural resources policy and programs.

Second, we must develop a new short and long-range "energy conservation ethic" in this country that will dampen the runaway growth in energy demand. Some estimates indicate that thirty to forty percent of the energy produced in the U.S. today is wasted. One analysis shows that the 210 million people in America, in effect, waste as much energy as the 110 million people in Japan consume.

We simply cannot afford to allow the growth in energy demand to continue to outpace our productive capacity -- as it does now, and would, even <u>without</u> the oil embargo.

<u>Third</u>, we must accelerate the development of our massive untapped domestic energy resources, through Project Independence. With almost half the free world's known coal reserves, we have enough coal to meet our total energy needs for centuries. And we have the equivalent of one trillion 800 billion barrels of oil locked in our massive oil shale reserves in Colorado, Wyoming, and Utah, enough to last more than a century.

We should move vigorously to accelerate the pace of oil and natural gas leasing on the Outer Continental Shelf. It seems incredible, but with an estimated 40 percent of our potential oil and natural gas deposits on the OCS, less than 3 percent of the OCS has been leased in the twenty-odd years since the program was originated.

And there are an estimated 100 billion barrels of oil reserves on the North Slope, in Naval Petroleum Reserve No. 4 in Alaska, and off the Alaskan Coast.

We simply can no longer afford to allow these critical resources to lie undeveloped, or underutilized.

<u>Fourth,</u> we must develop a new relationship between government and industry to ensure that we have an accurate, and timely auditing process to cover every aspect of the

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energy situation. We have already taken firm action, within existing powers, to get that kind of information as soon as possible. And, where additional authority is required we have asked the Congress to enact the needed legislation.

Fifth, we must forge a new structure of international cooperation within the world community, between producing and consuming nations.

The international implications of the energy crisis are profound because of the obvious economic and national security ramifications. For this reason, President Nixon has called a meeting on February 11 with the major oil consuming nations of the world to be followed by a meeting of the consuming and producing nations of the world. This is a major step to address our mutual problems.

The energy crisis has not only brought a change in our own attitudes and values, but those of nearly every member of the world community.

Today, all of the industrialized nations -- with the exception of the Soviet Union, the only one that is self-sufficient in energy -- are essentially competing for limited supplies in a market with dramatically escalating prices.

This phenomena has already touched our own hemisphere. Venezuela's oil production, for example, has already begun to level off.

During the past nine months our imports from Canada have fallen steadily. The reason for this is the policy adopted by the Canadian Government to restrict its oil exports to the United States. This policy was given momentum by the Arab boycott.

Canada suffers from a geographic imbalance in its supply and demand for oil. Canada's western provinces are rich in oil and natural gas; this regional surplus has been exported to the U.S. and is now at a current daily rate of 860,000 barrels per day. The eastern provinces, on the other hand, have depended on oil imports. In fact, our Canadian neighbors import almost 600,000 barrels of oil daily from other countries through Portland, Maine.

There have been a number of instances of long-standing consumers of Canadian oil having been cut off from their traditional supplies. In some instances, these curtailments have been reversed, but only on a month-to-month basis. This makes planning by U.S. consumers extremely difficult. There have also been problems with the supply of Canadian natural gas to the northwestern part of the U.S. and rapidly escalating prices for both Canadian natural gas and oil as a result of export taxes imposed by the Canadian national government and the Government of British Columbia.

I will meet tomorrow with the Canadian Energy Minister, Donald Macdonald to discuss these problems. We will also discuss longer term issues, such as the possible joint construction of the McKenzie Valley pipeline which would carry natural gas some 5400 miles from Alaska to the Canadian-U.S. border, development of the Athabasca tar sands, and the problems between our two nations relative to passage of oil and gas through pipelines.

The United States is interested in cooperating with the Canadians in these projects. However, we must first resolve some of the short-term problems that now separate our two nations.

I look forward to the meeting tomorrow, and have every confidence that it will be productive in serving the needs of the Canadians and ourselves.

Clearly we are now at a turning point in our energy production and use patterns. The fallacy that we could safely depend on foreign supplies is now glaringly exposed. So too is our national propensity to waste, a propensity nurtured over the years by seemingly endless abundance.

The alternatives are starkly clear. We as a nation can develop our own energy patrimony and use it with uncharacteristic wisdom, or we can drift from crisis to crisis until inevitably we will have to accept both a sharply lower standard of living and a position of dependency in international affairs.

I know that America has the will, the resources, and the leadership to meet the energy challenge. Make no mistake about it -- the real challenge is a challenge of attitudes and of values. It is a challenge to our individual and collective determination to develop the full potential of our resources.

I am asking each of you, today, to join us in that task.

Thank you.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE January 31, 1974

TREASURY'S 52-WEEK BILL OFFERING

The Treasury Department, by this public notice, invites tenders for $1,800,000,000, or thereabouts, of 364-day Treasury bills for cash and in exchange for Treasury bills maturing February 12, 1974 , in the amount of $1,801,085,000. The bills of this series will be dated February 12, 1974 , and will mature February 11, 1975 (CUSIP No. 912793 VG8).

The bills will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Wednesday, February 6, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

(OVER)

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 12, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 12, 1974; provided, however, that settlement for tenders submitted to the Federal Reserve Banks of New York, Chicago, and Philadelphia, and to the Federal Reserve Bank Branches in Buffalo and Detroit, must be completed at those Banks and Branches on February 13, 1974, and must include one day's accrued interest if settlement is made with other than Treasury bills maturing February 12, 1974. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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FEDERAL ENERGY OFFICE
Public Affairs
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Telephone: 395-3537

REMARKS BY THE HONORABLE WILLIAM E. SIMON
ADMINISTRATOR, FEDERAL ENERGY OFFICE,
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE

NATIONAL ACADEMY OF SCIENCES
NATIONAL ACADEMY OF SCIENCES AUDITORIUM
2101 CONSTITUTION AVENUE, N.W.
WASHINGTON, D.C.
TUESDAY, JANUARY 29, 1974, 11:00 A.M.

Good morning, and thank you for the opportunity to speak to this very distinguished forum. I want to thank Dr. Phillip Handler, your President, for inviting me to participate. Dr. Robert Adam, the Chairman of this session, has brought together a very capable group of panelists which I am pleased to see includes Al Weinberg, one of the Academy's esteemed colleagues, and now one of mine.

All of you are well aware of the energy problems our nation and the world face. We have consumed our domestic petroleum supply at a record pace.

While we have been rapidly using petroleum fuels, we have failed to develop alternate sources of energy.

At some risk of exaggeration, let me begin by asserting that our energy problems are largely the result of mistaken policies of the federal, state and local governments. For years we have

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been sacrificing the long-run interests of our nation to secure short-run objectives such as unrealistically low prices, wasteful patterns of consumption, and the too rapid application of environmental controls and restrictions. Now, unfortunately, we are paying for these policies.

As a result of our policies toward gas, coal, oil, and nuclear power, we have become increasingly dependent on imported oil and, in particular, oil from the Middle East. And as recent events indicate, this dependence poses a major foreign policy and economic problem for the United States.

The short-term emergency measures taken by Government and industry, and the voluntary response of the public, have reduced demand. One of our primary objectives is to insure that this will continue. To a great extent success in this effort will depend on government leadership and the public's support.

A central concern of many Americans today is whether there really is an energy crisis or whether it is all contrived. Many people just don't believe that we are really short of energy or understand why.

The energy crisis is extremely complex, and easily misunderstood or distorted. It's easy for all of us to point the finger of blame. It's not so easy for everyone involved to accept a share of the fault, and to help resolve the crisis.

The important thing to understand is that the energy crisis is not a conspiracy. The very fact that even with the embargo we are importing about 5 million barrels a day, and post-embargo we will import some 7 million barrels a day shows the imbalance between domestic demand and supply.

The fact of the matter is that this shortage was not contrived. It was not contrived that domestic oil exploration would peak in 1966 and that production would peak in 1970. It was not contrived that United States energy demand would grow by 4 to 5 percent each year over the past 20 years.

Over the past several years, a series of government actions and inactions have discouraged energy research, development and proper utilization of energy in this country. Environmental constraints have discouraged the burning of coal, and speeded up the shift by factories and power plants from coal to oil.

The use of nuclear energy is negligible. Less than 1 percent of this country's energy is supplied by nuclear power plants. With the proper commitment now, there's no reason that this source of energy could not contribute 10 percent by 1985.

Offshore drilling has not progressed fast enough to offset the decline in domestic production.

The construction of super ports in the United States has been retarded, thus denying us the transportation economies of the super tankers.

Additional refinery capacity has been discouraged not only by environmental constraints but also by the Mandatory Oil Import quota system which was not revised until April, 1973.

At the same time that domestic refining was being discouraged tax benefits and other incentives attracted investment to the Caribbean and other areas.

Thus while demand was growing, domestic supply was shrinking. To meet domestic demand, we turned to overseas producers. In four short years, our dependence on imports grew, from 22 percent in 19[illegible] to 35 percent in 1973. Roughly half of this supply has come from the Persian Gulf and this is why we are so vulnerable to the Arab embargo.

Thus, I think you can see that the problem is real. The causes are known and we are at a point where actions are needed.

We must adopt a national energy policy, which will encompass five basic areas:

- We must create a central energy organization in the Federal Government, to bring together under one roof energy policy and implementation.

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- We must establish a permanent energy conservation ethic.
- We must establish a framework of international cooperation with respect to energy.
- We must forge a new relationship between government and industry, and finally
- We must move forward without delay on Project Independence, a significant part of which includes major expansion of energy research and development.

These five parts, though separate and distinct, must work together in support of our national purpose.

Let me elaborate briefly on several of these major efforts.

With respect to conservation, the recent embargo has forced us to reduce energy consumption. We must now strive to make this a permanent part of our national life. It must become for every American a new energy ethic -- a war on waste.

Further, our energy policy calls for a joint effort between government and industry as we seek to develop our domestic resources. We need industry cooperation in providing adequate information about the energy situation. The information we now have to work with is not adequate and its reliability cannot be checked. We must develop a permanent energy information system with a built-in auditing program on every aspect of the energy situation -- reserves, refining operation, inventories and production costs --

so that we will then be in a better position to assure the American people that our energy data is accurate and not subject to the charge that it can be manipulated by industry.

The potential impact of shortages of energy supplies on the world economy is staggering and we must strive for a compatability between our domestic policy and international relations. Thus, we must seek international cooperation with respect to conservation efforts, research and development, and pricing policy. We must work together in developing energy resources and maintaining a healthy world economy in which energy exporting and energy importing nations prosper together.

Also, we must push forward in the development of our domestic energy resources, through Project Independence. This includes further development of oil and gas in Alaska and the outer continental shelf, greater utilization of coal, of which we have a supply unmatched by any other country in the world, further development of oil shale and nuclear power, and added efforts toward development of geothermal and solar power.

All of these efforts are essential to any comprehensive policy for solving our present and future energy problems. Today, I would like to concentrate on just one of them -- Project Independence and the need for greater research and development. I want to discuss the short-term, intermediate, and long-term efforts we see as necessary.

In the short term we must concentrate on the existing state of the art. There are some prompt and obvious steps we can take.

There are several things we can do to achieve a modest increase in production over the short run. Crude oil supply could be raised by about 200,000 barrels per day by opening the Elk Hills Naval Petroleum Reserve, renewing drilling in the Santa Barbara Channel, and increasing the maximum efficient rates of lifting oil in several Texas fields.

However, the only way we will be able to meet the immediate crisis is to conserve fuel. The U.S. economy must adapt from a low-cost, abundant energy base to a high-cost, scarce energy base. While we expected this change to occur gradually during the 1970's, the boycott and price hikes by OPEC have caused this change to be sudden and traumatic. It is important that the American people realize that the current shortage is not a temporary aberration. Scarce, high-cost energy will be the rule for many years if not indefinitely. The occurrence of the boycott merely means that we must reorder our priorities and modify our life styles now, and not a few years from now.

Many of these steps involve environmental risks, concerns that many of you have so ably articulated. I assure you that the

Administration shares these, and that the Government intends to to take all reasonable measures to prevent the fouling of our air and water, and the destruction of our land. Any relaxation of environmental standards will be temporary, will be carefully monitored, and will have a definite terminal date.

Some may conclude that to support energy is to oppose the environment. Some environmental measures have contributed to the energy crisis. There is no question about that. However, because of the environmental movement we now have cleaner refineries and safer drilling techniques. The environmental movement has contributed to our well-being and that of the energy industry. What we now need most of all is balance.

The moderation or elimination of these environmental risks offers a worthy challenge to your scientific endeavors. We'll need all the help you can give us, and I'm sure that your contributions will be invaluable. We ask you to join us in the difficult work of preserving our natural legacy without cutting off the energy circulation that keeps our economic body alive.

Science must teach us how to develop adequate energy resources that are compatible with environmental preservation.

Let me elaborate a little about the actions we should take now to enable us to employ, in the mid-term, the next 10 to 15 years, some of our huge stores of energy-producing material.

Coal is our most abundant energy resource. We must improve our coal mining methods -- both surface and underground -- so that we can mine it in ways that preserve or restore the land. We will assist the scientific community in intensifying the development of technologies for converting coal to cleaner fuels by gasification or liquefaction.

To allow for direct combustion of coal in or near our cities, we must advance quickly with de-sulphurization techniques. Present methods remove particulates from the stack smoke, but not the noxious gasses. Stack-gas cleanup is a high priority program.

A trillion 800 billion barrels of oil lie locked in the oil shale of our western states. We must turn the key. Recovery of oil from shaleis becoming economically feasible and we must start to tap this resource.

In the past it has taken almost 10 years to build a nuclear generating plant -- to find a site, cut through all the red tape, settle the litigation, design and build the plant. That's totally unacceptable.

Technologies for improving energy shortage -- high performance batteries or electrical cells -- could contribute to an increase in supply. Even more important is research to increase efficiency in energy conversion. We get, as useful output, roughly one-third of the energy potential of fossil and nuclear fuels. The rest dissipates as we waste heat. Our goal should be to step up the conversion efficiency to something over 50 percent.

Members of your Academy will play a major part in shaping the many changes that lie ahead. Mass transit systems will have to be designed and improved. We'll need more efficient engines for automobiles. From now on, every building we put up, from split-level to skyscraper, will have to be designed and constructed with energy efficiency in mind. Better insulation, reduced cooling and heating requirements, different ways of lighting our factories, offices, and homes -- these are just a few of the changes we'll make as we adapt to the energy realities of the future. Your creativity and expertise will be called upon to assist in building this energy ethic.

Finally, we must begin now to accelerate the search for virtually inexhaustible energy sources. The breeder reactor may hold such a promise. Others look upon fusion as an ultimate source. Still others foresee the use of solar energy, either directly

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for cooling and heating, or applied to energy-conversion processes. We would be derelict if we neglected any of these avenues.

To make these R and D dreams come true, the Federal Government will have to create the stimuli to produce the desired response.

For the last five years, the President has provided for a continual expansion of our efforts in energy research and development. Federal funding increased almost 75 percent from $382 million in Fiscal Year 1970 to $672 million in Fiscal Year 1973 and was then raised to $1 billion for Fiscal Year 1974. Last June the President announced a commitment to an even more rapid acceleration of this effort through a $10 billion Federal program over thenext five years, and he stressed that we would spend whatever additional sums were reasonably necessary.

Last week, the President announced that in Fiscal Year 1975 -- the first year of the five-year energy R&D program -- total Federal commitment for direct energy research and development will be increased to $1.8 billion, almost double the level of a year ago. It is only through such an accelerated research and development program that we can achieve the ability for self-sufficiency in energy.

Americans have a history of turning obstacles into opportunities, of using crisis as a catalyst for change.

Our word "crisis" comes from the Greek word for decision. We are at a decision point in our national history.

I am confident that, with your mature and objective judgments helping to formulate them, our major policy decisions will be sound ones. I am confident that the scientific community will make immeasurable contributions in support of these decisions. I am confident that working together here in America we will see this percent crisis through, move to the solution of the long-range problems, and in the end this will assure a greater security for everyone.

We can solve our energy problems by developing our domestic resources. We have the necessary technical know-how, we have the resources, all we need is the commitment to make the necessary investments now.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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STATEMENT OF THE HONORABLE EDGAR R. FIEDLER
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE SENATE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS
FRIDAY, FEBRUARY 1, 1974, AT 10:00 A.M.

The price of crude oil is an important issue for the American people in 1974. The ongoing rise in oil prices, which stems directly from the embargo imposed in the Middle East late last year, is having a significant effect on our society and our economy. The oil price rise adds directly to the already virulent inflationary pressures we face. The shortage and the price rise are both factors that are now depressing economic activity. They mark the beginning of a pervasive, long-term change in the life style of nearly every American. And they entail a small but noticeable drop in our standard of living.

This last point is worth pursuing for a moment, because it is not widely understood. There is considerable confusion about cause and effect. When prices rise because of a shortage of something as important to our consumption patterns as oil has been -- a commodity for which no immediate substitute is available -- then our total consumption, i.e., our standard of living, declines. There is no escaping that short-run result; the existence of a shortage insures it. Under these circumstances, whatever happens to prices -- whether they rise as they would normally do in a free market or whether that rise is suppressed by controls -- the shortage remains. And it is the reduced supply, not the price increase, that causes the decline in the standard of living. This happened with food in 1973 and is happening now with oil.

But the fact that the shortage is primary and the price rise secondary does not mean that what happens to prices is unimportant. Quite the contrary; what we have here is the classic economic role of prices as the signal flags that communicate the need for fundamental changes. The rise in crude oil prices tells producers of the need to develop new sources of supply and tells consumers that their use of oil must be curbed.

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These signals are of vital importance. Pervasive changes in the consumption patterns of the American people must take place over the next few years. As Bill Simon likes to put it, "We have been energy wastrels and we must change our ways."

I know of no effective mechanism for accomplishing this long-run adjustment except by permitting oil prices to rise substantially above their pre-embargo levels. This proposition is frequently, though by no means universally, recognized. It is carefully recognized in the Bill we are considering today, S. 2885, which would require the President to set ceiling prices on crude oil and products that would avoid price increases "... in excess of those that would have the function and effect of increasing long-run supply, diminishing long-run demand, and allocating said products to their most valuable uses." It is also recognized in the present price controls -- for example, in the ruling that exempted "new" domestic crude oil from regulation.

But while there is some agreement on the need for oil prices to move over time to their long-run equilibrium levels, there is not likely to be agreement on what that level is, on how long the "long run" is, or on whether it is useful for the price of oil to rise above its long-run equilibrium level in the meantime. On the first two of those questions, the Department of the Treasury has made estimates -- $7.00 per barrel for the long-run price with the "long run" arriving in three years -- as a part of its proposal for an Emergency Windfall Profits Tax. Although precise estimates were required for the tax proposal, there can be no confidence in the exactness that is implied by those numbers. One only has to recall the long history of premature forecasts of the arrival of competitive atomic power to appreciate the uncertainty that surrounds estimates of long-run equilibrium prices.

The question of near-term prices is, perhaps, even more difficult. The basic issue here is whether or not prices of crude oil should be rolled back from present levels. In general, I think that question should be answered in the negative.

There is a major question about the effectiveness of price controls on commodities for which a large share of our supply is imported. If a price ceiling is placed on foreign oil at a level below what the seller can obtain outside the United States, no foreign oil will be available to us. If, however, domestic prices are controlled while import prices

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are not (which is in part the current situation), and if foreign sellers charge all that the market can bear, U.S. importers will be willing to pay as high a price for foreign oil as is necessary to meet consumer demand in this country at the average price for domestic and foreign crude. This means that placing a lid on domestic oil prices will have the effect of raising the price paid for foreign oil. In fact, the more we suppress the price of domestic oil, the more that will raise the price of foreign oil, without significantly changing the average price. Thus, controlling the price of domestic oil does not -- as soon as this process works its way through the system -- reduce the average price of oil products paid by consumers. Before long, the American consumer ends up paying as high a price for petroleum products as he would have paid if no price controls existed. By the same token, the windfall profits that accrue to owners of crude oil will not be eliminated. The only effect of the price controls under these circumstances is to shift the windfalls from owners of domestic oil to owners of foreign oil.

Beyond that fundamental question, I think a major rollback of prices on all crude oil would have several important and undesirable consequences. First, there is a need to allocate efficiently the smaller supplies of petroleum that are available. Energy consumption is being reduced in a variety of ways: through voluntary conservation, through mandatory allocation, and through higher prices. The rise in oil prices in recent months is, I think, as important for this purpose as was the rise last summer in soybean prices and the rise in lumber prices during 1972 and early 1973. In both of those cases, the rise in prices helped to allocate the reduced supply. In both cases, prices today are well below their earlier levels.

We should also recognize that the voluntary and mandatory allocation methods we are using are not without cost. For example, when trucks are slowed to 55 miles per hour, the efficiency of our transportation system is reduced, which means that we will have to pay more for all goods transported by truck. Waiting in line at service stations is not only a pain in the neck but is also inefficient. Allocation through higher prices avoids these costs.

Second, a rollback of crude oil prices would reduce current domestic production. In view of the imbalance between supply and demand and the widespread expectation that prices are going still higher here at home, and in view of the prices currently being paid abroad for crude oil, a price rollback would dissuade producers from expanding supply from presently available sources and, in many cases, would bring about a reduction in current production, i.e., in anticipation of selling the crude at significantly higher prices at a later time.

Third, a major rollback would discourage the long-run investment commitments for exploration and development of new domestic energy sources that must be made now to move toward self-sufficiency by 1980. This point is recognized in S. 2885 by the provision for excepting new supply subject to a detailed projection of the investment expected to result from such an exception.

Fourth, there is a further cost to price controls in the form of various economic distortions that inevitably develop when prices are suppressed. If we have learned one thing during the thirty months of the Economic Stabilization Program, it is that price and wage controls can cause serious economic difficulties. Buyers and sellers, both, can always find ways to circumvent the regulations in ways that often involve substantial waste and inefficiency for the industry and the economy.

How these economic distortions might develop in the petroleum industry is difficult to anticipate. I have already mentioned the probability that current production of crude oil would be held back. In addition, perhaps "new products" (minor modifications to existing products) could be invented, as was done in the lumber industry in 1972. Perhaps something akin to "custom slaughtering" could be devised, as was done by the supermarket chains working in conjunction with the packing houses when the meat price ceilings were in effect last spring and summer. Perhaps sellers would require "tie-in" sales in which buyers who want products that are in short supply must also take a specified quantity of a product they may not want; this practice has been reported in the steel and petrochemical industries. Perhaps the oil companies would stop making certain low-profit product lines in order to concentrate production on -- and in a sense force their customers to purchase -- products that carry a larger mark-up, as the steel, paper and apparel industries, among others, have reportedly done. Finally, although this has not become a significant problem during the stabilization program, there is no doubt that some black-market transactions would take place at above-ceiling prices.

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These distortions have never become so widespread as to pervade the entire business structure or to threaten the basic efficiency of our economic system. Where they have become important is in industries experiencing an excess of demand over supply, just as the petroleum industry is now experiencing except more intensely. These problems developed under the same kind of cost-passthrough limitations on price increases that are embodied in S. 2885. Furthermore, if economic distortions were to become endemic in the oil industry -- and I want to emphasize that there are no present signs that this is happening -- public confidence in the ability of the Government to manage the energy crisis in a reasonably equitable manner would be eroded and the voluntary conservation efforts that have accomplished so much to date could be seriously jeopardized.

In summary, therefore, I believe first that there is a serious question about the efficacy of price controls on a commodity that is imported as heavily as oil is. Second, I believe there are serious difficulties involved in rolling back oil prices from present levels to below an estimate of what long-term equilibrium prices might be. The necessary economic adjustments that must take place in both the near term and the long run would be inhibited and a variety of dislocations would be likely to develop in the industry.

There is no doubt, however, that present price levels will create windfall profits for a number of companies. This problem should be dealt with forthrightly. The best way to do so, I feel, is through a tax on crude oil prices, as proposed in our Emergency Windfall Profits Tax.

PETROLEUM SITUATION REPORT

FEDERAL ENERGY OFFICE

FOR WEEK ENDED JANUARY 25, 1974

PETROLEUM SCORECARD

FORECAST SUPPLY DEFICIT	
January 1974	2.5 million B/D
1st Qtr. 1974	2.7 million B/D

APPARENT DEMAND
(Million Barrels per Day)

	Week Ended Jan. 25, 1974	Jan. 1 to Date
Forecast Demand	20.1	20.1
Apparent Demand	16.7	17.5
Indicated Savings	3.4	2.6

PERCENTAGE SAVINGS BY FUEL TYPE

	Week Ended Jan. 25, 1974	Jan. 1 to Date
Gasoline	16.5	7.7
Jet Fuels	34.5	26.1
Distillate Fuel Oil	12.9	10.8
Residual Fuel Oil	15.8	16.2
Total, 4 Products	16.9	12.1

IMPORTS
(Million Barrels per Day)

Forecast, with Fully Effective Embargo 4.9

	Week Ended Jan. 25, 1974	Jan. 1 to Date
Actual	5.1	5.1
Increase over Forecast	0.2	0.2

EMBARGOED FOR RELEASE UNTIL
11:00 A.M., EST, FRIDAY, FEBRUARY 1, 1974

HIGHLIGHTS

DEMAND FOR ALL PRODUCTS in the week ended January 25 fell further below forecast than in prior weeks. Year-to-date demand for each of the four major products is lower than forecast for January.

CRUDE OIL IMPORTS increased 252,000 barrels per day and totaled 2,423,000 barrels a day for the week ended January 25. Year-to-date daily imports of 2,358,000 barrels are below January forecast by 67,000 barrels per day.

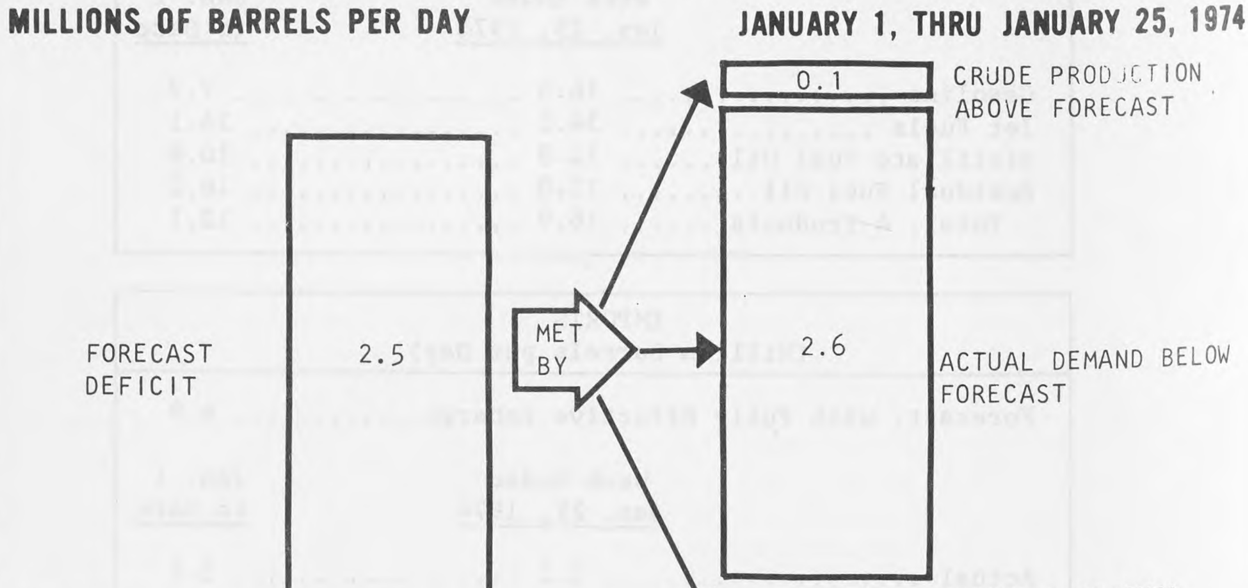
CRUDE OIL PRODUCTION increased this week to 9,229,000 barrels per day. Year-to-date production has averaged 9,153,000 barrels a day, 130,000 barrels over January forecasted daily average.

GASOLINE STOCKS remain below desirable and forecast levels despite a 7.7 percent curtailment in demand since January 1.

DISTILLATE FUEL OIL consumption, by accounts of fuel oil distributors along the East Coast, showed a substantial decline below pre-conservation consumption levels in the week ending January 26, 1974. The median level of savings ranged from 25 percent in the Philadelphia area to 15 percent in Winston-Salem, North Carolina.

WEATHER: Second consecutive week of temperatures much above normal for most of the U.S. For the past week, the only areas to show below normal temperatures were parts of the Southwest.

COMPARISON OF DEMAND/SUPPLY: The Deficit and How it was Met



CRUDE PETROLEUM REVIEW

Thousands of Barrels Per Day

	Week Ended January 25	January Forecast	January 1 to Date Actual	January 1 to Date Variance from Forecast
Production	9,229	9,023	9,153	+130
Imports	2,423	2,425	2,358	-67
Stock Change	+133 1/	-187	-94	-93
Crude Runs	11,508	11,635 2/	11,594	-41

1/ Calculated by Federal Energy Office from production, imports, crude runs to stills, and direct use.

2/ Revised to exclude unfinished oils.

CRUDE PRODUCTION

Crude production totaled 9,229,000 barrels a day for the week ending January 25, up 50,000 barrels over the prior week, which itself was revised upward by 27,000 barrels a day.

Year to date crude production has averaged 9,153,000 barrels daily, which is 130,000 barrels a day above the January forecast.

Following last week's year low average of 11,425,000 barrels a day, crude runs to stills for the week ending January 25 increased 83,000 barrels a day to a daily rate of 11,508,000 barrels. Despite the increase, year to date crude runs are still 41,000 barrels a day below the January forecast. Last week's runs included 2,338,000 barrels a day of foreign crude, the least foreign crude in the past year.

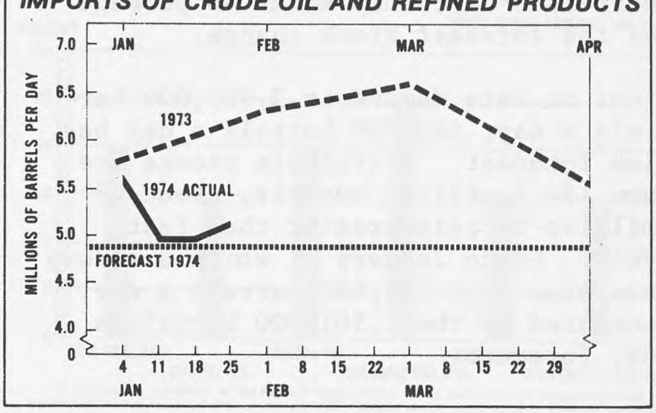
West Coast refinery runs experienced a decline of 100,000 barrels a day due to lack of crude oil and East Coast decreased 38,000 barrels a day due to operational problems; however, both decreases were offset by increases in other refining districts.

Crude oil stocks, as calculated by FEO, increased this week by 133,000 barrels a day for a weekly total of 0.9 million barrels. As the discrepancy found in last week's crude oil stock figures has not yet been identified, FEO will continue to calculate stock change as indicated in the Crude Petroleum Review table.

IMPORTS

For the week ended January 25, crude oil and refined products were imported at the rate of 5,140,000 barrels per day. This was a 158,000 barrel gain over last week. All of the increase came from crude imports which increased 252,000 barrels a day, while refined products declined 94,000 barrels per day. After several weeks of decline, the year to date daily average is now running at a level of only 6,000 barrels a day above the January forecast.

IMPORTS OF CRUDE OIL AND REFINED PRODUCTS

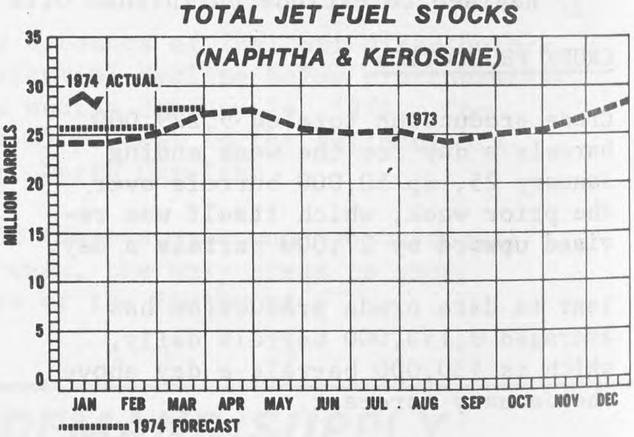


JET FUELS

Demand for jet fuels has gone down this week to 879,000 barrels, almost 35 percent below forecast. Production was 880,000 barrels a day, up 169,000 barrels per day from last week, while imports dropped 67,000 barrels a day. Supplies exceeded apparent demand by 130,000 barrels a day, permitting an 0.9 million barrel stock buildup.

Cumulative (year-to-date) demand for all jet fuels is 991,000 barrels a day, about 26 percent less than forecast and stocks are building up at almost 7,000 barrels a day, instead of a drawdown of 26,000 barrels a day, as forecast.

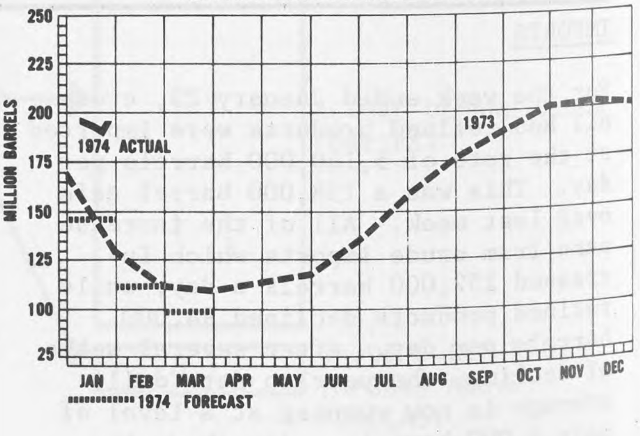
For the individual jet fuels, the year-to-date cumulative demand for naphtha type is 216,000 barrels per day, and for the kerosine type, it is 775,000 barrels per day. These demand rates for naphtha and kerosine type jet fuels are 41 percent and 21 percent, respectively, below the forecast demand. The naphtha type jet fuel stocks are now 5.8 million barrels, about 0.3 million barrels less than last year, and the kerosine type jet fuel stocks are at 23.1 million barrels more than last year.



DISTILLATE FUEL OILS

This week's demand of 3,887,000 barrels a day continues to be below forecast by almost 13 percent. Production dropped slightly, but imports were off by 85,000 barrels a day. Stocks in the week were drawn down 587,000 barrels a day, only about 40 percent of the forecast stock change.

Year to date demand is 3,987,000 barrels a day, 483,000 barrels a day below forecast. Distillate stocks are now 184.5 million barrels, about 45 million barrels greater than last year. Since January 1, stock drawdown has been only 673,000 barrels a day, compared to the 1,501,000 barrels a day forecast.

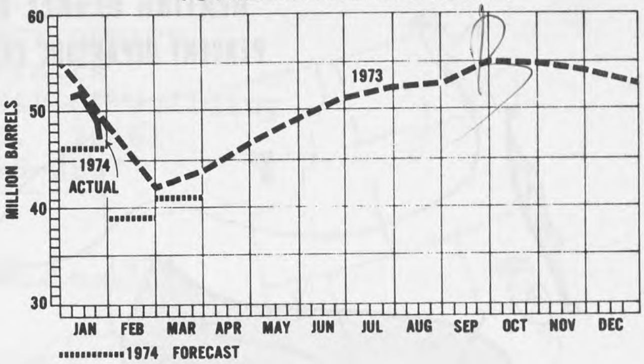


RESIDUAL FUEL OIL

Both production and imports of residual fuel oil increased this week and demand was down. However, imports remain about 450,000 barrels a day less than last year. Stock drawdown for the week was 1,775,000 barrels, or more than 250,000 barrels a day.

Cumulative demand this year has averaged 3,003,000 barrels a day, 16.2 percent less than forecast. While there is normally a stock drawdown during winter, the cumulative drawdown, at 234,000 barrels a day, is about 25 percent greater than forecast. Stocks are now about 2 million barrels less than last year. District V, the West Coast, has almost 11.1 million barrels in inventory, about 4.65 million barrels less than last year.

TOTAL RESIDUAL STOCKS

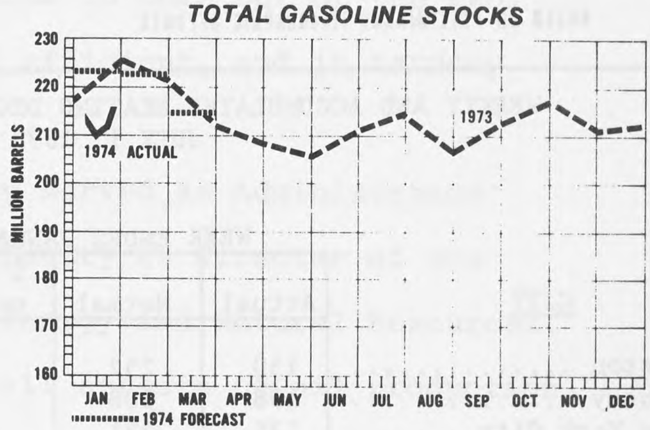


GASOLINE

Lower apparent demand permitted a 4 million barrel increase in inventories, not unusual for the season of the year, despite a further reduction in refinery gasoline products. This is the fourth successive week of gasoline production decline.

The cumulated demand for the year to date is 5.9 million barrels a day, a reduction of 490,000 barrels a day from the forecast demand. Cumulative stock buildup, however, is also below forecast by about 10.4 million barrels, despite this week's stock additions.

TOTAL GASOLINE STOCKS

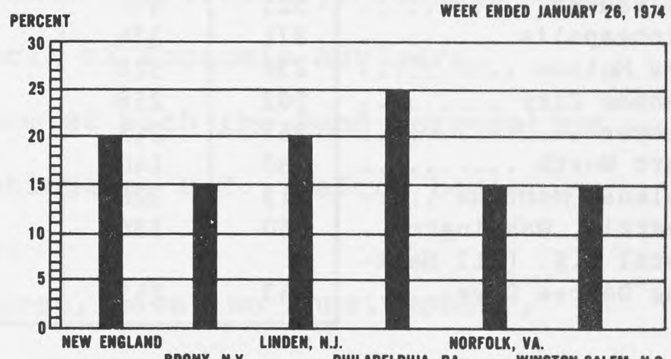


DISTILLATE FUEL OIL SAVINGS

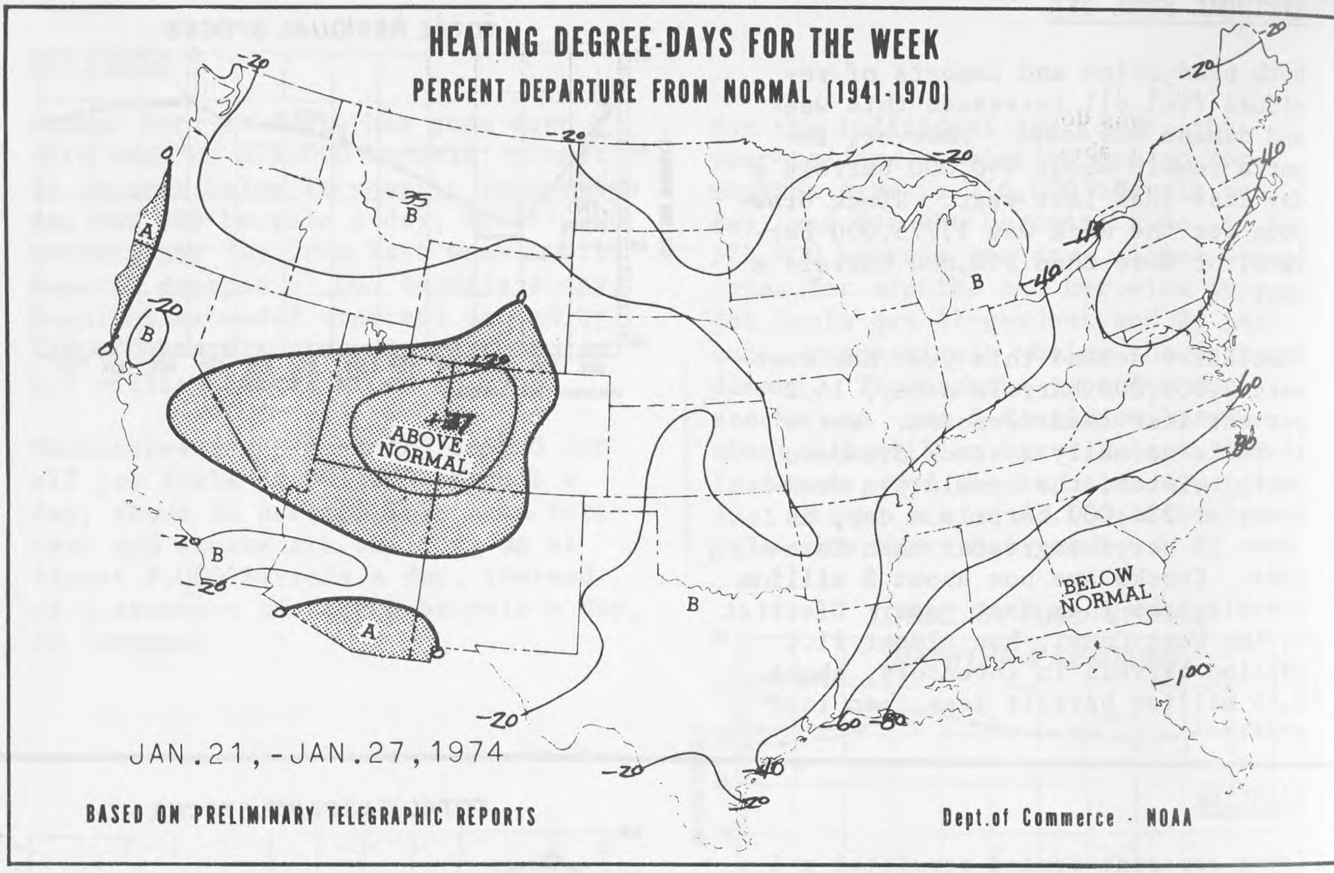
The data used in the calculations was calculated by the New England Fuel Institute from individual fuel oil distributors in isolated areas along the East Coast. Approximately 26,500 deliveries were involved, totaling over 5 million gallons. The same accounts were represented in both years and consumption was adjusted for weather differences. For the full sample, the savings amounted to 13 percent. Savings in urban areas tended to be greater than in the rural areas.

DISTILLATE FUEL SAVINGS*

WEEK ENDED JANUARY 26, 1974



* This data is submitted to the Federal Energy Office by an association of independent fuel oil distributors. It is reported to be a representative sample of the same consumer accounts comparing 1973 and 1974 but adjusted for weather.



WEEKLY AND ACCUMULATED HEATING DEGREE DAYS FOR SELECTED CITIES
JULY 1, 1973 TO DATE

CITY	WEEK ENDED JANUARY 27 Actual	Normal	% Increase over Normal	CUMULATIVE SINCE JULY 1 Actual	Normal	% Increase over Normal
Boston	150	252	-32.0	2,680	2,937	-8.8
Albany	198	308	-44.4	3,702	3,741	-1.0
New York City	135	231	-28.9	2,302	2,584	-10.9
Philadelphia	142	231	-37.3	2,358	2,657	-11.3
Washington, D. C. ...	107	203	-47.3	1,840	2,365	-22.2
Charlotte, N. C.	69	158	-71.0	1,623	1,902	-14.7
Cleveland	152	266	-42.9	2,791	3,285	-15.0
Detroit	185	286	-35.3	3,277	3,471	-5.6
Chicago	206	287	-28.2	3,257	3,353	-2.9
Milwaukee	325	411	-20.9	3,663	3,985	-8.1
Minneapolis	271	374	-27.5	4,404	4,613	-4.5
Des Moines	236	320	-26.3	3,601	3,748	-3.9
Kansas City	202	258	-21.7	3,030	2,943	+3.0
Denver	257	245	+4.9	3,457	3,251	+6.3
Fort Worth	130	140	-7.1	1,238	1,427	-13.2
Helena, Montana	212	326	-35.0	4,634	4,573	+1.3
Seattle, Washington .	150	186	-19.4	2,666	2,830	-5.8
Total U.S. (Oil Heating Degree Days	163	255	-35.9	2,824	3,068	-8.0

Note: Above normal degree days correspond to below normal temperatures.

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EMBARGOED FOR RELEASE UNTIL
11:00 A.M., EST, FRIDAY, FEBRUARY 1, 1974

SIMON NAMES WILLIAM A. JOHNSON TO ENERGY POST

Federal Energy Office Administrator William E. Simon today announced the appointment of Dr. William A. Johnson as Assistant Administrator for Policy Analysis and Evaluation.

In this capacity, Dr. Johnson will act as a reviewer and auditor of all policy decisions to come out of the FEO, to assure they are effective and efficient, and in harmony with national energy objectives.

Dr. Johnson, 37, previously served as Administrator Simon's energy adviser in his capacity as Director of the Treasury Department's Office of Energy and Natural Resources. In this position, he dealt with all aspects of oil production, refining, marketing, and importing.

A summa cum laude graduate of Syracuse University, he holds a doctor's degree in economics from Harvard. Prior to his appointment at the Department of the Treasury, Johnson was a senior economist with the Council of Economic Advisers.

He served as a senior economist with the Rand Corporation in California, New York, and Washington, D.C., before beginning work with the Federal Government.

Johnson and his wife, Margaret, have two sons, Robert, six, and Eric, eight. They live in Bethesda, Md.

-FEO-

E-74-42

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FOR IMMEDIATE RELEASE FEBRUARY 1, 1974

FEO ADMINISTRATOR SIMON NAMES LIGON, OWENS TO FEO POSTS

Federal Energy Office (FEO) Administrator William E. Simon today announced the appointment of Duke R. Ligon as Assistant Administrator for Policy, Planning and Regulation.

Ligon, 32, will replace John A. Hill, who will be returning to the Office of Management and Budget (OMB).

Simon further announced the appointment of Charles E. Owens, 29, as Ligon's Deputy Assistant Administrator.

An Oklahoma native, Ligon served as director of the Office of Oil and Gas from March 1973 until December 1973, when he was appointed Deputy Assistant Administrator for Policy, Planning and Regulation at the Federal Energy Office.

Hill, 31, will be returning to OMB as Deputy Associate Director for Natural Resources, Energy and Science. In this new position Hill will serve under Associate OMB Administrator Frank Zarb, who also served temporarily in the FEO.

Simon today personally thanked and praised Hill for his help in setting up the FEO.

"He did an outstanding job, on a very complex and delicate subject, in a crisis situation," Simon said. At FEO, Hill and Ligon directed the development of the new regulations

E-74-43

(more)

under the Mandatory Petroleum Allocation Act; a standby gas coupon plan; pricing policy; and the FEO staff organization.

Simon lauded Ligon's qualifications for his new post. His previous work dealt directly with national energy policy. He also served as Executive Secretary of the Oil Policy Committee, a Cabinet-level interagency group responsible for U. S. oil import policies, which was headed by Simon.

As head of the Office of Oil and Gas in the Department of Interior Ligon directed development of basic data and analysis used by the Energy Policy Office of the White House, and the Oil Policy Committee, in making national decisions on energy.

He also served until November 1, 1973 as Administrator of the first government voluntary petroleum allocation program, and administered the oil import program. Ligon's expertise is well known throughout the energy industry and in the Congress.

He earned a doctor of jurisprudence degree from the University of Texas Law School in 1969; completed graduate work in business and finance at the University of Texas in 1966; and earned a B.A. degree in chemistry from Westminister College in Fulton , Missouri, in 1963.

Owens, who also will continue serving as director of FEO's pricing division, until a successor is found, has directed the Cost of Living Council's energy pricing since July.

He was a consultant with the Ford Foundation, and an editor with McGraw-Hill Publications before joining the government. He earned his B.A. and M.A. degree in economics from the University of Texas, and is a native of Orange, Texas.

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FOR IMMEDIATE RELEASE FEBRUARY 1, 1974

SAWHILL OUTLINES ADMINISTRATION'S ENERGY PROGRAMS

The Federal Energy Office's short- and long-term approaches to resolve the energy crisis have been outlined in testimony before the Environment Subcommittee of the House Committee on Interior and Insular Affairs by FEO Deputy Administrator John C. Sawhill.

The FEO deputy administrator called for:

-- establishment of a Federal Energy Administration (FEA), upon approval by Congress, to assume the broad policy and regulatory responsibilities for energy now administered by the FEO, an office established by Executive Order of the President;

-- retention of a Federal Energy Office, within the Executive Office of the President, to coordinate matters of energy policy throughout the Federal Government; and

-- creation, also with Congressional approval, of an Energy Research and Development Administration (ERDA), to administer the long-range development of new technologies in the energy field.

In addition, Sawhill called for the establishment of a Department of Energy and Natural Resources, which would incorporate functions concerning the areas of energy and natural resources now contained in other departments. Once established, the new department would also incorporate the functions of the FEA and the ERDA.

E-74-40 (more)

Sawhill stressed the role of research and development to help the Nation cope with its energy shortages, and to become self-sufficient in energy production, through "Project Independence," as outlined by the President in his January 23 Energy Message.

Research and development, Sawhill said, should be viewed in terms of two strategies: one of short-range goals -- those realizable by the mid-1980's; and one of long-range goals -- those realizable beyond the 1980's.

Among short-range goals, Sawhill cited increasing domestic supplies of gas and oil; improving conservation measures; increasing the use of coal and nuclear power; and meeting these demands in an environmentally acceptable way.

Sawhill said the primary aim of the long-range programs should be to eliminate America's dependence on imported energy sources and to transform our energy production from nonrenewable fossil fuels to nonfossil sources like nuclear, geothermal, and solar power.

"It is the nature of research and development that the future is uncertain," Sawhill said, "but we believe it is imperative that we mount a massive, serious effort at uncovering the possibilities -- at determining as soon as we can -- which of the leads are promising, which are false."

-FEO-

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EMBARGOED FOR RELEASE UNTIL
11:00 A.M., EST, FRIDAY, FEBRUARY 1, 1974

SIMON NAMES PHILIP L. ESSLEY TO ENERGY OFFICE

William E. Simon, Administrator of the Federal Energy Office (FEO), today announced the appointment of Philip L. Essley, Jr., as Deputy Assistant Administrator of the FEO's Office of Policy Analysis and Evaluation.

Essley, who is 46, will concentrate on the administrative details of the office, whose function is to review and evaluate all existing and new FEO policies.

Essley previously served in the Treasury Department's Office of Energy and Natural Resources, as an adviser to Simon before he became the FEO's administrator, and in the Oil and Energy division of the Office of Emergency Preparedness (OEP).

Prior to Government service, Essley was a consultant to the oil industry as well as to the government of the United States and other nations.

A native of Oklahoma, Essley holds a Master's degree in petroleum engineering from the University of Tulsa, and a Master of Business Administration degree from Harvard University.

Essley and his wife, Jeanne, live in Falls Church, Va. They have four children, Jon, 22, Janan, 19, Jennifer, 15, and Joffre, 12.

-FEO-

E-74-41

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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EMBARGOED: NOT TO BE RELEASED UNTIL 12:00 NOON EDT,
FEBRUARY 4, 1974

STATEMENT OF
SECRETARY OF THE TREASURY GEORGE P. SHULTZ
BUDGET BRIEFING: FEBRUARY 2, 1974

The revenue estimates included in the 1975 budget show total receipts of $270 billion for fiscal year 1974 and $295 billion for fiscal 1975. These revenue totals, in conjunction with the expenditure estimates, result in moderate budget deficits in both years -- $4.7 billion in 1974 and $9.4 billion in 1975.

The increases of $38 billion and $25 billion in budget receipts in these two years reflect predominately the growth in taxes paid out of rising incomes, although various tax changes add to the totals as well (see attached table). The most important tax change is the rise in social security contributions: $8 1/2 billion in fiscal 1974 and $5 1/2 billion beyond that in fiscal 1975. The proposed windfall profits tax on crude oil is estimated to increase tax receipts $1 billion in fiscal 1974 and an additional $2 billion in fiscal 1975 (for a total of $3 billion in fiscal 1975). These estimates are net of the impact on

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regular oil industry corporate profits taxes; for fiscal 1975 gross receipts from the windfall tax are estimated at $5 billion, net receipts at $3 billion.

The 1975 budget continues the policy of moderate fiscal restraint on the economy that was followed over the past two years. Although the deficit moves higher from fiscal 1974 to fiscal 1975, the increase does not represent a change in policy. Rather, it reflects -- and will serve to cushion -- the softness in economic activity expected during the first half of calendar 1974.

In present circumstances, it is crucial that we maintain the flexibility to shift fiscal policy as needed. Economic forecasts have a special degree of uncertainty attached to them these days. Indeed, our revenue estimates are given in round numbers to emphasize this uncertainty; they should be considered in terms of a range of estimates extending a minimum of one percent on either side. Thus, if our expectations prove to be significantly off course -- if the economy does not show clear signs of recovering its vigor later in the year or, alternatively, if it bounces back too robustly -- we will be prepared to shift our budget position appropriately.

Projected Changes in Budget Receipts

Fiscal Years 1974 and 1975

($ billions)

	:Fiscal 1974: from :Fiscal 1973	:Fiscal 1975 : from :Fiscal 1974
Revenue changes traceable to:		
Economic growth	+28.4	+19.8
Windfall profits tax	+1.0	+2.0
Tax reform and simplification	--	-1.9
Social security changes	+8.4	+5.5
Other changes	--	-0.4
Total	+37.8	+25.0

Office of the Secretary of the Treasury
Office of Tax Analysis

January 24, 1974

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

2-88

FOR IMMEDIATE RELEASE February 1, 1974

Note to Correspondents:

Attached is a copy of the letter of transmittal from the Secretary of the Treasury to the President of the Senate proposing legislation to tax windfall profits of producers of crude oil during the period of adjustment in the supply of crude oil. The windfall profits tax would expire five years after it becomes effective. A copy of the bill also is attached. A similar letter was transmitted to the Speaker of the House.

Attachments

S-359

2-89

THE SECRETARY OF THE TREASURY
WASHINGTON

FEB 1 1974

Dear Mr. President:

I am enclosing a proposed bill entitled "Emergency Windfall Profits Tax Act of 1974" to tax windfall profits of producers of crude oil as recommended by the President on December 19, 1973, and in his message of January 23, 1974, on energy matters.

This legislation is designed to capture the windfall profits realized by oil producers during the period of adjustment in the supply of crude oil. The rates of tax are graduated from 10 percent to 85 percent. The tax would apply to the sale of each barrel of crude oil produced in the United States. The tax brackets would automatically adjust upward each month to phase the tax out gradually over the period during which oil supplies are expected to increase. The tax would expire by its terms five years after it becomes effective.

It would be appreciated if you would lay the proposed legislation before the Senate. A similar communication has been addressed to the Speaker of the House of Representatives.

Sincerely yours,

George P. Shultz

George P. Shultz

The Honorable
Gerald R. Ford
President
United States Senate
Washington, D. C. 20510

Enclosure

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A BILL

To impose a tax on windfall profits by producers of crude oil.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.

(a) Short Title.--This Act may be cited as the "Emergency Windfall Profits Tax Act of 1974".

(b) Amendment of 1954 Code.--Except as otherwise expressly provided, whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. EMERGENCY WINDFALL PROFITS TAX.

(a) Imposition of Tax.--Subtitle A (relating to income taxes) is amended by adding at the end thereof the following new chapter:

"Chapter 7.--EMERGENCY WINDFALL PROFITS TAX.

"Sec. 1601. Imposition of Tax.

"Sec. 1602. Computation of Tax.

"Sec. 1603. Definitions.

"Sec. 1604. Liability For and Collection and Payment of Tax.

"SEC. 1601. IMPOSITION OF TAX.

There is hereby imposed on the producer a tax computed as provided in this chapter on the windfall profits from crude oil produced in the United States. The Secretary or his delegate shall prescribe such rules and regulations as may be necessary to carry out the purposes of this chapter.

"SEC. 1602. COMPUTATION OF TAX.

"(a) Initial Month.--The amount of tax on windfall profits from crude oil shall be determined by applying the table of brackets and rates in this subsection separately to the windfall profit from each unit of crude oil sold in the first calendar month in which the tax imposed by section 1601 applies:

Bracket:	If the windfall profit from the unit of crude oil is:	The tax is:
First:	Not over $0.50	$0
Second:	Over $0.50 but not over $0.75	10% of the excess over $0.50
Third:	Over $0.75 but not over $1.10	2.5 cents plus 20% of the excess over $0.75
Fourth:	Over $1.10 but not over $1.70	9.5 cents plus 30% of the excess over $1.10
Fifth:	Over $1.70 but not over $2.50	27.5 cents plus 50% of the excess over $1.70
Sixth:	Over $2.50	67.5 cents plus 85% of the excess over $2.50

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"(b) Each Succeeding Month.--The amount of tax on windfall profits from crude oil in the second calendar month in which the tax imposed by section 1601 applies and each succeeding calendar month shall be determined by applying separately to the windfall profit from each unit of crude oil sold in such month the table of brackets and rates in subsection (a) modified--

"(1) Increase in first bracket.--By increasing on the first day of each such month until expiration of the tax imposed by this chapter the upper limit of the first bracket at the uniform percentage rate (when applied to the upper limit of the first bracket at the end of the next preceding month) required to increase such upper limit to three dollars at the beginning of the thirty-sixth month in which the tax is imposed.

"(2) Increase in other brackets.--By increasing on the first day of each such month until the expiration of the tax imposed by this chapter the lower and the upper limits of each of the second through the fifth brackets and the lower limit of the sixth bracket by the same number of cents the upper limit of the first bracket is increased for such month under paragraph (1) of this subsection.

The amount of increase in each bracket limit computed under paragraphs (1) and (2) of this subsection shall be rounded to the nearest whole cent. The Secretary or his delegate shall cause to be published in the Federal Register within 15 days after the effective date of this section tables with brackets computed in accordance with this section for each month the tax is imposed.

"SEC. 1603. DEFINITIONS.

"For purposes of this chapter--

"(1) The windfall profit of a producer from each unit of crude oil sold shall be the excess of the sales price of such unit over the base price of such unit.

"(2) In the case of a unit of crude oil sold as provided in paragraph (4)(A), the sales price shall be the amount for which such unit is sold (but in the case of a sale between related persons specified in section 267 or between members of a controlled group of corporations as defined in section 1563, not less than the representative market or field price for such unit, in the month sold, determined in accordance with section 613). In the case of a unit of crude oil sold as provided in paragraph (4) (B) or (C) the sales price shall be the representative market or field price for such unit, in the month sold, determined in accordance with section 613. For this purpose, such sales price and such representative market or field price shall not include the costs of any transportation or conversion processes which would not be included in gross income from the property under section 613, but shall not be reduced by the amount of the tax imposed by this chapter as required by section 613(a).

"(3) The base price of each unit of crude oil shall be the ceiling price on December 1, 1973, under regulations section 150.353 prescribed by the Cost of Living Council, as in effect on December 1, 1973, for domestic crude oil of the same grade and location, or in the event no ceiling price then existed for a unit of crude oil of the same grade and location, the base price shall be the ceiling price on December 1, 1973, for crude oil of comparable grade and location.

"(4) A unit of crude oil shall be deemed to be sold no later than--

"(A) the date sold,

"(B) the date transported from the premises within the meaning of section 613 and the regulations thereunder, or

"(C) the date of commencement of manufacture or conversion into a refined product within the meaning of section 613 and the regulations thereunder,

whichever first occurs.

"(5) The term "crude oil" shall mean--

"(A) a mixture of hydrocarbons which existed in the liquid phase in natural underground reservoirs and which remains liquid at atmospheric pressure after passing through surface separating facilities (and which may include small amounts of nonhydrocarbons produced with the mixture),

"(B) hydrocarbons which existed in the gaseous phase in natural underground reservoirs but which are liquid at atmospheric pressure after being recovered from oil well (casinghead) gas in lease separators (and which may include small amounts of nonhydrocarbons produced with the hydrocarbons), and

"(C) lease condensate.

"(6) The term "lease condensate" shall mean a natural gas liquid recovered from a gas well in lease separators or field facilities.

"(7) The term 'unit of crude oil' shall mean one barrel of crude oil consisting of 42 U. S. gallons.

"(8) The term 'producer' shall mean each person entitled to the deduction for depletion under section 611.

"(9) The term 'United States' shall mean the several States, the District of Columbia and the 'outer continental shelf' as defined in 43 U.S.C. §1331.

"SEC. 1604. LIABILITY FOR AND COLLECTION AND PAYMENT OF TAX.

"(a) Liability for Tax.--The producer subject to the tax imposed by section 1601 shall incur liability for the tax on the date that the unit of crude oil is deemed to be sold as provided in section 1603(4).

"(b) Responsibility for Collection and Remittance of Tax.--In the case of a unit of crude oil sold as provided in section 1603(4)(A) to a United States person (as defined in section 7701(a)(30))--

"(1) the tax imposed by section 1601, determined by reference to the certification required by subsection (c), shall be collected from the producer by the purchaser, and

"(2) the producer shall be treated as having been required to make a return of the tax collected by the purchaser under this subsection, as having made such return on the date the return of such tax by the purchaser was due, and as having paid such tax on the last day of the calendar month for which such tax was collected.

"(c) Certification by Producer of Oil.--At the time a unit of crude oil is sold as provided in section 1603(4)(A), the producer shall certify to the purchaser the base price for such unit of crude oil and such other information on such forms and in accordance with such regulations as the Secretary or his delegate shall prescribe. If no such certification is provided, the purchaser shall collect tax as if the base price were zero.

"(d) Liability Under Other Chapters.--Liability for tax under this chapter shall not be reduced by an overpayment of tax under another chapter of this Subtitle.

"(e) Cross Reference.--

"(1) Liability of purchaser.--For liability of a purchaser of crude oil for tax collected by him pursuant to subsection (b) (1), see section 7501.

"(2) Returns of tax.--For requirement of making returns of tax imposed by this chapter, see section 6011(f)."

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(b) Returns of Tax.--

(1) Section 6011 (relating to general requirement of return, statement, or list) is amended by redesignating subsection (f) as subsection (g) and by adding the following new subsection (f):

"(f) Returns of Emergency Windfall Profits Tax.--

"(1) Each purchaser of a unit of crude oil sold as provided in section 1603(4)(A) shall, at the time prescribed in section 6077, make a return of the tax collected by him with respect to sales made to him during the preceding calendar month.

"(2) Each producer of a unit of crude oil sold as provided in section 1603(4) shall, at the time prescribed in section 6077, make a return of tax for which he incurred liability under section 1604 during the preceding calendar month and which was not collected by the purchaser under section 1604(b)(1).

"(3) Records and information.--Any person subject to the provisions of sections 1601 through 1604 shall--

"(A) keep such records or furnish such information as may be required by regulations or forms, and

"(B) file such forms and furnish such information as may be prescribed by the Secretary or his delegate by rules or regulations."

(2) (A) Part V of subchapter A of chapter 61 (relating to time for filing returns and other documents) is amended by adding at the end thereof the following new section:

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"SEC. 6077. TIME FOR FILING EMERGENCY WINDFALL PROFITS TAX RETURNS.

"Each return required to be made under section 6011(f) (relating to emergency windfall profits tax) shall be filed on or before the 15th day following the close of the calendar month to which the return relates."

(B) The table of sections for Part V of subchapter A of chapter 61 is amended by adding at the end thereof the following:

"Sec. 6077. Time for Filing Emergency Windfall Profits Tax Returns."

(c) Technical and Conforming Amendments.--

(1) The table of chapters for subtitle A is amended by adding at the end thereof the following new item:

"Chapter 7. Emergency windfall profits tax."

(2) Section 5 (a) (relating to cross references to other rates of tax on individuals, etc.) is amended by adding at the end thereof the following new paragraph:

"(6) For emergency windfall profits tax, see section 1601."

(3) Section 12 (relating to cross references relating to tax on corporations) is amended by adding at the end thereof the following new paragraph:

"(9) For emergency windfall profits tax, see section 1601."

(4) Section 164 (a) (relating to deduction for taxes) is amended by adding the following new paragraph immediately following paragraph (5):

"(6) The emergency windfall profits tax imposed by section 1601."

(5) Section 275 (relating to disallowance of deduction for certain taxes) is amended by redesignating subsection (b) as subsection (c) and by adding the following new subsection (b):

"(b) Exception for Emergency Windfall Profits Tax.--Notwithstanding subsection (a), a deduction shall be allowed for the tax imposed by section 1601."

(6) Section 511 (relating to imposition of tax on unrelated business income of charitable, etc., organizations) is amended by adding the following new subsection at the end thereof:

294.

"(e) Emergency Windfall Profits Tax.--The tax imposed by section 1601 shall apply to an organization subject to tax under this section."

(7) Section 535(b)(1) (relating to adjustments to taxable income with respect to taxes in determining the accumulated earnings tax) is amended by striking out "December 31, 1940)" and inserting in lieu thereof "December 31, 1940, and the emergency windfall profits tax imposed by section 1601)".

(8) Sections 545(b)(1) and 556(b)(1) (relating to adjustments to taxable income with respect to taxes in determining undistributed personal holding company income) are amended by striking out "December 31, 1940)" and inserting in lieu thereof "December 31, 1940, and the emergency windfall profits tax imposed by section 1601)".

(9) Section 613(a) (relating to percentage depletion) is amended by striking out "rents or royalties" and inserting in lieu thereof "rents or royalties and any tax imposed by section 1601".

(10) Section 6201(a) is amended by adding at the end thereof the following new paragraph (5):

Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE February 4, 1974

COUPON RATES ANNOUNCED FOR NEW TREASURY NOTE ISSUES

The Treasury has set coupon rates of 6-7/8% for the $2.25 billion of 3-1/4 year notes and 7% for the $1.5 billion of 7-year notes, the sale of which was announced on January 30, 1974. The series titles will be 6-7/8 percent Treasury Notes of Series C-1977 and 7 percent Treasury Notes of Series A-1981.

The notes of Series A-1981 will be auctioned on Tuesday, February 5, and the notes of Series C-1977 will be auctioned on Wednesday, February 6.

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EMBARGOED UNTIL MONDAY, FEBRUARY 4, 1974 - 10:00 A.M.

TESTIMONY BY THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
February 4, 1974

Mr. Chairman and Members of the Committee:

I am pleased to be with you this morning to discuss the fiscal effects of the energy problem and the Administration's tax proposals which deal with aspects of this situation.

The proposals I will discuss today have several purposes. The first proposal is for an Emergency Windfall Profits Tax. It is designed to recover excessive profits from oil producers. The next group of proposals were among those I presented to your Committee last April. They affect incentives for the domestic production of oil and gas and include the proposals for a Minimum Taxable Income, for a Limitation on Artificial Accounting Losses and for an Exploratory Drilling Credit.

The remaining proposals are designed to eliminate several undesirable tax rules which now exist in connection with foreign oil and gas operations. Elimination of those rules would make foreign investment in oil somewhat less desirable than it now is. We believe these proposals relating to foreign operations to be important in the overall picture, but they are directed at limited situations and should not be confused with the broader effort to recover excessive profits.

Before I commence that detailed discussion, let me give you a brief overview of the problem.

The Overview

Prior to the Arab bloc embargo, the United States demand for oil had increased to an annual rate of about 17 million barrels of oil per day, only 11 million of which were produced here. Our domestic oil output and capacity stabilized at about 11 million barrels per day around 1970. In fact, the current rate of exploration and development of new domestic reserves is barely sufficient to cover the natural decline in productivity from existing oil fields. This situation is attributable to a number of interrelated factors, including:

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. Government regulation of natural gas prices at artifically low levels since around 1960. Low gas prices obviously reduce the potential profitability of the gas discovery effort. Since most gas is "associated" with oil, whatever makes gas discovery less profitable makes the discovery of both oil and gas less profitable.

. Rising costs of discovering additional on-shore reserves. After a century of intensive discovery effort, the remaining on-shore prospects are less attractive than off-shore prospects. The best on-shore prospects today are wells much deeper than most now in operation and they involve much higher discovery costs.

. Delays in drilling outer continental shelf prospects. Although costly to drill, these prospects should yield large oil and gas capacities. The delays have been due in large part to government leasing policies and concerns with environmental questions.

. Delays in the output from Alaskan and off-shore California fields. These fields should yield large oil and gas reserves but their production has also been delayed due to government leasing policies and concerns with environmental questions.

. Government regulation of domestic crude oil prices. Crude oil prices were frozen at August 1971 levels until January 1973 when small price increases were allowed. "New oil" prices were freed after two years of controls in August of 1973, but "old oil" prices are still controlled. The presence of price controls discouraged additional investment which could have increased productive capacity.

To satisfy our increasing energy demands in the face of the restrictions on domestic supplies resulting from the above factors, we turned increasingly to imports.

But under the mandatory import program that had been in effect since 1959, quotas existed which significantly limited imports of oil and refinery products. As demand grew but domestic production held steady after 1970, import quotas were increased, but not at a rate which kept up with increases in demand. Investment in additional refinery capacity in this country thus became unattractive because of the uncertainty that sufficient supplies of crude oil--either domestic or imported--would be available for refining. Accordingly, many U.S. companies built refineries offshore and most of the increase in U.S. imports took the form of refined products such as middle distillate fuels and, particularly, heating oils.

By the beginning of 1973, these domestic circumstances--controlled prices of oil and gas, rising discovery costs, delays in exploration and production for environmental and other reasons and a growing reliance on imports to satisfy increasing demands--converged with a growing foreign demand for oil stimulated by world-wide economic boom conditions. The result: world oil prices began to advance from their historical levels. And, when the dollar was devalued for the second time in February 1973, the dollar price of oil in world markets began to rise higher.

The continued high level of demand for oil through the first nine months of 1973 quickly brought foreign production to maximum short-run capacity, further increased world oil prices, and set the stage for the world crisis precipitated by the embargo invoked by Arab bloc producers in October 1973, and the consequent skyrocketing of oil prices.

Most of the profits produced by these very major increases in the price of imported crude oil have gone to the foreign governments that own or control the oil, in the form of higher taxes or royalties. However, a significant part of the increased profits from this source has gone to United States companies and individuals in the business of producing and shipping this oil, primarily as a result of sales in foreign countries and, to a lesser degree, as a result of sales to United States consumers.

Through the Federal Energy Office, the Administration has requested sacrifices in oil use from all citizens so that as little as possible disruption to our lives and our economy will result from the oil supply disruption. The Administration believes that it would be unfair for United States producers to be advantaged while their fellow citizens are making the sacrifices required, by retaining excessive profits from the abnormally high prices caused by the shortage.

Increased profits from higher prices to oil owners which occurred in 1973 are reflected in Table 1, which compares reported profits and rates of return on equity for the years 1969-1972 and the nine-month period ended September 30, 1973, for 22 of the largest United States oil companies. It is important to keep in mind that increased profits are not necessarily "excessive" profits.

Table 1
Net Income After Tax and the Rate of Return on Equity of Selected Oil Companies (1963-1973)
($mill)

Company	1973 Net income	1973 % b/ return	1972 Net Income	1972 %	1971 Net income	1971 %	1970 Net income	1970 %	1969 Net income	1969 %	1968 Net income	1968 %	1967 Net income	1967 %	1966 Net income	1966 %	1965 Net income	1965 %	1964 Net income	1964 %	1963 Net income	1963 %
Totals	9,087.3	15.1	5,951.7	9.7	6,007.3	10.2	5,556.7	10.4	5,549.9	10.9	5,539.4	11.8	5,175.6	12.0	4,701.9	11.7	4,203.7	11.2	3,846.9	10.8	3,579.7	11.0
a/Amerada Hess Corp.	151.8	23.5	46.2	8.3	133.3	24.0	114.0	25.7	86.5	23.7	89.8	19.8	76.8	22.2	73.1	22.6	63.4	22.2	59.4	23.0	52.4	22.7
Ashland Oil Corp.	98.3	17.3	68.0	13.5	40.5	8.8	.52.0	11.7	56.9	13.3	53.6	14.6	48.4	15.5	45.0	17.6	35.8	15.5	23.7	14.0	18.1	11.7
Atlantic Richfield Co.	270.2	8.9	192.5	6.5	210.5	7.3	209.5	7.5	230.1	8.5	105.8	7.8	130.0	10.2	113.5	9.4	90.1	8.1	47.1	7.3	44.0	7.0
Cities Service Co.	135.6	9.8	99.1	6.9	104.5	7.7	118.6	8.9	127.2	10.0	121.3	9.9	127.8	10.9	120.1	11.0	100.6	10.2	84.5	9.1	77.5	8.6
Clark Oil & Refining Corp.	30.5	29.9	8.3	9.8	3.6	4.7	10.8	14.0	13.0	18.7	12.1	20.4	11.5	23.4	9.6	24.2	8.7	27.8	2.1	8.9	1.5	6.8
Continental Oil Co.	242.7	14.0	170.2	10.4	140.1	9.1	160.3	10.7	146.4	9.8	150.0	10.6	136.1	10.1	115.6	10.3	96.2	10.2	100.1	11.1	87.4	10.5
Exxon Corp.	2,440.0	18.5	1,531.8	12.5	1,516.6	13.1	1,309.5	12.0	1,242.6	12.3	1,276.7	13.0	1,155.0	12.3	1,090.1	12.1	1,021.4	11.9	1,050.6	12.6	1,019.5	12.8
Getty Oil Co.	135.0	8.8	76.1	5.2	120.1	8.5	103.2	7.8	105.8	8.3	98.3	8.3	118.2	10.5	92.3	9.0	57.7	6.9	43.0	5.6	43.0	6.1
a/Gulf Oil Corp.	760.0	14.0	447.0	8.3	561.0	10.2	550.0	10.4	610.6	12.1	626.6	13.2	568.3	12.9	504.8	12.3	427.2	11.2	395.1	11.0	371.4	10.9
a/Kerr-McGee Corp.	58.8	10.8	50.6	10.1	40.7	10.8	35.9	10.3	33.6	10.3	36.4	12.0	32.1	11.5	33.0	12.9	25.1	14.6	20.7	14.7	18.8	15.8
Marathon Oil Co.	129.4	15.2	79.8	10.2	88.7	11.7	86.5	11.8	89.4	12.1	83.3	12.7	73.9	12.3	68.8	12.3	60.1	11.3	60.4	11.8	49.1	10.2
Mobil Oil Corp.	842.8	15.7	574.2	10.9	540.8	10.9	482.7	10.4	456.5	10.4	430.7	10.3	385.4	9.8	356.1	9.5	320.1	9.1	294.2	8.8	271.9	8.6
Murphy Oil Corp.	53.6	24.4	14.3	7.6	11.1	6.2	9.3	6.5	6.2	4.5	7.3	5.4	8.2	6.2	8.4	7.6	6.4	6.1	4.3	4.9	4.8	5.7
Phillips Petroleum Co.	230.4	12.1	148.4	8.1	132.3	7.6	132.3	7.8	127.8	7.7	129.9	8.0	164.0	11.0	138.4	10.3	127.7	9.9	115.0	9.3	108.1	8.9
Shell Oil Co.	332.7	10.9	260.5	8.9	244.5	8.7	237.2	8.6	291.2	10.9	312.1	12.3	284.9	13.8	255.2	13.4	234.0	13.4	198.2	12.3	179.9	12.0
Skelly Oil Co.	44.0	7.5	37.6	6.8	38.3	7.0	36.1	7.0	38.4	7.7	40.3	8.5	42.0	9.3	37.0	8.8	34.0	8.8	25.7	7.1	24.2	7.0
Standard Oil of Calif.	843.6	14.4	547.1	10.5	511.1	10.4	454.8	9.8	453.8	10.3	451.8	10.7	409.4	10.3	401.2	10.8	391.2	11.1	345.3	10.5	322.1	10.5
Standard Oil Co. (Ind.)	511.2	12.4	374.7	10.0	340.6	9.6	314.0	9.3	321.0	10.0	309.5	10.1	280.9	9.6	255.9	9.1	219.3	8.1	194.9	7.5	183.1	7.3
Standard Oil Co. (Ohio)	74.1	6.6	59.7	5.6	58.8	5.7	64.4	6.3	51.9	5.3	70.1	13.0	67.1	14.5	56.9	13.3	49.7	12.7	43.8	12.0	38.9	11.4
Sun Oil Co.	230.0	12.3	154.7	8.8	151.6	8.9	139.1	8.4	152.3	9.4	164.4	10.9	156.2	15.2	100.6	10.8	85.5	10.1	68.5	8.8	61.2	8.4
Texaco Incorporated	1,292.4	25.0	889.0	12.4	903.9	13.4	822.0	13.1	769.8	13.1	819.6	14.5	754.4	14.8	692.1	15.0	636.7	14.9	577.4	14.6	547.6	15.6
Union Oil of Calif.	180.2	10.6	121.9	7.6	114.7	7.4	114.5	7.6	138.9	9.5	149.8	10.9	145.0	11.2	134.2	11.2	112.8	10.4	92.9	14.7	55.2	9.9

a/ Full years income estimated on the basis of income reported for the first nine months of 1973.
b/ Equity as of September 30, 1973.

Source: Standard and Poors' Industrial Survey, Moody's Industrial Manual, Quarterly Financial Statements Filed with the Security Exchange Commission (10 Q Forms).

Office of the Secretary of Treasury
Office of Tax Analysis

February 1, 1974

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Our preliminary investigation indicates that the 1973 profit increases are primarily attributable to foreign inventory profits from skyrocketing prices, increased profits from increases in foreign product prices and efficiencies in foreign refinery and other operations unrelated to the prices paid by United States consumers. A number of the companies have pointed out that the higher 1973 profits must be interpreted in the light of the lower than normal profits realized in 1972 and the several years immediately prior.

Whatever conclusions may be drawn from the 1973 figures, if the shortage in 1974 produces even higher prices for oil, that fact will cause increased profits to major oil companies from domestic oil sales. The estimated amount of increase attributable to this single element may be seen from Table 2.

Table 2

Average Price - $/bbl. Crude 1/	Annual Profit After Income Tax (billion $) Increase 2/	Total
1973		9.0 3/
1974:		
6.50	1.7	10.7
8.00	3.4	12.4
9.00	4.5	13.5
10.00	5.6	14.6

1/ The estimated average price for domestic crude oil as of January 1, 1974, is $5.25 in the case of old oil and $9.50 in the case of new oil.
2/ The increased net incomes shown for 1974 relate only to domestic crude oil production.
3/ Estimated 1973 net income after taxes from Table 1.

While the Administration believes oil owners should not be permitted excessive profits at the expense of their fellow Americans, let us be clear that United States oil prices must adjust upward if higher cost methods of extracting oil are to be used to satisfy our demands. Higher costs of producing oil will mean higher prices for oil. Producers will not produce unless prices cover their costs. And government production would be no solution, for a government producer would have the same costs or, if less efficient, greater costs. However, short run price increases for oil above the level necessary to call forth the supplies we need give rise to windfall profits. Those windfalls may be taxed very heavily to the producers of oil without impeding the desired free market processes and without imposing additional costs on consumers.

The Windfall Profits Tax is designed:

First, to tax very heavily windfall profits to owners of oil,

Second, to avoid interference with the legitimate profit expectations which will be required to meet our demands and make us independent of foreign supplies, and

Third, to avoid any tax-generated price increases for consumers.

<u>Economic Background</u>

The ability of oil producers to increase the production of oil during the next two or three years is considered by experts to be quite limited. Prospects have to be found, geological and geophysical work has to be done, wells have to be drilled, pipelines have to be built and refineries may have to be expanded or built. Therefore, price increases do not have the effect of stimulating nearly immediate supply increases as is the case with some other products, such as foodstuffs.

The expert consensus is that only a small amount of additional oil from domestic sources can be expected in the next 6 to 18 months. There are marginal wells which were previously capped and which might be economically produced now at the increased prices available for oil, but this supply source is not major in the overall context. Within 18 to 24 months oil could begin to be economically produced at current increased price levels by secondary and tertiary recovery methods. Over a three to five year period, significant additional production at current increased price levels could probably be obtained from new domestic prospects. And after three to four years, the Alaska pipeline should be completed.

In contrast to the short run, then, over a period of about three to five years, it is reasonable to expect that oil supplies can be increased significantly. Historically, the amount of the increase in supplies of oil has been at least 1 percent for every 1 percent increase in the price of oil.

Table 3 shows the relationship between price increases and supply increases for the years 1936 to 1972.

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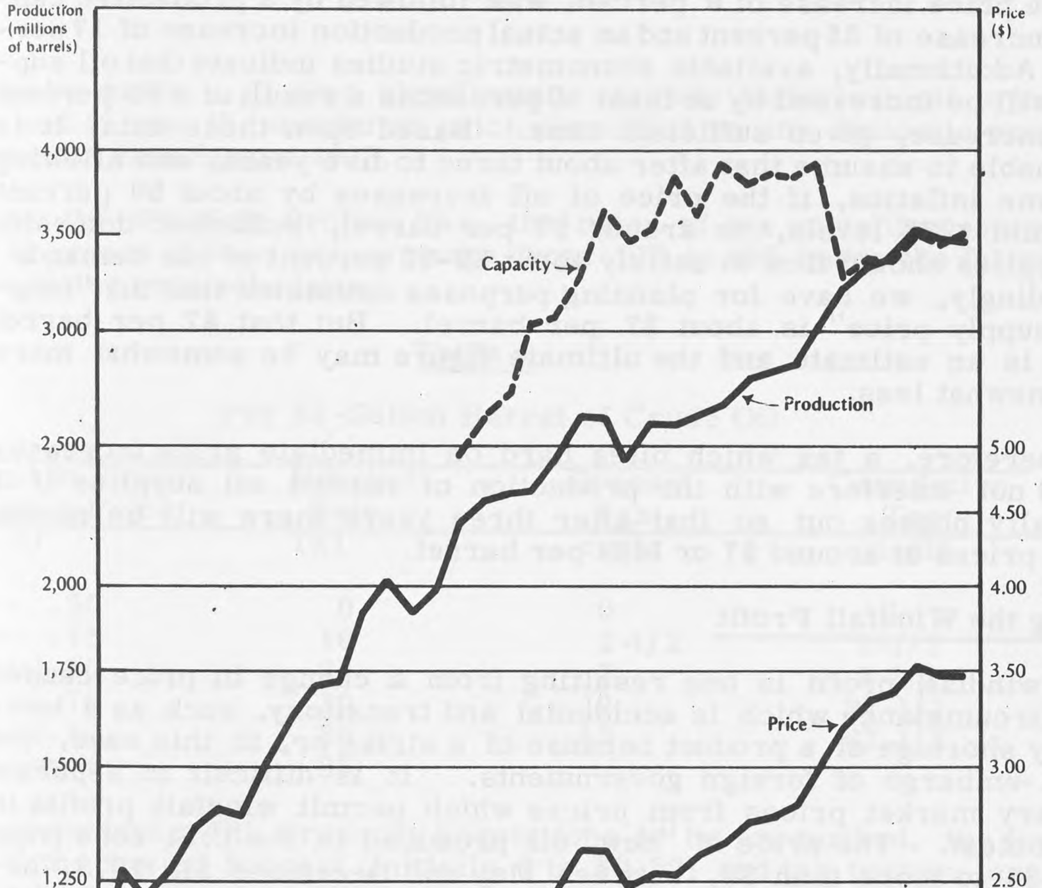
TABLE 3

Crude Oil Production, Capacity, and Price Per Barrel at Wells, 1936-1972



Source: United States Department of the Interior, Bureau of Mines

Over each of the two five-year periods from 1953-1958 and 1963-1968, a price increase of 9 percent was followed by a productive capacity increase of 35 percent and an actual production increase of 17 percent. Additionally, available econometric studies indicate that oil supplies will be increased by at least 50 percent as a result of a 50 percent price increase, given sufficient time. Based upon these data, it is reasonable to assume that after about three to five years, and allowing for some inflation, if the price of oil increases by about 50 percent from mid-1973 levels, to around $7 per barrel, sufficient domestic oil supplies should flow to satisfy about 85-90 percent of our demands. Accordingly, we have for planning purposes estimated that the "long-term supply price" is about $7 per barrel. But that $7 per barrel figure is an estimate and the ultimate figure may be somewhat more or somewhat less.

Therefore, a tax which bites hard on immediate price increases should not interfere with the production of needed oil supplies if it gradually phases out so that after three years there will be no tax on oil prices at around $7 or less per barrel.

Taxing the Windfall Profit

A windfall profit is one resulting from a change in price caused by a circumstance which is accidental and transitory, such as a temporary shortage of a product because of a strike or, in this case, the cartel-embargo of foreign governments. It is difficult to separate ordinary market prices from prices which permit windfall profits in this context. The price of "new" oil produced in the U.S. rose from about $4 to more than $9, between May and December 31, 1973, because of our demands for that oil. That is a very major price increase and some price increase was necessary to call forth the needed additions to our domestic supplies which will occur over a period of three to five years. Over the near term, however, some part of that price reflects a windfall resulting from actions by the Arab-bloc nations.

Thus for the next year or two, the price rises which have already occurred are <u>more</u> than sufficient to call forth the additional domestic oil which will <u>in fact</u> be produced during that period. Some part of present prices produces windfall profit and additional price increases resulting from the cartel-embargo would be pure windfall.

A determination of the amount on which to impose the Windfall Profits Tax requires selection of a base amount which can be received without tax and from which to determine the taxable amount. In this respect it is similar to and will act as an excess profits tax. The Cost of Living Council's <u>ceiling</u> price as of December 1, 1973 (CLC Reg. §150.353) was selected as the reference point for the base price. It is a known price and no new, separate or costly calculations will

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have to be made. It also significantly exceeds historical oil price levels and it was the maximum price permitted on any domestic production until late August 1973.

Under the Windfall Profits Tax, the rates of tax on selling prices of oil in excess of base prices range from 10% to 85% under the following graduated rate schedule:

Table 4

Per 42-Gallon Barrel of Crude Oil

Amount in Excess of Base Price ($)	Bracket Rate (%)	Bracket Tax cents	Cumulative Tax cents
0-- .50	0	0	0
.51-- .75	10	2-1/2	2-1/2
.76--1.10	20	7	9-1/2
1.11--1.70	30	18	27-1/2
1.71--2.50	50	40	67-1/2
2.51--over	85		

In accordance with Treasury regulations to be prescribed, the top level of the lowest bracket (initially 0 to $0.50) and the bottom level of each higher bracket will be automatically adjusted upward monthly in the uniform percentage required to make the 10 percent rate of tax applicable after 36 months only to amounts in excess of the expected average long-run supply price of about $7 per barrel. Each higher bracket will be adjusted upward to apply to a constant number of cents per barrel above the next lower bracket. That portion of the price increase which remains after payment of the above Windfall Profits Tax is subjected to ordinary income tax.

As you can see from Table 5, the Windfall Profits Tax on the oil will be large if the oil shortage is severe enough to cause large price increases in oil and modest if the shortages and price increases are modest:

Table 5

Net Price Received by Oil Producer After
Proposed Emergency Windfall Profits Tax
(Base Price of $4.00 per Barrel)

	Month						
Price:	1	6	12	18	24	30	36
$10	$6.35	$6.47	$6.67	$6.94	$7.30	$7.80	$8.47
9	6.20	6.32	6.52	6.79	7.15	7.65	8.32
8	6.05	6.17	6.37	6.64	7.00	7.43	7.78
7	5.90	6.02	6.22	6.42	6.63	6.85	7.00
6	5.58	5.65	5.75	5.84	5.94	6.00	6.00

If we have underestimated the long-run supply price, the tax imposes little penalty. For example, suppose it turns out that three years hence a price of $8, rather than $7, is necessary to elicit a domestic supply equal to 85-90 percent of consumption at the then corresponding product prices. In that event, a tax would still apply but it would only be 22 cents a barrel, less than 3 percent of the price. Thus, producers who believe the $7 price is too low can nonetheless proceed on the basis of their own price judgments in the knowledge that when the windfall disappears and their investments become productive, the tax should also disappear, and that even if the tax does not then disappear, it will impose only a minor and vanishing penalty. This is to be contrasted with the situation which would result if prices were controlled. A $7 price ceiling would be equivalent to a 100 percent tax on prices above that amount, and if the long-term supply price should turn out to be higher than $7--or if producers <u>expect</u> it to be--we simply would not get the supplies we need.

However, the tax rates and bracket changes have been designed so that an owner of oil will be discouraged from withholding production until after the tax rate declines or the tax expires. The price of oil is or shortly will be as high as it is likely to be for the next five years (in terms of 1974 dollars) and will begin a gradual decline to the long-term supply price. Higher prices now increase the incentives to increase supplies, and gradually increasing supplies will gradually reduce prices. Accordingly, apart from the tax, the owner of oil must

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attempt to produce the oil quickly to take advantage of the higher existing prices. Taking the rate of decline of the tax into account along with the expected price decline, we estimate that the gain from delaying production of oil to avoid the tax would be less than 1/2 of 1 percent per month on the average (see Table 6 below). Therefore, we believe that no sensible producer will fail to convert his oil to money since the value of the use of that money would be greater than the 1/2 of 1 percent per month he could gain by leaving his oil in the ground.

Table 6

Illustrative Effect of the Windfall Profits Tax on Net Proceeds Realized by Oil Producers, for Two Patterns of Oil Prices

	Number of Months after enactment	Hypothetical prevailing price of oil	Net producer proceeds	Average increase, per month
Pattern A:	1	$10.00	$6.35	
				0.24%
	12	9.00	6.52	
				0.59%
	24	8.00	7.00	
				0.00%
	36	7.00	7.00	
Pattern B:	1	9.00	6.20	
				0.25%
	12	8.00	6.37	
				0.33%
	24	7.00	6.63	
				0.45%
	36	7.00	7.00	

The combination of graduated rates and a scheduled upward adjustment of the brackets accomplishes three major purposes:

-- First, the graduated rates impose very high rates of tax on extraordinary price increases and "windfall" profits which are attributable more to an externally induced shortage in crude supplies than to long-run market conditions, but impose a lesser amount of tax on relatively small increases above the Cost of Living Council ceiling price.

-- Second, the automatic upward adjustment of the tax brackets recognizes that windfalls will be shortlived and that prices should peak in the near future and return to lower levels as they gradually result in greater supplies. Most important, it recognizes that if producers are to make the investments which will be required to make us independent, they must be able to count on an absence of burdensome special taxes on prices when those investments become productive several years hence.

-- Third, the phaseout of the tax as the windfall disappears assures that the tax will not cause higher prices for consumers, for the technical reasons I shall discuss later.

The tax will be imposed on the oil producer at the time of sale of the crude oil or at the end of the month in which produced if not sold. It is contemplated that the tax will be collected and remitted on a monthly basis as follows:

(i) The purchaser of crude oil will withhold and remit the amount of the tax from the sales price paid to the oil producer by the 15th day following the end of each month for all crude petroleum purchased during the month.

(ii) In the case of crude produced but not sold, as in the case of an integrated producer, the tax will be paid by the producer by the 15th day following the end of the month of production.

In computing percentage depletion, the amount of the Windfall Profits Tax is subtracted from gross income from the oil property before computing percentage depletion. The effect of this is to deny percentage depletion on the amount of the windfall which is taxed away.

Because the period of extraordinary profits is expected to be limited in duration, it is important that Congress reconsider the tax after several years of experience. Accordingly, the tax is to expire by its terms 60 months after the date of enactment.

<u>Price Rollbacks Are Not a Reasonable Alternative to the Windfall Profits Tax</u>

It would be a fundamental mistake--for everyone except foreign oil producers--to roll back oil prices to some former level. The reasons are several:

First, consumers will end up paying about the same prices in any event. The most they would be spared is a few cents a gallon for a few months. (A $1 reduction in the price paid for "new oil," for example, would translate initially into less than a one-half cent per gallon decrease in the price of gasoline and the market would quickly offset that initial decrease.) The principal effect would be to shift profits from the U. S. to abroad.

Second, the mere presence of ceilings of any sort will tend to dampen the new investment required to produce the increased oil we need. Investors are understandably wary of activities which come to be governed primarily by the laws of politics rather than the laws of economics.

Third, ceiling prices which are less than the prices producers think will prevail will deter them from investing--regardless of whether it is the price authority or the producers whose cost assumptions are correct. Judgments on complex matters like this always differ. Even supposing the government's price controllers could correctly guess the long-term supply price and use that as a ceiling, the ceiling would inhibit needed investment by producers whose judgments differ. In order to get to the long-term supply price, the ceiling would have to be set substantially higher.

Although it is plainly true, many observers fail to recognize that whatever we do with price controls cannot affect the price of the more than 30 percent of our oil we now import to satisfy our demands. The price of that oil fluctuates according to world demands and world supplies. Recognizing this, our Cost of Living Council rules permit refiners to pass through the foreign price they must pay. Thus, the prices of U.S. petroleum products are subject to controls, but the control system, in a sense, rides on top of the price of crude--and products go up in price when the world crude oil price goes up regardless of what we do to control the price of domestic crude oil. This means that the price levels at which no more petroleum products will be bought by consumers, the so-called "market clearing prices," cannot be controlled by controlling domestic crude oil prices. Consumers will eventually pay the same prices for petroleum products whether or not domestic crude prices are controlled. What we do when we control domestic prices at levels below world market levels is simply to permit our refiners to buy our domestic oil too cheaply--compared with world prices--and to bid higher for foreign oil to satisfy our consumers' demands. This, in turn, means that the larger amounts spent by consumers go not to domestic producers and to our government in taxes, but to foreign oil producers and foreign governments.

Of course, we could prevent this by denying U.S. consumers the right to buy the foreign oil products for which they are willing to pay or by not permitting cost pass-throughs for foreign oil prices. But if we do so, we will only be spiting ourselves since either of these measures will prevent foreigners from exporting oil to the United States at a time when we need it, before we have increased our degree of self-sufficiency.

Price rollbacks sound good to consumers until the consequences are appreciated. The consequences would be large transfers of dollars to foreigners and an ultimate reduction in oil for the U.S. consumers, all ironically incurred for price reductions which would be minor and evanescent.

Windfall Profits Tax Compared with Alternative Taxes

We believe that the Windfall Profits Tax will be considerably more effective and efficient than would either an excise tax or an excess profits tax.

The Windfall Profits Tax differs from an excise tax in that it will in fact operate to tax profits, as the portion of the price to which it will apply is above the level required to cover costs in all but exceptional cases. At the present price of $10 for new oil, the tax in its first month would exceed profits only if costs exceed $6.35 a barrel (see Table 5)--which is hardly likely for production planned months ago when prices were much lower. (Prices were controlled at levels below $4 until late August.) If in some small fraction of cases that should not be true, the tax could not exceed profits by more than a few cents per barrel.

An ordinary excise tax shares with the Windfall Profits Tax the virtue of simplicity but, in contrast, is not necessarily a tax on profits and is an undesirably blunt instrument to use in this case. Excise taxes are usually stated as so much per unit or as a percentage of the price of the unit. An excise tax stated as so many cents per barrel or gallon of oil would have to be paid regardless of the amount by which oil prices rose (or didn't rise). That is undesirable since the tax would not be related to the windfall. An excise tax stated as a percentage of the sales price would tax more heavily those who produce oil of higher quality and price than those who produce oil of lower quality and price, which is undesirable since, again, the tax would not be related to the windfall.

A classic excess profits tax of the type in effect during World War II or the Korean War would be a nightmare of complexity and uncertainty. It would be very difficult to design and administer a tax which would not impair the ability and incentive of oil producers to make the investment necessary to produce the additional oil needed to make us independent.

While prior excess profits taxes differed significantly, they contained the common elements of (i) a determination of profit in excess of some base amount, (ii) the application of a high rate of tax to the excess amount and (iii) complex exceptions designed to alleviate the penal nature of the high tax rate in situations in which the general rule determination of excess profits yielded an inequitable result. The following problems existed in prior excess profits tax laws:

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. Determination of base period and fair rate of return. No period can be selected which was a normal period for all taxpayers. That is to say, during any taxable year or years selected, some taxpayers' rates of return on investment or profits will be higher or lower than others for many extraneous reasons, such as strikes, floods, etc. Two basic methods have been used to determine a normal profit for the base period. One method is to compute a rate of return on invested capital during the base period, treat that as a normal profit rate, and impose a tax on any profits realized in excess of that rate. The other is to treat the absolute amount of profits realized during the base period as normal profits and impose a tax on any profits realized in excess of that amount. Combinations of the two basic methods have also been used. The assumption of normality for any historical rate of profits or any absolute amount of profits for a particular taxpayer for a particular period is subject to challenge because of the infinite variations in taxpayers' situations. For example, during whatever base period is selected, some taxpayers' businesses were contracting, some expanding; some used heavy amounts of equity capital, some relied heavily on debt; some engaged in heavy research and development expenses, others maximized earnings by postponing research and development expenses, and on and on.

. Exceptions for abnormalties. Because of the problems referred to above and others, complex machinery has always been required to adjust the inevitable inequities arising from the selection of base periods and the calculation of base period profits. Administrative boards and courts become entangled for years over these questions. The World War II and Korean War excess profits tax cases spawned over 54,000 applications for over $6 1/2 billion of relief because of claimed abnormalties in the computation of excess profits. Thousands of lawsuits, the last of which has not yet been decided, required large expenditures of time and manpower for both government and taxpayer in complex economic arguments over how much was too much profit.

. Incentive for wasteful expenditures. Since the tax is conventionally imposed at a high rate and only on net profits, it has the effect of causing expenditures which would not otherwise be made and which are wasteful. For example, the corporate taxpayer at a 48% income tax rate must use 52 cents of its own money for every $1 expended. However, if the marginal tax rate is raised to 85% by the addition of an excess profits tax, only 15 cents of every $1.00 of excess profits spent by the taxpayer comes from its pocket--the other 85 cents will be taken in taxes if not spent. Experience teaches that this leads to wasteful practices and inefficiencies which increase or maintain product prices to consumers without creating corresponding benefits to society.

Applying an excess profits tax only to the net profit of oil production would be even more difficult, for the following reasons:

. Increased Coverage. The expected windfalls will accrue to all owners of oil, who include thousands of individuals, trusts, estates, specially taxed corporations such as insurance companies, and other corporations not generally associated by the public with oil companies. Accordingly, the windfall tax must apply to all owners of oil, not just to large oil companies, if it is to be effective. The World War II and Korean War excess profits taxes have applied only to corporate taxpayers. It is safe to say that as complex to administer as prior taxes have been, an excess profits tax affecting thousands of non-corporate taxpayers would be greatly more complex.

. Determination of excess profits. It would be necessary to determine the excess profits from oil production alone if the tax were to be confined to the windfall. Complex allocations of income and expense would have to be made. In the case of the numerous individuals, estates and trusts who keep minimum formal records, the allocation problem would be even more sizeable.

. Taxable income management. Taxable income management through wasteful expenditures would be easier to achieve for oil producers since their incomes are reduced currently through the deduction of most of the costs of new wells and percentage depletion. Wasteful drilling practices and wasteful expenditures for overhead items could reduce the impact of the tax to a large extent without corresponding benefits to society from productive new wells or research.

Other Aspects of the Windfall Profits Tax

The Windfall Profits Tax would tax only the person who has the windfall, the owner of crude petroleum. This can be illustrated by looking at gasoline price increases. From October 1, 1973, to late January 1974, average gasoline prices increased by 9.5 cents per gallon.

In the same period, average crude oil prices increased by between \$3 and \$3.50 per barrel or about 8 cents per gallon (there are 42 gallons to a barrel). The remaining 1-1/2 cents of the 10 cent increase was permitted to refineries and distributors by the Cost of Living Council to offset higher costs based on a thorough evaluation of their costs and profits. The windfall profit is reflected in the 8 cents which inured to the owner of crude oil and he is the person who must pay the tax if the windfall profit is to be taxed. Refiners, wholesalers, and retailers of petroleum products have been permitted only price increases under the Cost of Living Council rules which reflected, on a dollar-for-dollar basis, the actual costs they experienced.

It should also be noted that the Windfall Profits Tax will tax similarly those oil producers who are similarly situated. A producer who receives a \$1 per barrel increase for low-priced oil with a base price of, say \$3.00, is taxed the same as a producer who receives a price

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increase of $1 per barrel for his higher quality and higher priced oil with a base price of, say $4.50. These relative base prices were previously established by market forces and are doubtless fairer than any which could be devised administratively.

The Windfall Profits Tax applies only to domestic production. It is not sensible to attempt to tax the windfall on imported oil for two reasons. First, anything which reduces the net price received by the foreign producer below what he would receive if the oil were sold in another country will only prevent imports from coming to the United States. The oil will tend instead to be sold elsewhere if the net price to producers is higher there because of a U.S. tax. Second, the amount of windfall realized by the company from which the imported oil is purchased is limited --the windfall will be realized primarily instead by the foreign government. This is easily seen by looking at increases in reference or posted prices of oil by foreign governments, which have increased radically and repeatedly in recent months to capture the windfalls from the operating companies. A tax or tariff on imported oil should be imposed only to discourage imports for national security or other reasons, which goes beyond what is appropriate at this time.

The Tax is Not Passed on to Consumers

The consumer currently receives government protection against unfair price increases through a combination of price controls and allocation policies. The Windfall Profits Tax complements these rules and will not have the effect some claim of increasing prices to consumers. Statements to that effect indicate a lack of understanding of how the tax operates. A tax which is less than the windfall profit will always fall on the oil producer.

Why isn't the tax passed on to the consumer? It is because the producers of oil are willing, even if reluctantly, to take less for the oil than the amount consumers are willing to pay and are in fact paying. Producers made their decisions to produce oil expecting prices below the current higher prices which are all that consumers will pay. (If consumers were willing to pay more, and were permitted by price controls to do so, producers would already be charging it.) If consumers will pay no more and producers are willing to take less, producers will absorb any tax which does not reduce their expected profit, i.e., reduce it by more than the windfall profit. On the other hand, if the tax is more than the windfall, the tax could fall on consumers in varying degrees, depending upon supply response (the greater the supply response, the more apt the tax is to fall on the consumer). The following example may be helpful.

. Suppose that producers are producing at full capacity and are willing to sell at a price of $x. For extraordinary reasons the price rises to $x+2, producing a "windfall" profit of $2. That represents the maximum price that consumers are willing to pay because if they were willing to pay more producers would be charging more.

. If a tax of $1 is imposed it will not affect supply, since by definition the supply is the same at any level above $x. If producers could previously have added $1 to the price they would have done so already. If they now try to add $1 to the price, demand will simply fall. Thus, the price to consumers will not change and the oil producers will have to pay the $1 to the tax collector.

. However, if there is no windfall profit in the price, a tax will affect the amount which oil producers are willing to supply and some part of the tax will inevitably be passed on in the form of a price increase, as a lesser supply will result in price increases. The greater the supply response (i.e., the greater the contraction in supply), the closer to the amount of the tax the price increase will tend to be.

Proposals Relating to Domestic Incentives

Among the tax proposals which I presented to you in April 1973 were several which affect incentives for domestic exploration for and production of oil and gas. They are the proposals for the Exploratory Drilling Credit, for a Minimum Taxable Income and for a Limitation on Artificial Accounting Losses.

I said to you in April:

> "...the need is for new exploration in the United States which will add to the national wealth of known oil and gas reserves for the future and assure the continued availability at reasonable prices at home--not abroad--of adequate fuel supplies."

To that end we proposed a new investment credit for exploratory drilling. This credit operates in much the same way that the investment credit operates, and we expect it to be similarly effective in encouraging new exploration.

The tax law now contains incentives for oil and gas production in the form of the percentage depletion allowance and the deduction for intangible drilling costs. Of these, the provisions for intangible drilling costs are the more effective incentive for new production because they relate to the drilling operation itself and because the deductions may be taken whether or not the drilling is successful. Percentage depletion, on the other hand, relates only to production, and is a more diffused incentive because its benefits are available only if the drilling is successful and then only over a period of years.

The new exploratory drilling credit is concentrated on the activities which are most needed, namely, the discovery of new fields and reservoirs. And since it provides a major and immediate benefit for drilling activity, it should have a significant incentive effect on that activity.

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The existing incentives provided by percentage depletion and the immediate deduction of intangible drilling costs would be lessened respectively by the Administration's proposals with respect to Minimum Taxable Income (MTI) and Limitation on Artificial Accounting Losses (LAL). These reductions in existing incentives, which are not large in relation to aggregate investment in the industry, are necessary for other reasons and are more than offset by the somewhat larger and more efficient incentives which would be provided by the proposed Exploratory Drilling Credit.

The purpose of both the MTI and LAL proposals is to stop the spectacle of high income taxpayers paying little or no federal income tax and thus to remove an element which tends to corrode the indispensable public confidence in our tax system. The Internal Revenue Code contains many preferences designed to provide incentives for particular activities. We believe that Congress should review them individually from time to time so that those which have become outmoded and unnecessary can be revitalized or eliminated. However, the pressing need at this time is to see that such provisions, in total, do not give rise to the public impression that tax laws apply unfairly in favor of the wealthy, who are the persons most likely to respond to the incentives. Thus, the Minimum Taxable Income proposal deals with existing incentives (leaving their reexamination to another day) and proceeds on the philosophy that while individual incentives may be good, there may be too much of a good thing. The Minimum Taxable Income proposal would place a limit on the aggregate amount of certain incentives which may be used by a particular taxpayer. Stated very roughly, the concept is that a taxpayer should not be permitted to use such incentives in an aggregate amount which exceeds half of his "economic" income. Just as the Code now places limits on particular incentives--such as the 50 percent of income limitation on the charitable deduction--the Minimum Taxable Income proposal would place a limitation on aggregate incentives.

In designing the Minimum Taxable Income provision, we were mindful that it would affect the use of percentage depletion in cases where percentage depletion in combination with other covered items exceeded half of the taxpayer's economic income. We concluded after careful consideration that, while individual taxpayers would complain, the proposal's effect on percentage depletion would be minimal in the aggregate and would not significantly affect capital investment for increased production of oil and gas. Whatever slight adverse effect the proposal might have in that regard, we believe it is the necessary price of preserving public confidence in the tax system generally.

The LAL proposal also lessens somewhat the incentives provided by the immediate deduction of intangible drilling costs. In the case of producing wells, such deductions often create accounting losses even though the well is in fact profitable. Under the proposal such losses could be used only to offset income from oil and gas properties, and not to offset other income. The purpose of the proposal is to prevent high income taxpayers from eliminating their current taxable income from other sources by using deductions which do not represent economic losses. Drilling expenses incurred in connection with holes which turn out to be dry are not artificial losses and are unaffected by the proposal. While the proposal limits the use of such artificial losses, it does permit their utilization against oil and gas income and in that sense provides an incentive to oil and gas investment which partially offsets the disincentive.

Looking at the April 30 proposals as a package, the proposals for MTI and LAL would reduce to some degree the existing incentives for investment in oil and gas, but the proposal for an exploratory drilling credit would, in terms of dollar benefits to taxpayers, more than offset the dollar detriments arising from those proposals. Thus, when both proposals are considered together, the dollar tax incentives offered for investment in oil and gas remain essentially unchanged--but a significant portion of those dollar incentives has been rechanneled to operate in a much more efficient way to produce new oil and gas reserves.

Thus, we urge your Committee to act promptly on the proposed exploratory drilling credit, but to keep in mind that it must be considered in the total context of the proposals for Minimum Taxable Income, to which we hope you will also accord a high priority.

Proposals Relating to Foreign Operations

As a part of the program to make our nation independent in energy resources, we believe it desirable, within the limits of fairness, economic efficiency, and national security to emphasize incentives for domestic exploration as distinguished from foreign exploration. With that in mind, we presented to you last April a proposal relating to the recovery of foreign losses that are deducted against United States income. We now have two additional proposals relating to foreign operations which we ask that you consider.

The Foreign Tax Credit.

All of these proposals require an understanding of the international system for avoiding double taxation of income earned in one country by a citizen of another country.

The major nations of the world have a network of systems designed to avoid excessive double taxation of income. Those systems vary in detail but fall into two general categories. Under some systems, income earned abroad is simply not taxed in the home country. France, and the Netherlands, for example, have systems which generally follows that basic concept. Other countries, including the United States, Great Britain, Germany, Canada, and Japan--our major trading partners--have tax credit systems.

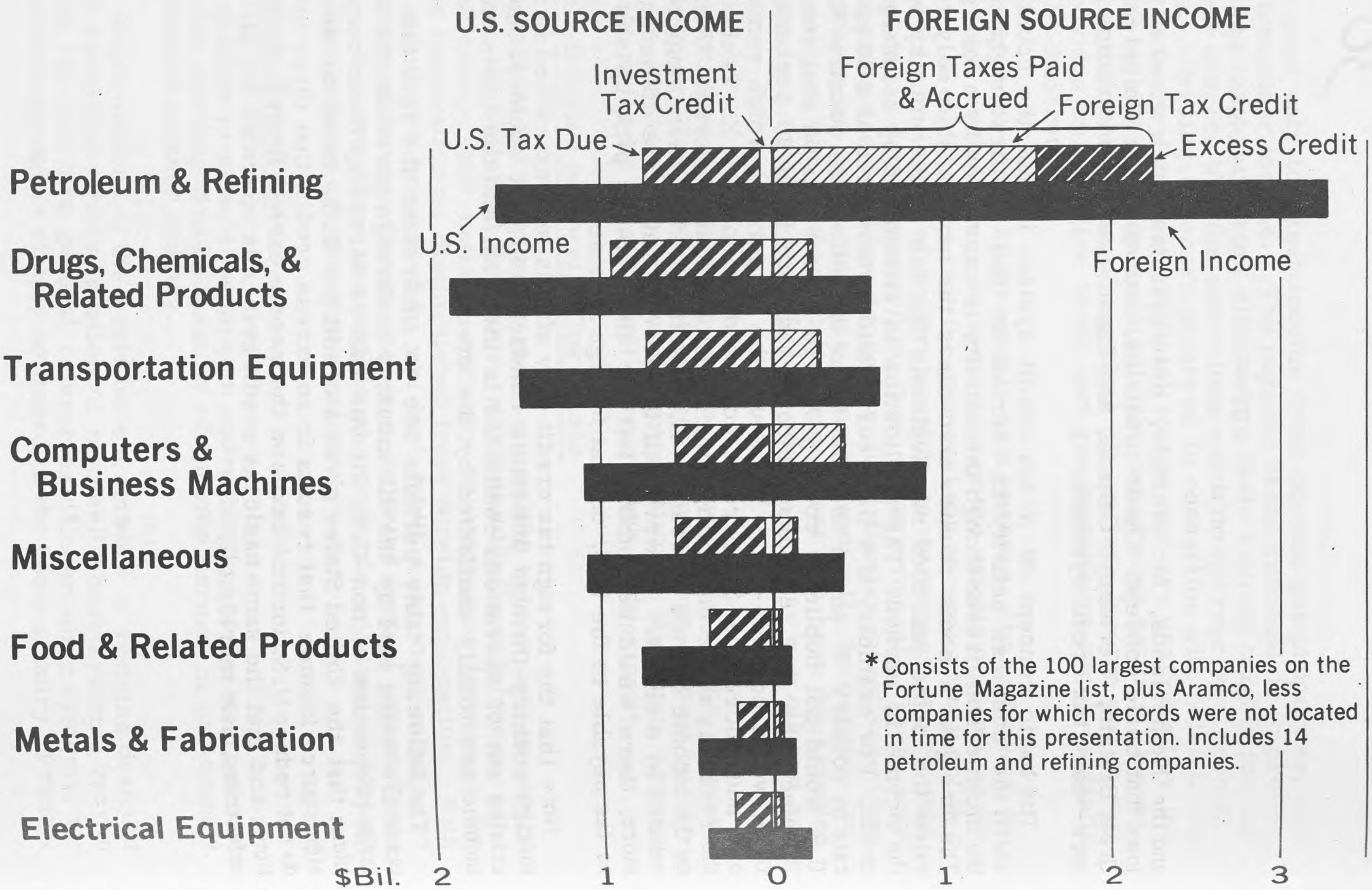
The basic concept of a tax credit system is that the country in which the business activity is carried on has the first right to tax the income from it even though the activity is carried on by a foreigner. The foreigner's home country also taxes the income, but only to the extent the home tax does not duplicate the tax of the country where the income is earned. The duplication is eliminated by a foreign tax credit. For example, if a U.S. corporation were taxed at a 30 percent rate in country X on its income from operations in country X, the U.S. would not duplicate country X's 30 percent tax on that income. But since the U.S. corporate income tax rate is at 48 percent, the U. S. would collect--i.e., "pick-up" the 18 percent which remained over and above the 30 percent collected by country X. Technically the result is achieved by imposing a hypothetical 48 percent U.S. tax on the income earned in country X, with the first 30 percentage points rebated by a credit. However, if the foreign rate were 48 percent or more, there would be nothing left for the U.S. to pick up and thus no tax payable to the U.S. on that foreign income.

Note that the foreign tax credit only affects income earned in some foreign country through activities conducted in that country. Income arising out of operations conducted in the U.S. and the taxes on that income are totally unaffected by the credit.

The following table permits one to understand the fact that high taxes are being paid by the oil industry to foreign governments on the large proportion of non-U.S. income that is earned by these corporations; that the United States gives a credit for U.S. taxes on the foreign source income that results in an excess credit; that these credits do not reduce U.S. income taxes on the income earned from U.S. operations; and that the same basic tax credit principle operates for all U.S. industries, not merely oil.

Table 7

INCOME AND TAXES PAID, OF THE 79 LARGEST U.S. COMPANIES,* 1970



*Consists of the 100 largest companies on the Fortune Magazine list, plus Aramco, less companies for which records were not located in time for this presentation. Includes 14 petroleum and refining companies.

Office of the Secretary of the Treasury.
Office of Tax Analysis

January 31, 1974

It is also important to note that the satisfactory functioning of this credit system depends upon reciprocity among nations. Thus, the U.S. reciprocally has the first right to tax income of foreigners arising out of operations in the U.S., and the home foreign countries either give those foreigners a credit for the U.S. tax or they exclude the U.S. income entirely from the home country's tax base.

When Congress wrote the basic tax credit provisions in 1918 and when the question of oil country taxes first became controversial twenty-odd years ago, circumstances were different from what they are to-day. Most foreign countries today have income tax rates nearly as great or greater than the U.S. tax rate. Thus, after our companies have paid their tax abroad, there is little or nothing left for the U.S. to "pick-up" on that foreign income unless we wish to impose a tax which duplicates the foreign tax. It has been the broad position of our government, under this and previous administrations, that the avoidance of double taxation is a sound principle and that we should continue to participate in the international system designed to avoid it. If we were now to withdraw from the system, we would invite re-taliation and discrimination from other nations and would be required to rethink and renegotiate international arrangements. Excessive tax burdens would be imposed on U.S. companies operations abroad and their international competitive position would be severely affected.

In summary, the basic foreign tax credit must be understood not as a tax loophole or positive incentive to foreign investment, but rather as part of a system designed to allocate primary taxing jurisdiction to the government within whose borders the income is earned. The system does not reduce the total tax bill of U.S. companies below the amount they would have paid to the U.S. if the income had been earned here. They are excused from paying U.S. tax on foreign in-come only to the extent that they have paid an equivalent tax on that income to a foreign government. We must accept the fact that other countries now impose taxes comparable to ours, so that the U.S. now collects little or no tax from operations conducted by its corpor-ations in most major foreign countries.

There still remain, however, certain "tax haven" countries which impose little or no tax, and there exist also some countries where the tax rates are much higher than U.S. tax rates. Much of the compli-cation in the present system arises out of the desire of taxpayers either to average or not to average (depending upon the circumstances) the income and taxes of high tax and low tax countries.

At the present time, the oil producing countries impose taxes at very high rates. If these taxes were expressed as a percentage of taxable income as defined by our rules, they would be in the neigh-borhood of 90 percent. But if they were only as high as our corporate income taxes, namely 48 percent, the U.S. would still collect no tax on earnings in those countries. However, the difference of 40-odd percentage points between those rates and U.S. rates produces very large "excess tax credits" which, under existing rules, can be used to eliminate the tax that the U.S. would otherwise "pick up" in the low tax, tax haven countries. One of the proposals I shall discuss later deals with an aspect of that fact.

Recovery of Foreign Losses

The April proposal with respect to the recovery of foreign losses is directed to a situation that arises because a taxpayer with losses in a foreign country can deduct those losses against income earned in the U.S. in the year of the loss. When the foreign operation becomes profitable in a later year, the foreign country often collects tax on the profits without regard to the prior loss, and if that tax is as large as our 48 percent tax, the resulting credit will absorb any U.S. tax on those foreign earnings. The result is that the United States shoulders the burden of the start-up deductions, but the foreign country collects the tax when the operation becomes profitable. Such losses often arise in connection with the exploration for oil or gas deposits abroad, involving large intangible drilling and development costs.

The April proposal would modify the foreign tax credit provisions to require that where a United States taxpayer has deducted foreign losses against United States income, such losses would be taken into account to reduce the amount of foreign tax credit claimed by such taxpayer on foreign earnings in later years. This would eliminate the present situation which permits the current deduction of intangible drilling costs and other start-up expenses in a foreign country against United States source income and then permits a foreign country to claim the full income taxes on the profits, with a United States tax credit for such taxes when production begins. The proposal, by restricting this possibility, would eliminate a present United States tax benefit for commencing foreign drilling operations. The estimated revenue gain from this proposal is $100 million annually after five years.

Elimination of Percentage Depletion in the Case of Foreign Oil and Gas Production

Percentage depletion was first allowed in 1926. Through the years it has been retained as an incentive for exploration for new reserves.

Percentage depletion has been available regardless of whether the producing property is located in the United States or in a foreign country. However, from time to time adjustments have been made in rates and rules, and under existing law percentage depletion is unavailable, or available at a lower rate, for foreign production of a number of minerals other than oil and gas. In the case of oil and gas the depletion deduction is and has always been available abroad to the same extent as in the U.S.

In recent years, percentage depletion on foreign oil and gas has not produced a benefit in many, if not most, cases because of the generally high foreign taxes imposed abroad. (The precise amount of the hypothetical U.S. tax is irrelevant if the foreign tax is in any event higher, so that the foreign tax credit eliminates the U.S. tax.) However, there is a potential benefit for production in countries with lower tax rates.

It is now apparent that our primary aim should be to encourage the exploration for new sources of oil and gas in the United States. There is no longer any policy support for giving special encouragement to oil and gas exploration and production abroad. Thus, we now propose that the Internal Revenue Code be amended to provide that percentage depletion shall not be allowed with respect to oil and gas wells located in foreign countries. The percentage depletion allowance for oil and gas would be limited to wells located in the United States, in its possessions, in the Commonwealth of Puerto Rico or on the outer continental shelf.

Because the taxes of the major countries where oil and gas is now being produced by U.S. companies are now imposed at rates equal to or in excess of those which would be imposed by the U.S., no major revenue effect is expected from this change, although it may have a significant effect on some producers. The estimated revenue gain is $50 million.

We are not now proposing any change in the percentage depletion deduction available for other natural deposits located in foreign countries. However, that question should be examined from time to time and adjustments made when appropriate.

Excessive Foreign Tax Rates

Using artificially high posted prices for oil and high tax rates, many oil producing countries now collect "income taxes" on petroleum profits which greatly exceed income taxes normally collected by governments on other business activities. This has created what we believe to be a distortion in the normal and equitable operation of our foreign tax credit system.

We continue to support the principle of avoiding double taxation through a tax credit system. But like other basically sound principles, it can be subject to distortion and abuse in particular situations. The special problem that we are dealing with arises particularly where the taxing authority and the ownership of the oil are embodied in one and the same entity, which thus has the power to extract payments from oil producers in the form of taxes or in some other form, at its discretion. The high artificial posted prices on which the taxes of a number of oil producing countries are based have created legitimate concern over whether the payments treated as creditable tax are "income taxes" or taxes "in lieu of a tax on income." It is argued that these payments, at least in part, more realistically represent some other business expense.

Business expenses are excludible or deductible from gross income, but they may not be credited against U.S. income tax. Foreign income taxes, on the other hand, may be either deducted from income or credited against U.S. tax, at the option of the taxpayer. Thus, if the tax law allows payments which in substance are not income taxes to be treated as income taxes, taxpayers will receive larger credits than they should. When the amount of the "tax" payment on foreign oil production exceeds the U.S. tax on the same income, the excess payment gives rise to an excess foreign tax credit which may be used as a credit against U.S. tax on income from other operations in that country, or on income from other foreign countries, depending on whether the foreign tax credit is computed on the per-country limitation or the overall limitation.

In the case of oil production, foreign producing countries generally base their tax on the "posted price" for crude oil. The posted price is a fictitious price which may or may not have any relationship to the market value of the oil. It is, however, almost always higher and has moved dramatically higher in recent months. As the posted price has risen, the foreign taxes have gone higher. This has led to greatly increased excess credits for taxes paid the oil producing countries.

Under the tax credit system, as the foreign tax rate goes up, the U.S. tax goes down, until the foreign rate becomes 48 percent and the U.S. rate becomes zero. Thereafter any increases in the foreign rate have no further effect on the U.S. rate on the foreign income but simply create "excess credits," which most companies cannot use. However, companies electing the "overall limitation" on the foreign tax credit, may average foreign tax rates so that "excess credits" in one country may, in effect, be used to pay U.S. taxes with respect to income earned in another foreign country which imposes little or no tax. While we believe this result to be satisfactory in general, we believe it leads to a distortion of the credit mechanism in the case of oil companies under present circumstances.

The total amounts of these payments to the foreign producing countries, and the effective rate of taxes have grown so large that, whether or not they technically qualify as "income taxes," we do not think that we should continue to treat them entirely as an income tax for tax credit purposes since they exceed normal levels of taxation and can

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affect very significantly the U.S. treatment of other foreign source income of U.S. oil companies. For a number of years, the existence of increasingly large excess tax credits was of minor importance because there was no U.S. tax payable in any event, and the companies simply accumulated excess credits which they could not use. It now appears, however, that major international oil companies are beginning to engage more heavily in foreign operations other than oil extraction, including operations such as shipping, which are subject to little or no foreign tax. The number of companies electing the overall tax credit limitation appears to be increasing, and the income from these low-taxed foreign operations is thus shielded from U.S. tax by using the excess credits resulting from the extremely high "taxes" paid to the foreign governments on the foreign oil and gas income.

Our proposal would continue the foreign tax credit mechanism substantially as it has existed over the years, and it would not tamper with the basic definition of an income tax. We do not underestimate the ability of foreign oil producing countries to design the structure of their levies to correspond to any definition of an income tax that we require. But under our proposal only a reasonable part of the foreign income tax would be treated as a <u>creditable</u> tax. The balance would be treated as an expense. We propose to use U.S. tax levels as a standard in determining what is a reasonable level of foreign tax to be creditable. Thus in the case of these foreign taxes on oil and gas production, we would treat as creditable only an amount equivalent to the U.S. tax on the same income--i.e., in most cases the 48 percent general corporate rate or, the lesser 34 percent rate for Western Hemisphere Trade Corporations, as the case may be.

Since the expense part of the tax is deductible in determining taxable income, the determination of the creditable portion must be made by an algebraic formula. The explanatory material in the Appendix sets forth this formula and shows how it is derived. Its practical result is that foreign oil production will no longer generate excess foreign tax credits.

For purposes of applying these rules, the foreign oil taxable income of the taxpayer and the foreign tax paid with respect to that income would be determined separately for each foreign country, and the proposed new limit on creditable taxes would be computed separately for each foreign country. After application of the limit, the creditable taxes would be aggregated with other creditable taxes and subjected to the normal per-country or overall limitation on the foreign tax credit. Excess tax credits accumulated in taxable years beginning before the effective date of this proposal could be carried over to years beginning after the effective date of this proposal as under present law, but would be denied to the extent that they could not have been utilized had this change not been enacted. The proposal would become effective with respect to taxes paid during, or accrued with respect to, taxable years ending after December 31, 1973.

It is not possible to estimate the revenue gain from this proposal with precision because its enactment will cause taxpayers to change their operations in ways which we cannot predict. If more companies were to devise ways to use the excess credits generated under the present system, the revenue loss could be in excess of $1 billion a year. The proposal would foreclose that possibility. If the proposal were applied to existing patterns of operations we would expect it to produce revenues of about $400 million a year over current levels. However, taxpayers can be expected to change their procedures to reduce that amount substantially.

It has been suggested that the proper approach to this problem is to deny the foreign tax credit entirely with respect to the existing taxes on oil income. We believe that our proposed limitation is far more desirable. The result of denying the credit would be to subject U.S. companies to higher tax burdens than their foreign competitors. The step of denying any tax credit should not be taken unless it is determined that United States oil companies should not participate in foreign oil and gas production.

It has been suggested that the problem in this area is that the international oil companies are paying absurdly low taxes, sometimes alleged to be on the order of 2 or 3 percent, and that those taxes should be raised to the level of other U.S. companies. This is a simplistic way of looking at the problem. The fact is that these companies are paying <u>high</u> taxes on their <u>foreign</u> production. It is true that these taxes are <u>not</u> being paid to <u>the U.S.</u>, but it is also true that there is no reason under the international system that they should be paid to the U.S. If a U.S. company can go to Saudi Arabia, find and produce oil, take it to Japan or Western Europe, sell it at a profit, pay reasonable taxes to the countries concerned, and repatriate the after-tax profits to the U.S., U.S. policy-makers should not be dismayed; they should be pleased.

We are all upset because the price of oil is high, but the reaction should not be to strike out blindly at the most available target. The approach of our proposal is not a vindictive one. We are not trying to penalize oil producers. Nor are we trying to restrict U.S. companies to U.S. business. What we are suggesting is a technical change which will remove the possibility of the oil producers obtaining an undue benefit from changed circumstances.

* * * *

In conclusion, let me emphasize our conviction that all of these proposals, together with those which we made last year, are of great importance to our nation's welfare. We urge that you give them a high priority. The Treasury Department will be pleased to assist in every way it can.

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APPENDIX

Determination of Creditable Portion of Foreign Income Taxes on Oil and Gas Production

Many countries collect income taxes on oil and gas production at excessive levels. The Treasury proposal would characterize part of those income taxes as deductible expenses.

The method of dividing foreign income taxes between a portion which would be creditable against U.S. taxes, and the remainder, which would be characterized as an expense, may be described in three steps:

(1) The creditable portion of the tax would be equal to the U.S. tax rate applicable to corporations times foreign source petroleum income defined according to U.S. law. (The rate would be 48 percent for corporations other than Western Hemisphere Trade Corporations and also for individuals, trusts and estates, but would be 34 percent for Western Hemimsphere Trade Corporations.)

(2) Foreign source petroleum income defined according to U.S. standards would be equal to the fair market value of the petroleum, less royalties, lifting costs, and other allowable expenses, and less that portion of foreign income taxes which is characterized by the U.S. as an expense.

(3) The portion of the foreign income tax characterized as an expense would be equal to the total foreign income tax less that portion of the foreign income tax which is creditable against U.S. taxes.

Each step in the apportionment of foreign income taxes depends on some other step. Thus, to determine the creditable portion of the foreign tax, it is necessary to express the principle as an algebraic formula. The general statement of the principle is that the maximum creditable portion (M) of the foreign income tax (T) is equal to the U.S. tax rate (R) times the excess of foreign petroleum taxable income computed without deducting any portion of the foreign tax (I) over the deductible portion of the foreign tax (T - M). This may be expressed as the equation:

$$M = R\,[I - (T-M)]$$

This equation may be simplified into the form:

$$M = \frac{R}{1-R}\,(I - T)$$

In most cases R will equal 48%, and the equation may be further simplified into (approximately): $M = .923\,(I - T)$.

In the case of a Western Hemisphere Trade Corporation, R = 34%, and the equation becomes (approximately) M = .515 (I - T).

In practical terms, under the proposal, foreign petroleum ventures would no longer generate "excess" foreign tax credits. This is illustrated by the following table:

	Present Law	Proposal
Calculation of Foreign Tax		
Posted price, per barrel	$ 11.65	$ 11.65
Royalty (12.5%)	-1.46	-1.46
Lifting, etc., costs	-0.20	-0.20
Income as defined by foreign government	9.99	9.99
Foreign income tax (55%)	5.49	5.49
Calculation of U.S. Tax		
Fair market value	7.65	7.65
Royalty	-1.46	-1.46
Gross income	6.19	6.19
Depletion allowance (22% of $6.19)	-1.36	-0-
Lifting, etc., costs	.20	.20
Portion of foreign income tax recharacterized	-0-	-5.03
Taxable income for U.S. purposes	4.63	0.96
U.S. income tax (48%)	2.22	0.46
Calculation of Credit		
Maximum credit for foreign income tax	2.22	0.46
Excess foreign tax credit	3.27	-0-
Portion of excess disallowed because of depletion deduction	-0.65	-0-
Available excess credit	2.62	-0-

Under the proposal, excess foreign tax credits carried forward from years prior to the effective date of the proposal would still be characterized as excess credits available in the future to the extent they would have been used if the proposal had not become law. The excess foreign tax credits from such years would not be converted into deductions. If they were deductible from taxable income, the result would be a substantial revenue loss. The additional deduction would typically exceed taxable income before the deduction leaving the companies with a loss which they could offset against taxable income from U.S. sources.

For example, assuming that the figures shown in the table apply in 1973 and 1974, an excess credit of $2.62 from 1973 would more than offset the taxable income for U.S. purposes of $0.96 for 1974, leaving a net loss in 1974 of $1.66. This loss could be used to offset U.S. source income of an equivalent amount, on which the U.S. government would lose the tax of 48 percent or $0.80.

Treatment of a portion of the foreign income taxes as deductible cannot result in a reduction of U.S. taxes on U.S. income except in the unlikely case in which the foreign income taxes together with the costs associated with the petroleum exceed the value of the foreign petroleum. This case is particularly unlikely under our proposals because of the denial of a deduction for percentage depletion.

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FOR IMMEDIATE RELEASE FEBRUARY 1, 1974

FEO CLARIFIES PETROLEUM ALLOCATION REGULATIONS

The Federal Energy Office today issued a ruling designed to clarify and substantiate the obligations of petroleum product suppliers, and the rights of wholesale purchasers to allocations, under the Petroleum Allocation and Price Regulations issued January 15, 1974.

Essentially, the ruling states:

-- Suppliers are required to provide allocations to their purchasers of record who were in business during the base-period and who have continued their businesses since the base-period. A supplier may provide for his base-period purchasers directly or through appropriate exchange agreements with other suppliers.

-- A supplier may not escape his obligations to his base-period purchasers, even if purchasers have changed their location, brand name, trademark, or company name since the expiration of the base-period.

-- Suppliers are required to provide for their base-period purchasers immediately, and equitably. If a supplier's timing and method of allocating products to his purchasers discriminates against any category or group, the he may be subject to legal sanctions for having taken retaliatory action within the meaning of the Regulations.

-- Suppliers are required to provide allocations to their base-period purchasers, even though the supplier may have terminated or significantly reduced his activities in a geographical region during or since the base-period. These suppliers may apply to the National Federal Energy Office for reassignment of purchasers. Until such an application is approved, however, the supplier remains responsible to all of his base-period purchasers.

The full text of the ruling, with references to the enforcement of specific provisions of the Petroleum Allocation and Price Regulations, will be published in the February 4, 1974 Federal Register.

-FEO-

FEDERAL ENERGY OFFICE
RULING 1974-3

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SUPPLIER/PURCHASER RELATIONSHIPS UNDER THE PETROLEUM ALLOCATION REGULATIONS

A number of questions have arisen concerning the obligations of suppliers and the rights of purchasers to allocations under the Petroleum Allocation Regulations issued by the Federal Energy Office on January 14, 1974 (39 F.R. 1924 et. seq., January 15, 1974). In particular, FEO has received inquiries concerning the scope and intent of Sections 211.13 and 211.24 of the Regulations which require generally that suppliers of petroleum products shall provide allocations to their wholesale purchasers of record as of the base period. This Ruling is issued pursuant to Section 205.181 of the Regulations and is designed to be of assistance to all persons in determining their rights and obligations under the Emergency Petroleum Allocation Act of 1974 (Pub. L. 93-159) and the Regulations issued thereunder.

1. As a general proposition, the Regulations require a supplier to provide an allocation to each of its historical wholesale purchasers during the base period - even if the supplier has severed all contractual relationships with such purchasers since the base period. In the normal case of a supplier who has not significantly reduced its marketing or distribution activities in a region, most of the supplier's current purchasers (as of January 15, 1974) will also have been its base period purchasers. No change in such purchaser/supplier relationships is contemplated by the Regulations. However, with respect to base period wholesale purchasers of a supplier who are not its current purchasers, the Regulations require the supplier to take immediate action to provide

for such base period purchasers' allocations pursuant to Subpart A of the Regulations. Under Section 211.25, a supplier may arrange to supply its base period purchasers' allocations either directly or through appropriate exchange agreements with other suppliers in accordance with normal business practices. Wholesale purchasers who are not historical base period purchasers from their current supplier are expected to look to their base period supplier to provide for their allocations. Suppliers should reestablish relationships with their base period wholesale purchasers on an equitable basis. If the timing and method of implementing a supplier's program of changeover to its base period wholesale purchasers has the effect of discriminating against any category or group of such purchasers, such a supplier may be subject to sanctions for having taken "retaliatory action" within the meaning of Section 210.61 of the Regulations.

2. A supplier must provide for allocations to its wholesale purchasers of record during the base period as along as those purchasers continued to maintain their ongoing business since the base period. A purchaser does not lose his right to an allocation from his base period supplier unless, since the base period, the purchaser abandoned his ongoing buisiness entirely or transferred his entire ongoing business to a third party. (Section 211.24) In the latter case, the third party has acquired the right to the allocation from the historical supplier, and the original purchaser (if he has opened a new business) must apply to a supplier as a "new customer." Unless the historical purchaser has completely abandoned his original ongoing business or conveyed it to a third party, he continues to have the right to an allocation from his historical supplier even though (1) the supplier ceased supplying the

purchaser since the base period, (2) the supplier terminated a franchise or lease agreement with the purchaser since the base period, or (3) the purchaser has moved the location of his ongoing business to other premises since the base period.

3. The Regulations do not permit a supplier to escape its obligation to its wholesale purchasers of record during the base period if the purchaser has changed its brand or trademark affiliation since that time. The success of the allocation program depends upon the ease with which wholesale purchasers can return to their base period supplier relationships and, in the event of imbalances, the ease with which the Federal Energy Office can redirect the product of various suppliers in order to assure an equitable nationwide allocation of petroleum products. The Federal Energy Office is aware that it is a normal business practice in the industry for a supplier to provide its purchasers with products through exchange agreements with other suppliers and the Regulations recognize this practice. (Section 211.25) Accordingly, a change in brand or trademark affiliation is not a basis (except in unusual cases) upon which the Federal Energy Office would permit suppliers to refuse to provide allocations to their historical base period wholesale purchasers.

4. The fact that a supplier has, during or since the base period, terminated or significantly reduced its marketing or distribution activities in a region does not diminish the obligation of that supplier to provide allocations to its base period wholesale purchasers in that region. The Regulations recognize, however, that under certain circumstances it may be appropriate for such suppliers to apply to the Federal Energy Office to seek adjustments in the method of supplying their base

period purchasers. (Section 211.14(d)) It must be emphasized, however, that until the Federal Energy Office authorizes reassignment of wholesale purchasers pursuant to Section 211.14(d), all suppliers have an immediate and continuing obligation to provide allocations to their base period wholesale purchasers -- either directly or through appropriate exchange agreements with other suppliers. Suppliers which have embarked on a program to terminate or reduce their marketing and distribution activities in a region must cease such withdrawal program pending a determination by the Federal Energy Office of whether reassignment of their base period wholesale purchasers in that region would be appropriate under the Regulations.

5. Withdrawal from a region by a supplier since the base period does not alter the obligations owed to base period purchasers in that region by the supplier. However, certain actions by suppliers, such as cancelling a lease under which a base period purchaser has been operating on ongoing business on premises owned by the supplier may have the effect of putting the purchaser out of business. The Regulations provide that purchasers who have gone out of business shall not be eligible for allocations premised on base period supplier relationships. Nevertheless, the Federal Energy Office is prepared to take action to prevent practices by suppliers which have the clear effect of circumventing the provisions of the Allocation Regulations. Suppliers who terminated leases with their base period purchasers in the period following enactment of the Emergency Petroleum Allocation Act of 1973 or whose conduct with respect to base period purchasers otherwise threatens to terminate the latter's ongoing business, may be determined to have engaged in "retaliatory action"

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within the meaning of Section 210.61 of the Regulations. That section prohibits any action, including a refusal to continue to sell or lease, contrary to the purpose or intent of the Federal Energy Office, when such action is taken against another firm or individual who exercises any rights conferred by the Emergency Petroleum Allocation Act of 1973, or by the Regulations issued thereunder. Furthermore, termination by a supplier of leases with base period purchasers -- as part of a program of withdrawal from a region -- may be determined to be in violation of Section 210.62 of the Regulations which requires suppliers to deal with purchasers according to "normal business practices" and prohibits modification of "normal business practices" so as to result in circumvention of any provision of the Regulations. Because the Regulations impose a continuing responsibility upon a supplier to provide allocations to his base period wholesale purchasers despite its withdrawal from a region, action which is in furtherance of a program of withdrawal by the supplier from a region may not be considered a "normal business practice" until the Federal Energy Office authorizes a program of reassignment of that supplier's base period purchasers to other suppliers in the region.

6. Any supplier which, during or since the base period, has significantly reduced its marketing or distribution activities in any of the 10 Regions of the Federal Energy Office may apply to the National Federal Energy Office to seek adjustment in the method of supplying customers in that region. The application shall contain an explanation of the reasons why it is impractical for that supplier to provide allocations to its base period wholesale purchasers in the region -- either

directly or through exchange agreements with other suppliers. In addition, the application shall contain the following information:

(1) The number of wholesale purchasers of record in the region during each month of the base period

(a) who were branded independent marketers

(b) who were non-branded independent marketers

(c) other wholesale purchasers (describe)

(2) The volume of product supplied, either directly or through exchange agreements, to each of the classes of entities enumerated in response to (1) for each month of the base period.

(3) The number of wholesale purchasers of record during each month of the base period (or successors in interest to their ongoing business) in each of the classes enumerated in (1), who maintained that ongoing business in the region during each of the following periods:

(a) November 1 - November 30, 1973

(b) December 1 - December 31, 1973

(c) January 1 - January 31, 1974

(4) With respect to each of the classes of entities described in (1), for each period specified in (3), the number of entities in the region who received any supplies of product from the applicant, either directly or through exchange agreements with other suppliers. For each such period and class of purchaser, the allocation fraction utilized (or if an allocation fraction was not utilized, the volume of product).

(5) For each of the classes of purchasers described in (1), for each period specified in (3), the allocating fraction utilized for the balance of any supplier's marketing or distribution system.

Based on an application prepared in accordance with the foregoing, the Federal Energy Office will consider whether to authorize reassignment of customers pursuant to Section 211.14(d) of the Regulations. It should be emphasized, however, that until such reassignments are authorized, all suppliers are obligated to provide allocations to their base period wholesale purchasers of record -- either directly or through appropriate exchange agreements with other suppliers. The ability of a supplier to provide allocations through interim arrangements, including exchange agreements, shall not prejudice its application for reassignments under Section 211.14(d). Failure to provide for allocations to base period wholesale purchasers as provided by the Regulations will expose suppliers to the remedies and sanctions specified in the Regulations.

William N. Walker
General Counsel

February 1, 1974

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EMBARGOED FOR RELEASE UNTIL
1:15 P.M., FRIDAY, FEBRUARY 1, 1974

REMARKS BY THE HONORABLE WILLIAM E. SIMON
ADMINISTRATOR, FEDERAL ENERGY OFFICE
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
McGRAW HILL PUBLICATIONS
AND
THE ENERGY CONSERVATION AND CONTROLS INSTITUTE
WASHINGTON HILTON HOTEL
INTERNATIONAL BALLROOM EAST
WASHINGTON, D. C.
FEBRUARY 1, 1974
1:15 P.M.

I especially value the opportunity to participate in McGraw Hill's conference on managing the energy crisis. It is also a delight to receive such a gracious introduction from Gene Simpson. I might add, that in addition to being McGraw Hill's Group Publisher, Gene, like myself, is a graduate of that distinguished center of learning, Lafayette College.

In the nearly two months since the Federal Energy Office was created, the energy crisis has become increasingly a fact of American life.

While each of us hopes that the Arab oil embargo will be lifted, the lamentable fact is, that lifting the embargo will not mean an end to shortages or an end to the need to manage our shortages . . . or, most important, the end of Project Independence.

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There is no question that the embargo compressed the transition period from a low-cost, abundant energy supply market -- to a higher cost, and leaner energy situation. The simple fact is that today, our economy is absorbing an almost 14 percent energy deficit below normal anticipated demand. Even then, we are still importing about 5 million barrels of oil a day, and post-embargo we will be importing nearly 7 million barrels of oil a day.

Achieving energy self-sufficiency will depend upon meeting five essential challenges:

First, we must conserve energy by reducing consumption, and increasing the efficiency of energy conversion processes.

Second, we must accelerate and increase the domestic production of oil and natural gas, as well as moving to develop oil shale.

Third, we must increase the use of coal -- first as a supplement, and later through commercial shale gasification and liquefaction, as a replacement for oil and natural gas.

Fourth, we must expand the production of nuclear energy as rapidly as possible.

And Fifth, we must expand the use of renewable energy sources -- such as hydro, geothermal, and solar energy -- and to bring the promise of fusion and central station solar power into the marketplace.

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In regard to Energy R & D, we have asked the Congress for legislation and funding, including a request for $1.8 billion next year and $10 billion over the next five years to research alternative sources of energy. This will also allow us to achieve compatibility between our environmental and energy needs. Of next year's funds, $894 million, almost half, will go to nuclear reactor development. Another $427 million will go for coal research. And still other funds will be committed to pollution control, fusion, and solar and geothermal energy research.

Since the Federal Energy Office was established last December 4th, we have taken vigorous action in each of these areas.

- We have assumed control of the mandatory allocation program.
- We have implemented realistic energy conservation goals, and the response to them has been excellent.
- We have developed the most accurate energy data reporting system, within the time available, and have asked the Congress for necessary legislation so we can improve upon it.
- We have proposed changes to our tax structure, and made other key legislative initiatives to accelerate the development of our domestic energy resources.

We at the Federal Energy Office are acutely aware of the magnitude and complexity of the energy crisis.

The goals of our long-term measures are to provide future generations with abundant, reasonable cost sources of clean energy -- including energy that is either replenishable or nearly inexhaustible.

Bringing a new generation of energy technology on the line such as solar energy, geothermal, and fusion, will take time. Until we can -- and we're really talking about years -- we will have to depend upon conventional fuels, coal, oil, and natural gas to meet nearly all our energy needs. For example, nuclear power may be able to meet only 10 percent of our total energy needs by the year 1985.

Another point that should be made clear, is that even developing conventional energy sources also takes a good deal of time. It takes:

- 4 to 5 years to open an underground coal mine.
- 3 to 4 years to construct a refinery, and bring it into full production.
- 3 to 4 years to develop a new oil field, or bring natural gas from exploration into the marketplace.
- and even the trans-Alaska Pipeline, which will move 2 million barrels of oil a day when it is pumping at maximum capacity,may not be completed until the end of this decade.

When I am confronted with the questions whether the energy crisis is contrived, or whether it is the result of a conspiracy, my first thought is:

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The fact that our energy demand has been growing at the rate of four to five percent a year for the past 20 years was not contrived.

The fact that domestic exploration peaked in 1956, and that domestic production has been decreasing since 1970 was not contrived.

And, most important today, the fact that we are importing 5 million barrels today -- and post-embargo we will be importing 7 million barrels a day -- is not contrived.

It is a global crisis that literally threatens the integrity of the world economy, to say nothing of our own national security.

To balance our energy accounts, matching supply with demand, we are overseeing the Mandatory Petroleum Allocation Program which, as you know, was authorized when Congress passed the Emergency Petroleum Allocation Act.

I will not go into the details of the allocation program this afternoon, but I would like to make some comments on what our goals are; what we have accomplished; and what we plan to do.

The goal of the Mandatory Allocation Program is to ensure that in a shortfall environment, existing supplies are managed as equitably as possible. We are committed to ensuring that the shortages are shared regionally as well as distributively within the economy, without inhibiting long-term economic growth, resulting in severe discomfort, unacceptable unemployment levels, or an interruption of critical human services.

When the Federal Energy Office assumed control of the Mandatory Allocation Program there was a backlog of about 20,000 cases. Today we have reduced those to a normal weekly caseload, which is 1,500.

We have increased the allocation staff to over 1,280 today, including 926 who are in regional or State offices.

Today, I am most concerned about the fact that some States, because of the uneven character of traditional supply patterns, have significantly less fuel than others. These same conditions have also affected prices. As a consequence, there are notable price differences in some States.

Because of this, we have undertaken an intensive evaluation of the situation and will be addressing these questions in subsequent changes to the regulations.

The decisions have not always been easy ones. And I wouldn't be frank if I didn't admit that in any management undertaking like the allocation program, we may not have been as responsive as we would like to have been. I am convinced, however, that we are well on the way to offering timely, efficient, and accurate service.

I personally welcome your comments in this regard, and would especially appreciate it if you would send us any proposals you have for upgrading the effectiveness of the allocation program.

Allocating existing supplies is just one-half of our most pressing immediate task. The other half is energy conservation.

The results, to date, are encouraging.

The response of industry, commerce, and the American people to our energy conservation measures has been magnificent, and is one of the primary reasons we have not had to implement gasoline rationing.

With the business sector accounting for nearly 70 percent of our total energy consumption, we have asked business and industry to do "their share."

After sending out over 43,000 letters to businessmen throughout the country, we have received over 12,000 letters of commitment to save energy, and the responses are still coming in.

The Pepsi-Cola distributors in Texas, for example, have reported that by changing route patterns, they have been able to cut gasoline consumption by more than 40 percent.

And reports of 15 to 20 percent savings at businesses and factories across the country are not uncommon.

The consumer is doing his part, too.

From New England, we have evidence that as a result of conservation measures, residential heating oil consumption has been cut by 20 percent, even <u>after</u> allowing for warmer weather.

I believe that this same kind of support for energy conservation is going to translate nationally into a 15 percent reduction because consumers are turning their thermostats down six degrees and industry ten degrees.

And the potential for even greater energy savings are just beginning to show up as small businessmen, corporations, and even entire industries conduct energy audits.

There is no question that along with the weather, energy conservation is our greatest cushion against rationing. I believe, and I think the majority of American consumers share this view, that rationing is at best, an unattractive last resort. Because what we're really talking about is adding 17,000 employees and one and one-half billion dollars to the Federal budget. And even then, our rationing plan -- no matter how fair it is -- will not result in an increase of gas for your car, heating oil for your home, or electrical power for your business. This is not to mention the imposition of this terrible burden on the American people and subsequent loss of an important freedom.

The overwhelming challenge we face in the months and years ahead will be to translate our energy policy into new attitudes, values, and patterns of action that will lead to the ability for energy self-sufficiency.

To attain self-sufficiency we have set forth an approach to the development of sound energy policy:

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First, we must establish a central energy organiztion. The creation of the Federal Energy Office is a major step in that direction. In the long run, however, it is essential that we have legislation to create a Department of Energy and Natural Resources.

Second, we must develop a new short and long-range "energy conservation ethic" in this country that will dampen the runaway growth in energy demand. Some estimates indicate that thirty to forty percent of the energy produced in the U.S. today is wasted. One analysis shows that the 210 million people in America, in effect, waste as much energy as the 110 million people in Japan consume. We simply cannot afford to allow the growth in energy demand to continue to outpace our productive capacity -- as it does now, and would, even without the oil embargo.

Third, we must accelerate the development of our massive untapped domestic energy resources, through Project Independence. With almost half the free world's known coal reserves, we have enough coal to meet our total energy needs for centuries. And we have the equivalent of one trillion 800 billion barrels of oil locked in our massive oil shale reserves in Colorado, Wyoming, and Utah, enough to last more than a century.

We must move vigorously to accelerate the pace of oil and natural gas leasing on the Outer Continental Shelf. It seems incredible that less than 3 percent of the OCS has been leased in the twenty-odd years since the program was originated.

And there are an estimated 100 billion barrels of oil reserves on the North Slope, in Naval Petroleum Reserve No. 4 in Alaska, and off the Alaskan Coast.

We can no longer afford to allow these critical resources to lie undeveloped, or underutilized.

Fourth, we must develop a new relationship between government and industry to ensure that we have an accurate, and timely auditing process to cover every aspect of the energy situation. We have already taken firm action, within existing powers, to get that kind of information as soon as possible. And, where additional authority is required we have asked Congress to enact the needed legislation.

Fifth, we must forge a new structure of international cooperation within the world community, between producing and consuming nations.

The international implications of the energy crisis are profound because of the obvious economic and national security ramifications. For this reason, President Nixon has called a meeting on February 11 with the major oil consuming nations of the world to be followed by a meeting of the consuming and producing nations of the world. This is a major step to address our mutual problems.

Today, most industrialized nations are competing for limited supplies in a market with dramatically escalating prices.

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Yesterday, I met with Canadian Energy Minister Donald MacDonald to discuss concerns on both sides of the border over energy allocations, and Canada's role as a supplier of energy to the U.S.

Like us, the Canadians are also seeking to achieve self-sufficiency. They, too, are concerned about the rising cost of Mideast oil.

We agreed to proceed with discussions looking toward possible international agreements relating to pipelines carrying oil and natural gas through one country, to the other. Such agreements would cover not only existing pipelines, but those which may be constructed in the future. One such application is expected to be filed for a gas pipeline passing through Canada to the U.S. There also may be an application for a competing pipeline that would pass through Alaska. The negotiation of such an agreement would in no way prejudice which route might ultimately be accepted. It would, however, seek to assure that if the Canadian route is selected, the American consumer can rely upon the flow of natural gas without fear of discriminatory practice.

Because of short petroleum supplies, aggravated by the Arab embargo, there have been some difficulties in cross-border exports from both countries. Most of these difficulties have been resolved in the past, but to facilitate early resolutions in the future, we agreed to adopt general guidelines and points of contact for continuing discussion.

We have also agreed to pursue discussions of Canada's future development of her energy resources, and to determine how these plans relate to U.S. objectives to obtain the ability for self-sufficiency.

Like it or not, America and a majority of the other members of the world community face a critical challenge that, if left untended, could undercut existing economic and national security relationships. At home, this challenge means that all of us will have to translate our concern about an energy shortage now, into patterns of action that will lead us to energy independence in the future.

I have every conviction that we, as a Nation and a people, have the spirit and determination to meet that challenge.

I'm asking each of you now to join us in that task.

Thank you.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE 6:30 P.M. February 4, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on February 7, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing May 9, 1974		26-week bills maturing August 8, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	98.253	6.911%	96.618 a/	6.690%
Low	98.237	6.975%	96.567	6.791%
Average	98.243	6.951% 1/	96.589	6.747% 1/

a/ Excepting 1 tender of $3,140,000

Tenders at the low price for the 13-week bills were allotted 48%.
Tenders at the low price for the 26-week bills were allotted 45%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 89,460,000	$ 24,030,000	$ 45,805,000	$ 12,905,000
New York	3,519,270,000	2,061,825,000	2,250,790,000	1,461,335,000
Philadelphia	63,595,000	28,440,000	9,530,000	9,530,000
Cleveland	42,655,000	35,095,000	23,500,000	22,690,000
Richmond	44,795,000	26,795,000	27,250,000	16,030,000
Atlanta	41,705,000	27,105,000	21,625,000	13,810,000
Chicago	286,485,000	79,335,000	199,560,000	90,060,000
St. Louis	70,720,000	45,510,000	45,845,000	30,345,000
Minneapolis	28,425,000	21,425,000	25,520,000	21,520,000
Kansas City	45,585,000	30,665,000	23,330,000	22,485,000
Dallas	42,415,000	20,415,000	35,395,000	13,395,000
San Francisco	224,850,000	100,550,000	145,955,000	86,655,000
TOTALS	$4,499,960,000	$2,501,190,000 b/	$2,854,105,000	$1,800,760,000 c/

b/ Includes $ 404,320,000 noncompetitive tenders accepted at the average price.
c/ Includes $ 202,000,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.17 % for the 13-week bills, and 7.08 % for the 26-week bills.

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

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FOR IMMEDIATE RELEASE February 4, 1974

MEMORANDUM FOR THE PRESS:

The Treasury Department today issued the attached explanation of Treasury's foreign tax credit proposals as they relate to foreign oil and gas income.

Attachment

S-360

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

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February 4, 1974

EXPLANATION OF TREASURY'S FOREIGN TAX CREDIT PROPOSALS AS THEY RELATE TO FOREIGN OIL AND GAS INCOME

The Foreign Tax Credit

The foreign tax credit is a provision in our income tax laws which prevents an American business or individual earning income in a foreign country from being subject to tax twice on that income. The credit allows the taxpayer to credit each dollar of tax paid to a foreign country against one dollar of U.S. tax which would have been paid to the U.S. on that foreign income. The foreign tax credit offsets U.S. taxes only on income earned in foreign countries, and then only to the extent that tax payments are made to foreign countries on that income.

If the foreign tax is lower than the U.S. tax, the U.S. will collect additional tax. If the foreign tax is the same or higher, the U.S. will not collect additional tax on the same income. Credits for foreign income taxes cannot be used by U.S. companies to offset their U.S. income tax on the income they earn in the U.S.

The foreign tax credit is computed as the lesser of (1) the foreign tax paid or (2) the U.S. tax on the foreign income, defined as

$$\frac{\text{foreign income}}{\text{worldwide income}} \times \text{U.S. tax on worldwide income}$$

Two Methods of Computing the Credit

The taxpayer can choose to compute his foreign tax credit under one of two methods, the per-country method or the overall method. Under the per-country method, the foreign taxes and foreign income are computed on a country-by-country basis. That is, the foreign tax credit is computed separately by segregating the income from each foreign country and the taxes paid to that country.

Under the overall method, all foreign income taxes and foreign source income are aggregated. This allows the taxpayer to average taxes paid to one foreign country, to the extent they exceed the U.S. tax on income earned in that country, with foreign taxes paid to another foreign country, when the tax levied by that second country is less than the U.S. tax on income earned in that country.

For example, if in 1972, a U.S. corporation earns $100 of taxable income in country A, earns no income in the U.S., and pays $20 of tax to country A, it would make a tax payment to the U.S. of $28 (100 x 48% corporate rate = $48, less $20 foreign tax paid).

If, in 1973, the corporation earns $100 of taxable income in country A, and pays a tax of $80 to country A, the corporation would have $32 of excess foreign tax credit ($80 tax payment to country A less $48 maximum credit) which could not be used in 1973. If the corporation also earned $100 of taxable income in the U.S., it would pay $48 of tax to the U.S., which equals the full amount of U.S. tax (at the 48% corporate rate) on the U.S. income. The U.S. tax on the U.S. income would not be affected by the foreign income or the foreign income tax.

If, in 1973, that same corporate taxpayer also earned $100 of taxable income in country B which was not subject to tax in country B, its U.S. tax bill would depend on whether it used the per country or the overall method of computing the foreign tax credit. In either case, the U.S. tax on the U.S. income would be $48. Under the per-country method, the total U.S. tax would be $96 ($48 on U.S. income plus $48 on income from country B). Under the overall method, the total U.S. tax would be $64 ($48 on U.S. income plus $16 on foreign income). The computation is as follows:

U.S. source income		$100
Foreign source income:		
Country A	$100	
Country B	100	200
Worldwide taxable income		300
Gross U.S. tax (48% x $300)		144

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	Per Country Limitation: Country A	Per Country Limitation: Country B	Overall Limitation
(1) Maximum Foreign Tax Creditable	$\frac{100}{300} \times 144 = 48$	$\frac{100}{300} \times 144 = 48$	$\frac{200}{300} \times 144 = 96$
(2) Foreign tax paid	80	0	80
(3) Credit-lesser of (1) or (2)	48	0	80
U.S. Tax Net of Credit	$96		$64

The effect of the foreign tax credit is that once the foreign rate of tax on foreign income exceeds 48 percent the excess credit cannot be used in the current year. However, companies electing the "overall limitation" on the foreign tax credit, may average foreign tax rates so that "excess credit" in one country may be used to offset U.S. taxes with respect to income earned in a second country which imposes no tax or a lower tax.

Treasury's Proposal to Limit the Creditable Part of the Foreign Tax on Petroleum Income

The Treasury proposal would take away the ability to use high taxes paid to one foreign country on oil or gas income to set off against the U.S. tax on other income in the same or other countries.

This would be accomplished by treating only part of the foreign tax as a creditable tax. The balance would be treated as a deductible expense. The part which would be treated as a creditable tax would be limited to 48 percent (except for Western Hemisphere Trade Corporations) of taxable income, determined under U.S. standards, from foreign oil and gas properties.

In the example above, assuming all of the income from country A was oil income, the Treasury proposal would allow only $18.46 of the 1973 payment to country A to be treated as a tax. This is calculated as 48/52 times (100-80). The remaining $61.54 would be deductible. Thus, the corporation's taxable income from country A would be reduced from $100 to $38.46, the U.S. tax on this amount at 48% would be $18.46, and the full amount treated as a tax ($18.46) would be used to offset the U.S. tax, leaving no excess credit.

Taking into account the income from the U.S. and country B as well, the corporation's worldwide taxable income for 1973 would be reduced from $300 to $238.46, the corporation's gross tax on its worldwide taxable income would be reduced from $144 to $114.46, the foreign tax credit would be $18.46, and the net tax paid to the U.S. would be $96. The foreign tax credit would be the same, whether computed under the per-country or the overall method.

	Per Country Limitation: Country A	Per Country Limitation: Country B	Overall Limitation
(1) Maximum Foreign Tax Creditable	$\frac{38.46}{238.46}$x114.46=18.46	$\frac{100}{238.46}$x114.46=48	$\frac{138.46}{238.46}$x114.46=66.46
(2) Foreign Tax	18.46	-0-	18.46
(3) Credit-lesser of (1) or (2)	18.46	-0-	18.46

Because the ability to use the high tax paid on oil or gas income against other foreign income has been eliminated, the U.S. would pick up $32 in tax under the facts in the example.

Treasury's Proposal to Reduce the Tax Credit by Prior Foreign Losses

Under existing law, taxpayers (usually those who use the per-country method of computing their foreign tax credit) are able to deduct their foreign losses from their U.S. source income, and thus reduce their U.S. tax.

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Later, when their operations in the foreign country become profitable, they receive a full foreign tax credit against their U.S. tax on the foreign-source income from such country. This is a particular problem with oil companies where foreign drilling operations typically cause large losses until petroleum is found.

To illustrate: Assume that a U.S. corporation sustains a loss of $100 in country X in its first year of operations there and deducts that loss from other income earned in the U.S. In the following year it derives a profit of $200 from its country X operations and pays an income tax of $96 (assuming a 48 percent rate) to that country. (Country X does not provide for the carry-over of losses.) Under current law, the U.S. taxpayer would receive a foreign tax credit of $96 for the foreign tax paid and, consequently, would pay no U.S. tax on his country X income. However, the taxpayer's foreign taxable income for U.S. purposes has been only $100 when years 1 and 2 are considered together. This means that the U.S. tax on the foreign taxable income for years 1 and 2 (before the foreign tax credit) was only $48. The United States has borne the burden of the start-up deduction, but the foreign country has gotten the tax.

The function of the foreign tax credit is to permit taxpayers to offset their foreign tax on foreign income against the U.S. tax on such income. In the situation described, it is proper for the United States to permit a foreign tax credit of only $48, which corresponds to the $48 of U.S. tax (before credit) imposed on the $100 of taxable income from country X for years 1 and 2. Under current law, however, the taxpayer receives a $96 credit to apply against the $48 of U.S. tax, which results in an unwarranted credit of $48.

The proposal requires a carry-over of the loss to year 2 and subsequent years for purposes of reducing the foreign tax credit. Under the proposal the taxpayer's foreign tax credit is reduced in subsequent years by the prior losses, but the taxpayer will be able to credit at least three-fourths of his tax credit in any one year. This is accomplished technically by limiting the loss taken into account in any one year to not more than 25 percent of the taxpayer's foreign income in that year.

To illustrate:

The formula is as follows:

$$\text{Limitation} = \frac{\text{Taxable income from foreign country}}{\text{worldwide taxable income}} \times \text{U.S. income tax before credits}$$

A. In 1973, a taxpayer incurs a loss of $100 in country X. In 1974, the taxpayer earns $100 in country X. The tax credit in 1974 would be computed as follows:

$$\frac{\$75 \text{ (Taxable income from X after reduction)}}{\$100 \text{ (worldwide taxable income)}} \times 48 = \$36$$

In this case only 1/4 of the 1973 loss is taken into account in 1974 because of the 25% limitation. The additional 3/4 of the 1973 loss would be taken into account in later years.

B. If the facts were the same, except that in 1974 the taxpayer had $400 of income in country X, the full loss would be taken into account that year in computing the tax credit as follows:

$$\frac{\$300 \text{ (Taxable income from X after reduction)}}{\$400 \text{ (worldwide taxable income)}} \times 192 = \$144$$

In this case the $100 prior loss does not reduce the taxable income by more than 25% and is included in full in the numerator.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE February 5, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 14, 1974, in the amount of $4,309,420,000 as follows:

91-day bills (to maturity date) to be issued February 14, 1974, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated November 15, 1973, and to mature May 16, 1974 (CUSIP No. 912793 TM8) originally issued in the amount of $1,801,370,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated February 14, 1974, and to mature August 15, 1974 (CUSIP No. 912793 UK0).

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, February 11, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own

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account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on **February 14, 1974**, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **February 14, 1974**. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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RELEASE ON RECEIPT February 5, 1974

TREASURY SECRETARY SHULTZ NAMES WILLIS J. PRICE
SAVINGS BONDS CHAIRMAN FOR KENTUCKY

Willis J. Price, President, Standard Oil Co. of Kentucky, is appointed volunteer State Chairman for the Savings Bonds Program in Kentucky by Secretary of the Treasury George P. Shultz, effective immediately.

He will head a committee of business, banking, labor, government, and media leaders throughout the state, who -- in cooperation with the U. S. Savings Bonds Division -- assist in promoting Bond sales in Kentucky.

Price graduated from Florida State University in 1953, and joined Standard Oil the same year. He became President of the company on January 1, 1970.

Prior to his new assignment with the Bond program, Price served as Louisville "Take Stock in America" Chairman in 1971 and 1972.

Price is active in many business, civic, and educational organizations, including: President, Louisville Fund for the Arts, 1973; Board of Overseers, University of Louisville; Board of Directors, Citizens Fidelity Bank and Trust Co.; Director, Mississippi Research and Development Council, Kentucky Independent College Foundation, Louisville Better Business Bureau, Louisville YMCA, Spindletop Research, Inc., and International Center, University of Louisville.

Price is married to the former Gloria Rick. His hobbies are golf and art.

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FEDERAL ENERGY OFFICE
Public Affairs
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Washington, D. C. 20461
Telephone: 395-3537

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EMBARGOED FOR RELEASE UNTIL
1:30 P.M., TUESDAY, FEBRUARY 5, 1974

REMARKS OF THE HONORABLE JOHN C. SAWHILL
DEPUTY ADMINISTRATOR OF THE FEDERAL ENERGY OFFICE
BEFORE THE
NATIONAL ASSOCIATION OF AUTOMOBILE DEALERS
AT THE HILTON INTERNATIONAL HOTEL
LAS VEGAS, NEVADA
TUESDAY, FEBRUARY 5, 1974

I am delighted to have this opportunity to be a part of the National Automobile Dealers Association, and especially value your President, Mr. John S. Hinkley's gracious invitation.

While preparing my remarks, I found myself reflecting on the ancient king's practice of "slaying the bearer of bad news." Fortunately -- at least in Washington -- the practice has been abandoned. I wouldn't be frank, if I didn't admit that I hope the National Automobile Dealers Association shares our view on that matter.

There is little question that the energy crisis has brought disquieting and even cold news into the lives of nearly everyone in the country. For some people, it has brought a sudden change in life style and for still others, it has even brought a little discomfort. For nearly all of us, it has brought new attitudes, and new values.

Of all the sectors of the American economy, however, the auto industry -- and especially the members of the National Automobile Dealers Association -- have begun to absorb the first waves of economic impact.

We are accurely aware of your concerns.

* Concerns over a drop in domestic auto sales, which according to some estimates, will drop from $9.69 million last year, to about $8.85 this year and no matter how you balance the figures, many of you will be unable to sell as many units as you did last year.

* Concerns over auto inventories that are simply not compatible with the energy conscious needs of consumers today, that have resulted in a reduction in full-sized medium car sales from 18 percent of the market a year ago last December, to about 12 percent in 1973.

* And, most important of all, we are sensitive to your concerns over the future of your businesses, and of the millions of people whose livelihoods depend upon the role of the automobile in America.

We know that some dealers throughout the country are losing their businesses.

We know that some dealers have had to reduce their sales forces, and these kind of decisions are hard, because we're not just talking about the economic cost of the energy crisis -- but the human cost.

It is for this reason -- above all others -- that Secretary Simon places the highest priority on getting the facts on the energy crisis to you and the almost 21,000 members of NADA as quickly and as accurately as possible.

That is exactly what I would like to do this afternoon.

Each of you, I'm sure, as well as many other people across the country, have seen accounts that the energy crisis is contrived.

We have seen accusations that there are millions of barrels of oil hidden away in capped-off wells, and that there are tankers laying off our coasts waiting only for the next price increase before their supplies are brought to the market.

We have heard allegations that the oil industry, in search of massive windfall profits, conspired to create the energy shortages, and drive prices up at an almost phenomenal pace. (I am sure, incidentally, that both Secretary Laird and Frank Ikard of the American Petroleum Institute will comment on both these questions later in the program.)

We have yet to see any hard evidence that these charges are true -- there is so much rhetorical grapeshot in the air, that many people are beginning to lose sight of the fact that the energy crisis is here.

The fact that energy consumption has been growing at the rate of four to five percent a year over the past 20 years, and the fact that the U.S. with 6 percent of the world's population accounts for a third of its energy, is not contrived.

The fact that domestic exploration peaked in 1956, and that our domestic production has been decreasing since 1970 is not contrived.

The fact that we have allowed our domestic refinery capacity to stagnate over the last few years is not contrived.

And, most important, the fact that we are importing 5 million barrels a day now -- and even prior to the embargo we were importing 7 million barrels a day, is not contrived.

For years now, the American consumer has been on an energy joyride.

We have underwritten economic growth and one of the highest standards of living in the world, and even a generation of social and cultural development with abundant supplies of low cost energy.

Those days -- not only for the U.S. -- but nearly every industrialized nation in the world, are changing.

It is worth noting, I might add, that the Soviet Union is the only industrialized nation in the world that is totally self-sufficient in energy today.

I am sure that all of you have heard much of this before, and are asking yourselves the question, "Yes, but how does this relate to me?"

In my view, one of the underlying factors is that we have become victims of our own success -- victims, if you will, of the achievements of our technological and economic success.

The private automobile has given the American consumer the greatest mobility in world history. Today, there is one

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auto to every 2.2 people in America.

One pundit has even suggested that at our current rate of growth, some day there may even be more autos in America than there are people.

The energy cost of our technological and economic success has been high, growing at rates that literally have outstripped our ability to meet those needs. Since 1958, for example, the sales weighted fuel economy has dropped from 14.07 miles per gallon to 11.67 miles per gallon for last year's model. The reason for this is simple: while our cars may have been better, they've also been bigger, giving us more speed, safety and comfort while using a lot more gas. Weight, as you know, is a major factor in gas mileage. It's no wonder, then, that today's intermediate car weighs about the same as full-size cars did just two years ago.

While some people, including a large number of environmentalists, have found it easy to simply "blame Detroit" for what now are wholly unacceptable rates of energy use, the fact remains that the American automobile was designed and constructed to meet consumer needs.

And for decades now, the American motorist has been able to buy gasoline, as well as other energy sources such as natural gas and electricity at truly bargain prices. Consider just a few of the following facts:

* While the cost of living has more than doubled in the last 25 years, the average price for residential electricity has actually decreased by a third.

* Natural gas, our cleanest burning fuel, has essentially been controlled at rates far below the comparable price, on a BTU basis, other fuels. Today, in fact, natural gas is being sold at controlled prices in interstate markets two to almost three times less than it is in intrastate markets.

* And gasoline, even today, is selling at prices one-half and even two-thirds less than it is many European and Asian countries. And,I should add, I'm talking about industrialized countries like France, Germany, Italy and Japan.

In fact, just a year ago, energy costs in the United States accounted for only four percent of our total Gross National Product, compared with eight to twelve percent for most Western European nations.

I am not citing these facts because we in the Federal Energy Office feel that higher consumer prices for oil and other energy sources are necessarily desirable. There is, however, a clear relationship between energy pricing and the economics of supply. The results are that:

-- Exploration, refinery construction, and nearly every dimension of domestic energy development has fallen off.

-- While demand has risen at four to five percent annually, at exponential rates, because we have not had the incentives to use energy sparingly, to eliminate waste, and -- most important of all -- to ensure that our technology reflects "life-cycle" energy costs.

In the past, the auto industry -- like many other sectors of our economy -- simply was not competing in a marketplace

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which reflected the cost and effects of energy consumption.

The Administrator of the Federal Energy Office, William Simon, and I have met personally with the leaders of the auto industry.

And I can tell you today, that there is no question in my mind about the determination of the auto industry to bring their technological capability, and vast economic and human resources to bear on the problem. We have every confidence that with that kind of a commitment, your industry will be able to retool, and literally bring a new generation of design based upon energy efficiency into the market during the next years.

The oil embargo is by no means the major contributing factor to the long-term effects of the energy crisis. What it has done, however, is shorten the transition period. We frankly believe that <u>if</u> the oil embargo is lifted, and <u>if</u> the American consumer continues to use energy sparingly, without waste, that we can ease through the next years without severe economic disruptions.

Some analysts, for example, have suggested that the initial shock tremors of the energy crisis will ease off after the first waves of energy price increases, and new purchasing attitudes roll through our economy.

If we are to resolve the energy crisis, we must face some hard decisions -- economic, environmental, and even social choices. The ability for energy self-sufficiency is simply no longer an alternative. It is an imperative. It is a challenge that we <u>can</u> -- and we <u>must</u> meet. And that, as you know, is the premise behind <u>Project</u> <u>Independence</u>, achieving our three major goals:

<u>First</u>: The immediate problem of matching energy demand with supply, through conservation and allocations that will allow us to manage the energy shortages without severely disrupting jobs, or the vitality of the economy.

<u>Second</u>: A longer term goal of weaning the United States away from such a heavy dependence on energy imports, by accelerating domestic energy production and cutting energy waste.

And <u>Third</u>: To develop new energy sources that will use our fossil fuel more effectively, and bring still more sophisticated energy sources on line including nuclear, geothermal and solar systems.

During the first quarter of 1974 we expected to have 14 percent less oil than we normally would be using. The actual shortfall should be much lower because the American people are conserving fuel, the weather has been warmer than normal, and initially the Arab oil embargo was not as effective as it is today. I cannot over stress the fact, however, that even after the embargo is lifted, we will still face shortages. But we are hopeful that the determination of the American people to avoid rationing and continue conserving our finite energy supplies will ensure that the shortages, when they occur, are "manageable."

Let me stress, however, that without a lift in the oil embargo and at least continuing favorable weather we <u>may</u> face shortages -- especially of gasoline -- on a broader scale this

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summer. Both factors will be major determinants in deciding if we have to go to rationing. Even then, however, we will institute rationing only as a last resort.

Let me add, that if we have to go to rationing we will be adding 17,000 employees and a one and one-half billion dollar year burden on the taxpayer. And even then -- no matter how equitable our rationing plan is -- we cannot guarantee that just because you will have a coupon you will be able to buy enough gas for your car, electricity for your factory, or heating oil for your home. Rationing is a only a mechanism -- a mechanism to ensure that limited supplies are distributed equally. No rationing plan -- no matter who designs it -- will increase energy supplies.

Efficient energy use, and a new "energy conservation ethic" to use all our finite energy sources more judiciously must be an integral part of our quest for energy independence.

Fortunately, the United States has vast untapped energy resources. Our coal and oil shale reserves are equivalent to 10 times the known total petroleum reserves, and could serve our needs for hundreds of years.

And we have significant undeveloped deposits of oil and natural gas reserves on the Outer Continental Shelf. To date, however, only about 2 percent of the Outer Continental Shelf has been leased in the twenty-odd years since the Federal leasing program was established.

We must move expeditiously to bring on line our abundant domestic energy resources.

While few of us may accept the fact, America's energy resources are largely undeveloped.

We have the technology to convert coal into gas, crude oil, petrochemicals, and even gasoline, and must now bring this technology into the marketplace.

The time has come to take oil shale research out of the laboratory and press these new-found techniques into production, thus creating another alternative to oil imports.

Some of these ventures are risky. But the payoff of just one major breakthrough could be spectacular: when we produce synthetic oil from either coal or gas, at $5 to $6 a barrel, we will no longer be vulnerable to foreign economic and political blackmail.

Proposals to develop revolutionary new industries employing a new generation of technology in the span of a few years may seem far-fetched to you.

But look what we did in synthetic rubber during World War II. In 1940 the United States was responsible for more than two-thirds of the world's total annual rubber consumption. The United Kingdom, which controlled 75 percent of the world's rubber, imposed export restrictions driving the price of rubber up from 14 cents a pound, to $1.23 a pound. Faced with soaring market prices and a critical need for this vital resource, Government and industry initiated a vigorous effort to develop synthetic rubber. By 1944 -- in the span of less than five years -- we were able to not only produce enough rubber to meet our needs, but one that was far superior to natural rubber.

I say that there is no reason today, that we can't do this same thing today with synthetic gas, and other new coal and shale technologies.

Our final goal is to develop new energy sources -- solar, geothermal, nuclear, and others.

We have the achievement of almost three decades of nuclear research behind us to optimistically predict that by the end of the next decade we will have perfected commercial scale nuclear breeder reactors, and that nuclear energy will generate a fourth of our electricity.

We already have proven coal gasification and liquefaction technology that will convert our most abundant fossil fuel into clean burning, and hopefully low cost supplements to our existing energy sources.

The promise of oil shale, and the almost 1.8 trillion barrels of oil in our oil shale deposits, is still another potential source of energy that can begin to make a contribution to our national needs over the next years.

Geothermal steam, which today provides a third of San Francisco's electrical power, is still another source that remains untapped.

And solar energy fusion, and energy from the tides and wind are still other potential sources for a new generation of energy supplies.

The President, as you know, has made an $10 billion commitment to energy R & D for Project Independence. In the meantime, however, we must not lose sight of the fact that we are literally talking about years before these new sources will really assume a major share of the energy market.

Even today nuclear power, which provides about 1% of our total energy needs, only gives us about as much energy as we get from firewood.

Each of you, as consumers and more important as members of one of our largest industries, can make a personal contribution to meeting our national energy needs in the years ahead.

As businessmen, you are in daily communication with a vital sector of consumers: the millions of men and women who buy and drive automobiles.

We know that the auto industry, for example, has hard evidence that simple changes in driving habits can lead to massive energy savings. These same results, derived independently by EPA indicate that:

- By cutting out short trips fuel economy can be boosted by a margin of a third, and even doubled for trips less than one mile.

- By eliminating rapid acceleration, we increase mileage by as much as 15 percent.

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- By keeping cars properly tuned we can raise mileage almost 6 percent over what we get from an untuned engine.

- And simply driving at stead speeds, will reap even greater fuel savings.

We are not asking the American people to give up their cars altogether, What we are asking, however, is that they use their cars more efficiently. Taking public transportation, eliminating unnecessary trips, carpooling and the many other energy saving measures each of us can take will contribute not only to our national energy goals, but the vitality of the auto industry.

We believe that Government -- even a lean and unbureaucartic organization like the Federal Energy Office -- can only do so much. In fact, without a spirit of commitment in the private sector -- and I mean every industry, business, and consumer -- our efforts would be hollow. Today, I would like to ask each of you to join in our effort, and to assume greater leadership in bringing the vital message of energy conservation to everyone.

The challenge of returning America to energy independence and developing the ability for energy self-sufficiency may well be the most significant challenge our people have faced in decades. I believe, however, with truly massive natural resources -- the world's most powerful economy -- and leadership in nearly every field of world technology -- there is no reason why we cannot -- and will not achieve that goal.

I hope that each of you will join us in that great task.

Thank you.

-FEO-

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STATEMENT OF DR. JOHN C. SAWHILL
DEPUTY ADMINISTRATOR, FEDERAL ENERGY OFFICE
BEFORE THE SUBCOMMITTEE ON THE ENVIRONMENT
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS

HOUSE OF REPRESENTATIVES

January 31, 1974

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today to address the important issues of the Nation's future energy research and development policy.

Few subjects are being discussed more extensively in the United States today than the energy situation. Although the analysis is not complete, the conclusions are clear: We must reduce energy demand and increase supply. These measures must be consistent with an acceptable environment, continued economic health, adequate national security, and tranquil foreign relations.

However, before I come to the details of our Energy R&D policy, I would like to review our overall approach to energy policy.

Five-fold Approach to Energy Policy

Let me start by outlining the five-fold approach we are taking with respect to energy policy.

First, we must establish a central energy organization in the Federal Government. The creation of the Federal Energy Office is the first step toward bringing all energy policy activity under one roof. We hope that Congress will move quickly to provide a statutory base for the Federal Energy Administration. We need legislation to provide us with the capability to recruit and hire top-flight administrators and to let contracts with qualified performers so that we can build the organization needed both to run the short-term allocation program and to carry out the more important assignment of moving the country toward energy self-sufficiency. Beyond FEA and ERDA, we must press forward with the creation of a cabinet-level Department of Energy and Natural Resources to ultimately bring together all Federal energy-related responsibilities. Until these new organizations are created, the Federal Energy Office will provide leadership and coordination in energy matters.

Second, we must establish a permanent "conservation ethic" in this country. We have been too extravagent in our energy consumption patterns. With 6 percent of the world's population, we consume 35 percent of the world's energy. The recent embargo has forced us to reduce this consumption now, but even more important we must be sure that an attitude of conservation becomes a permanent part of our lives.

Over 30 percent of our energy is wasted in one way or another -- wasted in conversion from one form to another, wasted in transmission, and wasted in unnecessary usage. Over the long-term, conservation of energy will require investment in insulation of homes and offices, use of more efficient automobiles, development of mass transit, changes in methods of handling freight, and central heating plants for groups of buildings and towns.

Third, we must push forward in the development of our domestic energy resources through Project Independence. This includes further development of oil and gas in Alaska and the outer continental shelf, greater utilization of coal, of which we have a supply unmatched by any other country in the world, further development of oil shale and nuclear power, and added efforts toward development of geothermal and solar power. Project Independence must be a two-pronged attack. In the short-run, we must both expand production and exploit untapped reserves of existing energy sources. Longer range solutions will be provided by the development of new and existing fuels.

Specifically, this program should include the following:

We must find ways to exploit our coal reserves more effectively. We have 1 trillion, 500 billion tons of identifiable coal reserves, or half of the non-Communist world's reserves, 425 billion tons of which are economically recoverable now. We must develop ways to utilize this abundant resource. We must develop techniques for mining surface coal that do not destroy the landscape. We must also develop ways to deep mine coal that protect the health and safety of miners.

We have talked for years about the production of oil from our oil shale. There are an estimated 1 trillion, 800 billion barrels of oil in the shale resources in the U.S., and just those reserves that we presently know are exploitable could satisfy our needs for oil for decades. We need an increased effort by both the Federal government and private industry to develop this potentially productive resource. I am especially encouraged by recent progress in the <u>in situ</u> processes for extracting shale oil. This progress suggests that it may be possible to produce shale oil at less than the current cost of Persian Gulf crude. <u>In situ</u> extraction should also have minimal impact on the environment and its development must be encouraged.

We also have to push forward in the development and utilitzation of nuclear power. The Administration will soon submit legislation to expedite the licensing and construction of nuclear powerplants which are an essential part of our program for achieving energy self-sufficiency. We should also develop a broader nuclear program which looks toward liquid metal and other breeder reactors. In addition, top priority must be given to assuring that nuclear powerplants are built and operated safely with acceptable environmental impact.

We have also talked for years about development of such relatively distant alternatives to fossil fuels as fusion, geothermal and solar energy. For the next decade these alternatives are still very much in the research and development stage of growth and they could not come into widespread use until after 1990. Although we have to invest in the development of these alternatives, our primary focus now must be on nearer term measures for expanding energy supplies.

Fourth, we must forge a new relationship between Government and industry in several key areas.

The information we now have to work with is not adequate and its reliability cannot be checked. We must develop a permanent energy information system with a built-in auditing program on every aspect of the energy situation -- reserves, refining operation, inventories and production costs -- so that we will be in a better position to assure the American people that our energy data is accurate and not subject to the change that it can be manipulated by industry.

- There must then be a new government role in the international activities of the oil industry.

- Finally, there must be a new partnership to assure the development, extraction and use of our domestic energy sources. And, nowhere will the need for the combined efforts of industry and Government be greater than in energy research and development. If we are to see the successful culmination of Project Independence, the Federal government must work in partnership with American industry.

For the last five years, the President has provided for a continual expansion of our efforts in energy research and development. Federal funding increased almost 75 percent from $362 million in fiscal year 1970 to $672 million in fiscal year 1973 and was then raised to $1 billion for fiscal year 1974. Last June the President announced a commitment to an even more rapid acceleration of this effort through a $10 billion Federal program over the next five years, and he stressed that we would spend whatever additional sums were reasonably necessary.

On Wednesday, January 23, 1974, the President announced that in fiscal year 1975 -- the first year of the five year energy R&D program -- total Federal commitment for direct energy research and development will be increased to $1.8 billion, almost double the level of a year ago. It is only with the help of such an accelerated research and development program that we can achieve real self-sufficiency in energy.

Fifth, we must establish a framework of international cooperation among producing and consuming countries. The potential impact of energy supplies on the world economy is staggering and we must work together in developing energy resources and maintaining a healthy world economy in which energy exporting and energy importing nations prosper together. Greater cooperation must be initiated on research projects, new ways to conserve energy and most important establishing energy prices.

In the context of this policy, I would like to summarize the proposed Federal Energy R&D Organizational Structure. Then I will outline briefly our short and longer range Energy R&D goals.

Organization

- Federal Energy Office/Agency

The Federal Energy Office currently has broad policy and regulatory responsibilities for energy. It is now administering energy price and allocation programs, initiating energy conservation programs, working with the State Department on international aspects of energy, developing programs to increase energy supplies and working with OMB to coordinate energy R&D activities.

- Federal Energy Administration

The FEO programs designed to deal with the near and intermediate term problems (i.e. prior to 1985), will become the responsibilities of the Federal Energy Administration upon congressional approval. One of the major functions of this organization as mentioned in the President's January 23, 1974, Message will be to rapidly increase energy supplies. This is really the principle task of Project Independence. Within the FEA, the Office of Energy Resource Development will be aimed at this goal. This office will identify and develop means of overcoming problems and providing incentives for the:

- Development of Domestic Energy Sources
- Construction of Related Facilities (e.g., refineries, power plants, transmission systems, etc.)
- Transportation of Energy
- Conversion of Energy Sources to move Convenient Forms
- Utilization of Energy Sources
- Full Consideration of Environmental Values
- Elimination of Regulatory Problems

• Federal Energy Office

Energy policy is broad-based and reaches into all areas of government. For example, it encompasses building codes, environmental matters, international aspects, etc. And it is important to consider the impacts of energy policy on such diverse groups as farmers, poor people, and businessmen. Therefore, even after the formation of the FEA, there may still be the need in the Executive Office of the President for an FEO with responsibility for providing coordination across the Government in matters of energy policy. This office will deal with a broad range of policy issues including those related to R&D. In particular, it will coordinate the energy related programs of EPA, NASA, DOT, DOD, NSF, DOC, DOI, etc.

- <u>Energy Research and Development Administration</u>

Also with Congressional approval, R&D programs to develop new technologies which would have an impact in the mid and longer term (beyond 1985) will be the responsibility of the Energy Research and Development Administration (ERDA). ERDA would include the research and development as well as the production functions of the Atomic Energy Commission, along with selected energy R&D functions of the Department of the Interior, the National Science Foundation, and the Environmental Protection Agency. Thus, the agency would bring all major energy R&D programs within the Federal government under one management structure.

- <u>Department of Energy and Natural Resources</u>

As the longer-run solution to the many interrelated problems in the energy and natural resources area, the President proposed the establishment of this new department. DENR would incorporate most of the responsibilities of the Department of the Interior; the activities of the Forest Service and certain water resource functions of the Department of Agriculture; the activities of the National Oceanic and Atmospheric Administration of the Department of Commerce; the water resource planning functions of the Corps of Engineers, the gas pipeline safety functions of the Department of

Transportation, and the Water Resources Council. Drawn together, these responsibilities would form the basis of a modern department truly capable of providing a much needed balance between the wise utilization and careful conservation of our Nation's precious natural resources.

Once DENR is established, it should incorporate the functions of ERDA & FEA.

Having outlined our overall approach to energy policy and described our organization, I will now outline the goals of our energy research and development policy.

We have tried to visualize our energy R&D policy in terms of what must be done in the relatively short range - say up to the mid 1980's; and what must be done in the long-term beyond the 1980's. The R&D strategies appropriate for dealing with the short-range are in general not the same as those appropriate for the long-range, and so I will discuss them separately.

Short Range R&D

In the short-range our primary shortage is oil and gas. Hence, our underlying strategy for dealing with the short-range is:

1. To encourage conservation measures, both by improved technology and by regulatory action.

2. To increase our domestic supply of gas and oil.

3. To substitute insofar as possible fuel resources which we possess in abundance, mainly coal and nuclear, for the oil and gas which is in short supply.

4. To meet the foregoing demands in an environmentally acceptable manner.

Research can make some contribution towards implementing these short-range strategies, but the real payoff from research will come in the next decade. Our progress towards self-sufficiency between now and 1980 will depend, for the most part, on our ability to implement existing technology rather than on the results of new research.

1. Conservation

In the short-run conservation measures will have to play a major role in closing the gap between demand and domestic production. We must reduce demand growth from the present rate of 4-1/2% to 3% or less. The AEC estimates that a crash conservation program could save as much as 7 million barrels of oil per day. Much of the expected 7 million barrels/day saving will come not from R&D per se but rather by implementing policies aimed at energy conservation. However, there is some R&D that should help reduce consumption of energy, particularly oil and gas. For example, better insulation of houses, more efficient automobile engines, and more efficient power cycles can save energy without causing economic or social dislocation. Thus, our research program must concentrate on these areas.

2. Increase domestic supply of gas and oil

To increase our domestic supply of gas and oil involves both the application of existing technology and the creation of new technology. Application of existing technology would include such techniques as secondary and tertiary recovery from existing oil fields and greatly expanded exploration for new oil and gas reservoirs, particularly on the Outer Continental Shelf.

The undiscovered oil and gas on Federal lands and beneath our Outer Continental Shelf can provide a significant portion of the energy necessary to make us self-sufficient. At the present time, we are working with the DOI to increase the acreage leased on the Outer Continental Shelf to 10 million acres beginning in 1975, more than tripling what had originally been planned. In later years, the amount of acreage to be leased will be based on market needs and on industry's record of performance in exploring and developing leases. In contracting for leases, we will also be working with DOI to insure that the proper competitive bidding procedures are followed and that environmental safeguards are observed.

An interagency program for monitoring the environmental aspects of the new leasing program is being set up. However, there will be no decision on leasing on the Outer Continental Shelf in the Atlantic and in the Gulf of Alaska until the Council on Environmental Quality completes its current environmental study of those areas.

In addition to the OCS program, we must move rapidly to exploit our resources in Alaska. It has long been clear that while an Alaskan oil pipeline was needed, it alone would not be enough. In addition to the huge oil reserves in the North Slope of Alaska, there are also gas reserves there of at least 26 trillion cubic feet -- enough to heat 10 million homes for 20 years. We are working with DOI on a study the President directed to determine the need for future Alaskan oil and gas pipeline capacity including the best routes should they prove necessary.

I would mention here also, the extraction of oil from shale. This can be done now; the main question is can it be done in an environmentally acceptable manner? We must give this matter extensive study. I would hope that even in the relatively short run, the results of our current research will enable us to extract significant amounts of oil from shale without doing serious damage to the environment.

3. Substitute coal and nuclear energy for oil & gas

This is a general strategy which will be appropriate both in the short-range and in the long-range. Here we can identify two separate approaches -- direct substitution and coal conversion.

a. Direct substitution of coal for oil and gas in industrial and utility applications. Substitution requires some R&D since the main problem in burning coal is control of undesirable effluents. We have a large program devoted to stack gas clean-up; there is every reason to expect this program to be successful, thus allowing us to substitute coal for a substantial amount of the oil and gas we now burn. Some experts have estimated that by 1985 we might save as much as 6 million barrels per day through direct substitution - 2 million barrels per day through direct replacement of oil under utility boilers, 1 million barrels per day in residential and commercial space heating (primarily through heat pumps) and 3 million barrels per day in industrial processes.

b. Conversion of coal into liquids and gasses. Techniques for liquifying and gasifying coal are fairly well known. However, in general these methods are expensive and will require further development before they become commercially feasible. If a crash program is started now, we might be able to replace as much as

3 million barrels per day of oil with synthetic fuels made from coal.

We thus visualize coal emerging as a very central element in our energy picture by 1985. There are some estimates that suggest that by then we shall have to mine as much as 1500 or even 1800 million tons of coal per year. This represents a tripling of our coal production - and to achieve this will require considerable research on better methods of extracting coal to insure that extraction methods are environmentally acceptable.

c. Expand the use of nuclear energy. This involves R&D on nuclear safety, waste disposal, siting of nuclear reactors, and thorium systems, as well as providing additional separative work capacity, and above all, assuring an adequate supply of U_3O_8. The latter requirement may require further work on mining and exploration. Siting is also an important element of our nuclear strategy since, in the absence of a rational siting policy for nuclear reactors, the nuclear option may be jeopardized. We urge Congress to give careful consideration to the energy facilities siting bill which we will be submitting in the near future.

4. Environmental considerations

In pursuing the foregoing aims, high priority must be given to establishing the scientific basis for environmental constraints, and, if possible, to reconciling them with practical considerations. However, we must recognize that establishing acceptable standards for low level insult is inherently difficult, and often impossible. Too much should not be expected from a crash program aimed at placing emission standards on a firm scientific footing.

Long Range R&D

Our long-range goal is first to eliminate, if possible, our dependence on foreign oil and gas; and second, to gradually transform the base of our energy system from the non-renewable fossil fuels to non-fossil fuels, mainly nuclear, geothermal, solar (and solar's children - hydro, wind, waves, ocean thermal gradients, and possibly biological sources). Since the long-range goals are necessarily uncertain, we believe that long-range R&D should retain as much flexibility as possible: we must not foreclose any of our options prematurely. What are the options?

1. Coal

Fortunately the country is well endowed with coal. The challenge is to learn how to transform our coal. The challenge is to learn how to transform our different types of coal through a variety of processes into acceptable gaseous and liquid fuels suitable as substitutes and replacements for dwindling supplies of petroleum and gas. Thus, low-Btu gas, which is probably marginal in the short-range looms with high priority in the long-range. And perfection of processes for coal hydrogenation leading to production of syncrude and syngas must be supported to the limit of scientific creativity.

2. Nuclear

Nuclear energy must be considered of most importance for the long-range primarily because it gives mankind an essentially inexhaustible energy source, one that is relatively independent of mineral resource costs. At the present time the breeder reactor is the only nuclear technology that can be counted upon today to achieve the nuclear promise. Thus, research and development of the LMFBR must be continued in a timely fashion and work on other breeder reactor concepts (light water breeder, gas cooled fast breeder, and molten salt breeder) must be supported and expanded to retain them as viable alternatives.

Controlled fusion energy is an exciting scientific field that has attracted and continues to attract some of the Nation's top scientific talents. Recent U.S. progress in duplicating and moving beyond the Soviet Union's success with Tokamak devices coupled with promising new concepts based on a maturing laser technology have stimulated new interest in and provide incentive for continued support of fusion research. However, practical fusion energy is only a hope until scientific and technical feasibility can be established.

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3. Geothermal

Naturally occurring geothermal steam is today generating many kilowatt hours of electricity. The prospect of a very extensive resource of geothermal energy depends upon being able to recover, in a practical way, heat from dry hot rock lying deep below the earth's surface. Thus, the promise of geothermal energy must await results of research both on the extent of the geothermal resource and our ability to recover it.

4. Solar

The use of solar energy is attractive and there are many ideas for using solar energy directly for building and water heating that could be applied today if the problems of cost and public acceptance could be overcome. However, we cannot count on the sun as a major source of energy until there is much better evidence, hopefully to be provided by an expanded research effort, that solar energy can contribute to the large scale production of electricity and/or synthetic fuels.

5. Others

There are many other elements to be included, at small scale, in the long-range energy research plan (e.g., ocean gradients, winds, waves, wastes, topping cycles); with two possible exceptions they do not appear as important as the technologies of conservation, coal, nuclear, geothermal and solar. One exception is hydrogen or some other synthetic fuel; most likely its source will be improved electrolysis but thermal and biological methods of water decomposition deserve attention also. The other exception is improvement in electrical transmission - in particular the superconducting cable - possibly a key element in a world electrical energy system in the post fossil fuel era.

Let me close with the following general observation about energy R&D. It is the nature of R&D that the future is uncertain: we cannot guarantee that any of the long-range options, especially those for which scientific feasibility has yet to be demonstrated will indeed work. But we believe it is imperative that we mount a massive, serious effort at uncovering the possibilities - at determining as soon as we can which of the leads are promising, which are false. For in the very long run our own country as indeed the world's future depends on a flow of adequate energy. This can be had, we believe, only through the kind of R&D enterprise that our country is now committing itself to.

Conclusions

In conclusion, I would like to add that the approach toward R&D should be one of flexibility since it will not be possible to anticipate every success or failure in Project Independence or in ERDA's program. However, we have told you about our plans in general, the current organization and missions of the FEO and the FEA as well as our thinking on coordination with other agencies and with ERDA and DENR. We are fully prepared to move ahead with these plans. However, we need the legislative tools proposed in the package by the President and we strongly urge your support and swift enactment of these bills.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE 6:30 P.M. February 5, 1974

RESULTS OF TREASURY NOTE AUCTION

The Treasury has accepted $1.5 billion of the $3.0 billion of tenders received from the public for the 7-year 7% notes auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield
High	100.68 1/	6.88%
Low	100.10	6.98%
Average	100.28	6.95%

1/ Excepting one tender of $1,000,000

The $1.5 billion of accepted tenders includes 94% of the amount of notes bid for at the low price, and $0.1 billion of noncompetitive tenders accepted at the average price.

In addition, $0.3 billion of the notes were allotted to Federal Reserve Banks and Government accounts at the average price, in exchange for securities maturing February 15.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE February 6, 1973

TREASURY ANNOUNCES PICKER STICKS FROM MEXICO
ARE BEING SOLD AT LESS THAN FAIR VALUE

The Treasury Department announced today that picker sticks from Mexico are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. Picker sticks are made of solid or compressed laminated hardwood and are used in textile weaving machines. Notice of the determination will be published in the Federal Register of February 7, 1974.

The case now will be referred to the Tariff Commission for a determination as to whether an American industry is being, or is likely to be, injured. In the event of an affirmative determination, dumping duties will be assessed on all entries of picker sticks from Mexico which have not been appraised and on which dumping margins exist.

A notice of "Withholding of Appraisement" was issued on November 7, 1973, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. Pursuant to this notice, interested persons were afforded the opportunity to present oral and written views prior to the final determination in this case.

During calendar year 1973 imports of picker sticks from Mexico were valued at approximately $60,000.

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FOR IMMEDIATE RELEASE FEBRUARY 1, 1974

FEO CLARIFIES PETROLEUM ALLOCATION REGULATIONS

The Federal Energy Office today issued a ruling designed to clarify and substantiate the obligations of petroleum product suppliers, and the rights of wholesale purchasers to allocations, under the Petroleum Allocation and Price Regulations issued January 15, 1974.

Essentially, the ruling states:

-- Suppliers are required to provide allocations to their purchasers of record who were in business during the base-period and who have continued their businesses since the base-period. A supplier may provide for his base-period purchasers directly or through appropriate exchange agreements with other suppliers.

-- A supplier may not escape his obligations to his base-period purchasers, even if purchasers have changed their location, brand name, trademark, or company name since the expiration of the base-period.

-- Suppliers are required to provide for their base-period purchasers immediately, and equitably. If a supplier's timing and method of allocating products to his purchasers discriminates against any category or group, the he may be subject to legal sanctions for having taken retaliatory action within the meaning of the Regulations.

E-74-45

(more)

-- Suppliers are required to provide allocations to their base-period purchasers, even though the supplier may have terminated or significantly reduced his activities in a geographical region during or since the base-period. These suppliers may apply to the National Federal Energy Office for reassignment of purchasers. Until such an application is approved, however, the supplier remains responsible to all of his base-period purchasers.

The full text of the ruling, with references to the enforcement of specific provisions of the Petroleum Allocation and Price Regulations, will be published in the February 4, 1974 Federal Register.

-FEO-

FEDERAL ENERGY OFFICE
RULING 1974-3

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SUPPLIER/PURCHASER RELATIONSHIPS UNDER THE PETROLEUM ALLOCATION REGULATIONS

A number of questions have arisen concerning the obligations of suppliers and the rights of purchasers to allocations under the Petroleum Allocation Regulations issued by the Federal Energy Office on January 14, 1974 (39 F.R. 1924 et. seq., January 15, 1974). In particular, FEO has received inquiries concerning the scope and intent of Sections 211.13 and 211.24 of the Regulations which require generally that suppliers of petroleum products shall provide allocations to their wholesale purchasers of record as of the base period. This Ruling is issued pursuant to Section 205.181 of the Regulations and is designed to be of assistance to all persons in determining their rights and obligations under the Emergency Petroleum Allocation Act of 1974 (Pub. L. 93-159) and the Regulations issued thereunder.

1. As a general proposition, the Regulations require a supplier to provide an allocation to each of its historical wholesale purchasers during the base period - even if the supplier has severed all contractual relationships with such purchasers since the base period. In the normal case of a supplier who has not significantly reduced its marketing or distribution activities in a region, most of the supplier's current purchasers (as of January 15, 1974) will also have been its base period purchasers. No change in such purchaser/supplier relationships is contemplated by the Regulations. However, with respect to base period wholesale purchasers of a supplier who are not its current purchasers, the Regulations require the supplier to take immediate action to provide

for such base period purchasers' allocations pursuant to Subpart A of the Regulations. Under Section 211.25, a supplier may arrange to supply its base period purchasers' allocations either directly or through appropriate exchange agreements with other suppliers in accordance with normal business practices. Wholesale purchasers who are not historical base period purchasers from their current supplier are expected to look to their base period supplier to provide for their allocations. Suppliers should reestablish relationships with their base period wholesale purchasers on an equitable basis. If the timing and method of implementing a supplier's program of changeover to its base period wholesale purchasers has the effect of discriminating against any category or group of such purchasers, such a supplier may be subject to sanctions for having taken "retaliatory action" within the meaning of Section 210.61 of the Regulations.

2. A supplier must provide for allocations to its wholesale purchasers of record during the base period as along as those purchasers continued to maintain their ongoing business since the base period. A purchaser does not lose his right to an allocation from his base period supplier unless, since the base period, the purchaser abandoned his ongoing buisiness entirely or transferred his entire ongoing business to a third party. (Section 211.24) In the latter case, the third party has acquired the right to the allocation from the historical supplier, and the original purchaser (if he has opened a new business) must apply to a supplier as a "new customer." Unless the historical purchaser has completely abandoned his original ongoing business or conveyed it to a third party, he continues to have the right to an allocation from his historical supplier even though (1) the supplier ceased supplying the

purchaser since the base period, (2) the supplier terminated a franchise or lease agreement with the purchaser since the base period, or (3) the purchaser has moved the location of his ongoing business to other premises since the base period.

3. The Regulations do not permit a supplier to escape its obligation to its wholesale purchasers of record during the base period if the purchaser has changed its brand or trademark affiliation since that time. The success of the allocation program depends upon the ease with which wholesale purchasers can return to their base period supplier relationships and, in the event of imbalances, the ease with which the Federal Energy Office can redirect the product of various suppliers in order to assure an equitable nationwide allocation of petroleum products. The Federal Energy Office is aware that it is a normal business practice in the industry for a supplier to provide its purchasers with products through exchange agreements with other suppliers and the Regulations recognize this practice. (Section 211.25) Accordingly, a change in brand or trademark affiliation is not a basis (except in unusual cases) upon which the Federal Energy Office would permit suppliers to refuse to provide allocations to their historical base period wholesale purchasers.

4. The fact that a supplier has, during or since the base period, terminated or significantly reduced its marketing or distribution activities in a region does not diminish the obligation of that supplier to provide allocations to its base period wholesale purchasers in that region. The Regulations recognize, however, that under certain circumstances it may be appropriate for such suppliers to apply to the Federal Energy Office to seek adjustments in the method of supplying their base

period purchasers. (Section 211.14(d)) It must be emphasized, however, that until the Federal Energy Office authorizes reassignment of wholesale purchasers pursuant to Section 211.14(d), all suppliers have an immediate and continuing obligation to provide allocations to their base period wholesale purchasers -- either directly or through appropriate exchange agreements with other suppliers. Suppliers which have embarked on a program to terminate or reduce their marketing and distribution activities in a region must cease such withdrawal program pending a determination by the Federal Energy Office of whether reassignment of their base period wholesale purchasers in that region would be appropriate under the Regulations.

5. Withdrawal from a region by a supplier since the base period does not alter the obligations owed to base period purchasers in that region by the supplier. However, certain actions by suppliers, such as cancelling a lease under which a base period purchaser has been operating on ongoing business on premises owned by the supplier may have the effect of putting the purchaser out of business. The Regulations provide that purchasers who have gone out of business shall not be eligible for allocations premised on base period supplier relationships. Nevertheless, the Federal Energy Office is prepared to take action to prevent practices by suppliers which have the clear effect of circumventing the provisions of the Allocation Regulations. Suppliers who terminated leases with their base period purchasers in the period following enactment of the Emergency Petroleum Allocation Act of 1973 or whose conduct with respect to base period purchasers otherwise threatens to terminate the latter's ongoing business, may be determined to have engaged in "retaliatory action"

within the meaning of Section 210.61 of the Regulations. That section prohibits any action, including a refusal to continue to sell or lease, contrary to the purpose or intent of the Federal Energy Office, when such action is taken against another firm or individual who exercises any rights conferred by the Emergency Petroleum Allocation Act of 1973, or by the Regulations issued thereunder. Furthermore, termination by a supplier of leases with base period purchasers -- as part of a program of withdrawal from a region -- may be determined to be in violation of Section 210.62 of the Regulations which requires suppliers to deal with purchasers according to "normal business practices" and prohibits modification of "normal business practices" so as to result in circumvention of any provision of the Regulations. Because the Regulations impose a continuing responsibility upon a supplier to provide allocations to his base period wholesale purchasers despite its withdrawal from a region, action which is in furtherance of a program of withdrawal by the supplier from a region may not be considered a "normal business practice" until the Federal Energy Office authorizes a program of reassignment of that supplier's base period purchasers to other suppliers in the region.

6. Any supplier which, during or since the base period, has significantly reduced its marketing or distribution activities in any of the 10 Regions of the Federal Energy Office may apply to the National Federal Energy Office to seek adjustment in the method of supplying customers in that region. The application shall contain an explanation of the reasons why it is impractical for that supplier to provide allocations to its base period wholesale purchasers in the region -- either

directly or through exchange agreements with other suppliers. In addition, the application shall contain the following information:

(1) The number of wholesale purchasers of record in the region during each month of the base period

(a) who were branded independent marketers

(b) who were non-branded independent marketers

(c) other wholesale purchasers (describe)

(2) The volume of product supplied, either directly or through exchange agreements, to each of the classes of entities enumerated in response to (1) for each month of the base period.

(3) The number of wholesale purchasers of record during each month of the base period (or successors in interest to their ongoing business) in each of the classes enumerated in (1), who maintained that ongoing business in the region during each of the following periods:

(a) November 1 - November 30, 1973

(b) December 1 - December 31, 1973

(c) January 1 - January 31, 1974

(4) With respect to each of the classes of entities described in (1), for each period specified in (3), the number of entities in the region who received any supplies of product from the applicant, either directly or through exchange agreements with other suppliers. For each such period and class of purchaser, the allocation fraction utilized (or if an allocation fraction was not utilized, the volume of product).

(5) For each of the classes of purchasers described in (1), for each period specified in (3), the allocating fraction utilized for the balance of any supplier's marketing or distribution system.

Based on an application prepared in accordance with the foregoing, the Federal Energy Office will consider whether to authorize reassignment of customers pursuant to Section 211.14(d) of the Regulations. It should be emphasized, however, that until such reassignments are authorized, all suppliers are obligated to provide allocations to their base period wholesale purchasers of record -- either directly or through appropriate exchange agreements with other suppliers. The ability of a supplier to provide allocations through interim arrangements, including exchange agreements, shall not prejudice its application for reassignments under Section 211.14(d). Failure to provide for allocations to base period wholesale purchasers as provided by the Regulations will expose suppliers to the remedies and sanctions specified in the Regulations.

William N. Walker
General Counsel

February 1, 1974

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EMBARGOED
FOR RELEASE MONDAY A.M. FEBRUARY 4, 1974

HEATING OIL PRICE GAP
TO BE NARROWED IN EASTERN U.S.

FEO Administrator William E. Simon today announced a proposed regulation to minimize the difference in prices of home heating oil in the eastern part of the United States.

Under the proposal, each of 76 principal suppliers of No. 2 fuel oil (home heating oil and diesel fuel) in 17 eastern states will have the same portion of domestic and imported fuel that the average supplier had during the corresponding quarter of 1973. The uniform proportions will be arranged by buying and selling among the suppliers.

Prices have varied widely in the eastern part of the country because of the higher costs of imported heating oil and of heating oil produced from imported crude. By equalizing the amounts of foreign and imported fuel oil among suppliers, the prices charged by suppliers -- and eventually paid by consumers -- can be made more equal.

"This plan will do away with the problem of next door neighbors paying a difference of 50 percent to heat their homes," Simon said. "It does so by providing a simple sharing system that also assures each supplier his customary portion of the market.

"However, there are strong indications that the situation

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(more)

is being corrected by the voluntary action of the oil companies and suppliers. Prices have already begun to drop in the area as the result of co-mingling of foreign and domestic oil among suppliers. If the situation continues to improve, we may not need to put the proposed regulation into action."

The 17 states covered by the plan make up the PAD (Petroleum Administration for Defense) district No. 1. The states are Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North and South Carolina,Georgia and Florida.

The proposed regulation was filed with the Federal Register on Friday. If accepted, it will go into effect on March 1. The Federal Energy Office invites comment on the proposal.

The 76 principal suppliers are to report to the FEO on their supplies of imported and domestic No. 2 fuels; their 1973 sales in the months of March, April and May; and the amounts of the fuel they expect to have produced or available during those three months.

From this report, the FEO will determine the proportions of domestic and foreign fuel oil for the entire district. That proportion will be applied to each supplier, and a buy-sell list will be published by the FEO. Those suppliers that have excessive amounts of either type of fuel are to make arrangements for selling their excesses to suppliers who have less or will have less than the proportioned amounts.

If the suppliers are unable to make the necessary sales and purchases within 15 days of publication of the buy-sell list, the FEO will order the required sales.

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FOR IMMEDIATE RELEASE FEBRUARY 4, 1974

FACT SHEET
DAYLIGHT SAVING TIME

Background

The Daylight Saving Time Act of 1973 (Public Law 93-182) was passed December 15, 1973, to go into effect January 6, 1974. This law provides for the adoption of year-round Daylight Saving Time (DST) for a period of two years and requires the Department of Transportation to report on its effects not later than June 30, 1974, and each year thereafter. The studies that have been undertaken to date are not definitive on either the energy savings (or losses) that might occur with DST, or the peripheral effects that might be experienced (crime, agricultural impacts, accidents, etc.) which can be causally associated with DST. However, the preliminary information which is available suggests that energy benefits may accrue and the secondary effects should be minimal.

Energy reductions can occur in two ways when DST is implemented during the winter months. Direct savings are associated with absolute reductions in the level of power send-out because, for example, the added lighting requirements in the morning are less than the decreased lighting possible in the evening. Fuel savings arise through shifting power consumption from peak periods in the evening to lower use periods in the morning. Electrical load peaks typically are met with relatively less efficient generating equipment. Thus, shifting use to off peak hours results in less fuel use to produce the same amount of electricity.

Estimated Energy Savings

It is estimated that a savings of approximately 1 percent of the nation's electricity could be achieved by DST. This savings amounts to about 100,000 barrels of oil equivalent per day. This figure may be disaggregated by fuel source as follows, using National Petroleum Council

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fuel source data for national electrical production:

1. approximately 14,500 barrels per day of oil;

2. approximately 106 million cubic feet of gas (equivalent to 19,500 barrels per day);

3. approximately 9650 tons of coal per day (equivalent to 42,320 barrels per day);

4. approximately 24,000 barrels per day equivalent of nuclear and hydro source power;

Other estimates of combined direct and fuel savings that could derive from DST vary from "negligible" for some regions surveyed by the Federal Power Commission Regional Reliability Councils (1970) to as high as 4 percent of electrical demand for Consolidated Edison of New York. (Spokesmen from Consolidated Edison estimated that DST could shave their load peak by between 2.9 and 4.1 percent)

Southern California Edison estimated that DST could save as much as 1 percent in their electrical load.

William Harris of Rand Corporation testified before the Senate Commerce Committee on November 9, 1973, that DST could save on the order of 1 percent in electrical energy.

Edison Electric Institute estimated that the nation achieved an 11 percent reduction in electrical energy peaks during World War II when DST and other conservation measures were in effect. By the end of the war, it estimated that about 700,000 tons of coal annually were being saved by DST.

In 1957, the state of Wisconsin adopted DST for a five month winter season. One electric utility in the state reported a 3 percent reduction in energy usage but the figure was not adjusted for weather or other unrelated effects.

In 1971, four states went on continuous standard time (Arizona, Hawaii, Indiana, and Michigan). It was found that from April to May there was a 0.28 percent increase on fuel consumption and from October to November there was a 1.58 percent decrease in fuel consumption. In the other states, there was a 0.48 percent decrease in consumption from April to May and a 0.91 percent increase in consumption from October to November. In aggregate, there was a 0.41 percent decrease in fuel consumption from

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April to May and a 0.71 percent increase from October to November. This 1971 experience suggests that the non-shifting states did better.

Practically, the electrical energy savings that are achieved will be difficult to associate causally and unequivocally to DST because of many other influences tending to reduce electrical demand. Savings will not be uniform for each utility in the country but will vary depending upon the detailed nature of electrical loads. They should be relatively higher on utilities which serve a high residential and lighting component and relatively lower on utilities serving a high industrial component.

Safety and Other Considerations

The shift to DST will result in less light early in the morning, but daylight will extend later in the evening. This shift can have several effects.

It is likely that DST will reduce crime in the early evening when many people are still on the streets and increase the efficiency of the police forces. However, crime patterns may be shifted to other times.

It is likely that DST will reduce driver and pedestrian accidents in the heavy commuting hours of the evening because of the ability to return home in more daylight. Although there may be more accidents in the morning commuting hours, drivers are likely to be more alert and the net effect will be a reduction in total accidents.

Accidents and crimes which occur in morning darkness will be widely reported and associated directly or by implication to DST. What will not be known will be:

(a) whether the reported accidents would have occurred anyway;

(b) how many fewer accidents and crimes are occurring in the evening than would otherwise have occurred.

Experience to Date (1/31/74)

I. Energy Indications

Uncorrected Gross Weekly Load Production Figures (EEI)

Week Ending	1973-74 kwh ($x10^6$)	1972-73 kwh ($x10^6$)	% Change from same week in previous year
12/29/73	31,952	32,440	-1.50
1/5/74	34,695	34,331	+1.06
1/6/74 - - - - WDST put into effect - - - - - - - -			
1/12/74	36,558	38,111	-4.07
1/19/74	35,531	35,368	+0.46
1/26/74	34,602	35,297	-2.0

Consolidated Edison reports the following electrical data normalized for weather:

Week Ending	1973-74 kwh ($x10^6$)	1972-73 kwh ($x10^6$)	% Change from same week in previous year
1/6/74	621	681	-8.81
1/13/74	665	709	-6.21
1/20/74	662	706	-6.23
1/27/74	657	707	-7.07

Consolidated Edison has been engaged in a vigorous energy conservation effort which has led to significant peak reductions. There used to be a significant peak between 5 and 6 PM and now the load is flat. The peak now occurs between 10 and 12 in the morning for the system as a whole.

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II. Safety Indications

Florida has had eight accidents involving pedestrians and bicycle riders in the early morning since DST went into effect. Four were in rural settings; four in urban settings. The legislature turned down a request by the Governor to seek exemption from DST.

The Massachusetts State Registry of Motor Vehicles reported that in the period between January 6 and 28th, there was only one pedestrian fatality, a person 20 years old at 5 A.M. There were no other pedestrian accidents in that period and no children accidents for the 2.5 million school age children. The Mass. State Registry of Motor Vehicles also stated that overall accident rates have been HALVED from what they were in comparable periods.

The Boston Globe on January 28th reported that aside from Florida, a total of five other children on their way to school have been killed in other states including California and Illinois. Two elderly school crossing guards have died.

Many school districts across the nation foresaw DST as an increased hazard for children and adjusted school hours. Some cities (Chicago City) have rejected delayed school openings even after accidents occurred after DST went into effect.

The Department of Transportation is now undertaking a regional office assessment of school age accidents and bicycle fatalities since January 6, 1974, the date that DST went into effect. This study will be completed in early February.

The Office of Energy Conservation is developing a functional relationship between gross power generation, time, and weather. With historic and current data it is proceeding to assess how total national electrical demand, corrected for weather, is being affected by DST. The results of this analysis will be available shortly.

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FOR IMMEDIATE RELEASE FEBRUARY 4, 1974

SIMON URGES MINIMUM PURCHASE TO SAVE TIME, GASOLINE

Federal Energy Office Administrator William E. Simon today urged drivers to purchase a minimum of $3.00 in gasoline to stave off a rash of panic buying that is currently overwhelming retail service stations.

Once the necessary legislative authority exists, Simon said, he will consider making the program mandatory. Under the program, however, dealers are permitted to charge only the legal price per gallon authorized by FEO regulations.

This measure, he said, will hopefully help cut inconveniences caused by long lines at service stations, as well as save on gasoline consumption. He cited a preliminary survey by FEO which indicated that many people are currently purchasing gasoline only to "top off" their tanks. Further, he said, many service station owners and trade associations feel there may be enough gasoline for everyone if motorists refrain from using their tanks to hoard gasoline.

"We believe -- and I think evidence will bear this out -- that our allocation program will insure an equitable distribution of gasoline supplies throughout the country," Simon said, "but we must allow it to work. And panic buying isn't helping the situation.

"Many Americans are being forced to accept the discomfort and inconvenience of waiting in service station lines when it simply isn't necessary," Simon said, "and this program is aimed at alleviating this."

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EMBARGOED FOR RELEASE UNTIL
1:00 P.M., PDT, MONDAY, FEBRUARY 4, 1974

REMARKS BY THE HONORABLE JOHN C. SAWHILL
DEPUTY ADMINISTRATOR, FEDERAL ENERGY OFFICE
BEFORE THE
COMMONWEALTH CLUB OF CALIFORNIA
SHERATON PALACE HOTEL, SAN FRANCISCO, CALIFORNIA
FEBRUARY 4, 1974

I especially welcome this opportunity to speak before the Commonwealth Club. I say this not only because of the deserved esteem the Commonwealth Club enjoys, but because it gives me an opportunity to lay bare the facts on the energy crisis before you, and the many people listening on the radio. I should add, incidentally, that it is also a great personal delight to return -- even if very briefly on business -- to San Francisco.

In the nearly two months since the Federal Energy Office was created, the energy crisis has become increasingly a fact of American life.

Responses to the shortage have been as diverse as the attitudes and values that shape our society. To illustrate, let me read some excerpts from stories carried on the wires one day last week.

-- One Senator was quoted as saying, "The major oil companies deliberately caused the fuel shortage by keeping quotas on imports and not expanding drilling and refining operations."

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-- The president of a group of independent oil men said, "Misguided and misinformed politicians are to blame for the Nation's fuel crisis and not the major oil companies."

-- One industry official even said, "The women's liberation movement unintentionally contributed to creating the energy crisis."

Without a question, reaction to the energy crisis certainly has been diverse, but one characteristic has been preeminent: it has emerged as one of our pressing, if not the most pressing concern in the United States today.

In some parts of the country this concern has translated into "panic-buying."

We find, for example, that nearly half of the people lining up for gasoline at the service stations we have spot-checked, have tanks that are at least half full. In some instances, almost 30 to 40 percent of the tanks are three-fourths full. This is absurd.

Panic-buying -- and that stop at the next gas station down the road to top off your tank -- really leads to just one thing: inconvenience to yourself, and genuine discomfort to everyone in line behind you.

In our view, people are simply overreacting. While we certainly face shortages, they are by no means critically severe. We know that through effective fuel allocation, and that is one of the major challenges at the moment, we can ensure that there will be enough gas at nearly every pump in the country to meet vital driving needs. However, we cannot ensure gasoline for unnecessary short trips and pleasure driving.

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The regrettable fact, however, is that too many people are simply overreacting -- and thousands of other drivers passing by assume, like the Army, when you see a line at a gas pump, "Get in it."

And there seems to be an equally large segment of people who believe that "The Great American Energy Crisis" is a contrived hoax, driven by an unabashed quest for profit-taking that can only lead us down a road marked with environmental and economic disaster.

We have all seen numerous news accounts alleging that the major oil companies conspired to create the energy shortage.

We have heard accusations that there are millions of barrels of oil hidden away in capped-off wells, and even in tankers sequestered off our coasts, waiting only for the next price increase.

And we have heard concerned outrage and demands for an immediate investigation of the oil industry.

To date we have been unable to verify any of the charges, and yet, there undeniably is so much rhetorical grapeshot in the air, that many people may be in danger of losing sight of the fact that the energy crisis is here and it <u>is not</u> contrived.

The fact that our energy demand has been growing at the rate of four to five percent a year for the past 20 years was not contrived.

The fact that domestic exploration peaked in 1956, and that domestic production has been decreasing since 1970 was not contrived.

And, most important today, the fact that we are importing five million barrels today -- and even before the embargo were importing seven million barrels a day -- was not contrived.

The lamentable fact is that lifting the embargo will not mean an end to shortages or an end to the need to manage our shortages -- or, most important, an end to the need for Project Independence.

The United States and other industrialized nations are crossing the threshold into an era where energy -- and many other critical mineral and raw materials -- will be more difficult to obtain. And when they are available, we will be facing soaring world prices.

Yet, no matter how much documentation, diplomacy, litigation, and legislation there is, we still face significant energy shortages in the years ahead.

We believe, however, that as the American consumer confronts the dimensions of the energy crisis, he will realize that if we approach it in a level-headed fashion, we can manage the shortages, by bringing demand in line with supply.

Since the Federal Energy Office was established last December, we have taken vigorous and wide-ranging action.

-- We have assumed control of the mandatory allocation program, so that our supplies are distributed equitably;

-- We have implemented realistic energy conservation goals, and the response to them has been excellent;

-- We have developed the most accurate energy data reporting system, within the time available, and have asked the Congress for necessary legislation so we can improve upon it;

-- We have proposed changes to our tax structure, and made other key legislative initiatives to accelerate the development of our domestic energy resources;

-- And we have attempted to establish a dynamic management structure that can cut through bureaucratic red tape, and address the vital challenge we face -- returning to self-sufficiency.

The decisions we made have not always been easy ones. And I wouldn't be frank if I didn't admit that, as in any management undertaking like the allocation program, we may not have been as responsive as we would like to have been. I am convinced, however, that we are well on the way to offering timely, efficient, and accurate service.

I personally welcome your comments in this regard, and would especially appreciate it if you would send us any proposals you have for upgrading the effectiveness of the allocation program.

When the Federal Energy Office assumed control of the Mandatory Allocation Program there was a backlog of about 20,000 cases. Today we have reduced that to a normal weekly caseload, which is 1,500.

Allocating existing supplies is just one-half of our most pressing immediate task. The other half is energy conservation. Our action in this area has been just as direct.

The results, to date, are encouraging.

The response of industry, commerce, and the American people to our energy conservation measures has been magnificent, and is one of the primary reasons we have not had to implement gasoline rationing.

With the business sector accounting for nearly 70 percent of our total energy consumption, we have asked business and industry to do "their share."

After sending out over 43,000 letters to businessmen throughout the country, we have received over 12,000 letters of commitment to save energy, and the responses are still coming in.

The Pepsi-Cola distributors in Texas, for example, have reported that by changing route patterns, they have been able to cut gasoline consumption by more than 40 percent.

And reports of 15 to 20 percent savings at businesses and factories across the country are not uncommon.

The consumer is doing his part, too.

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From New England, we have evidence that, as a result of conservation measures, residential heating oil consumption has been cut by 20 percent, even <u>after</u> allowing for warmer weather. While in Winston-Salem, North Carolina, fuel oil usage has declined by 15 percent.

We believe that this same kind of support for energy conservation is going to translate nationally into a 15 percent reduction because consumers are turning their thermostats down six degrees and industry ten degrees.

And the potential for even greater energy savings are just beginning to show up as small businessmen, corporations, and even entire industries conduct energy audits.

I would urge each of you to investigate the role of energy audits if you haven't already done so. For, aside from being a workable management tool to support our national energy effort, the audits have already resulted in new and more innovative methods to cut energy use.

In the long term, however, we must move to develop a realistic ability for self-sufficiency that will break the back of the energy crisis. And we believe Project Independence will do just that.

To meet this goal, we have set forth a five-fold program:

<u>First</u>, we must establish a central energy organization. The creation of the Federal Energy Office is a major step in that direction. In the long run, however, it is essential that we have legislation to create a Department of Energy and Natural Resources. It's worth noting that every Presidential review commission since the Hoover Commission has called for the establishment of a single Cabinet-level

agency to oversee the preservation and development of our national resources. It may, in fact, be the only point that President Hoover, Roosevelt, Truman, Eisenhower, Kennedy, Johnson, and Nixon agree upon.

Second, we must develop a new short- and long-range "energy conservation ethic" in this country that will dampen the runaway growth in energy demand. Some estimates indicate that thirty to forty percent of the energy produced in the U. S. today is wasted. One analysis shows that the 210 million people in America, in effect, waste as much energy as the 110 million people in Japan consume. We simply cannot afford to allow the growth in energy demand to continue to outpace our productive capacity -- as it does now, and would, even without the oil embargo.

Third, we must accelerate the development of our massive untapped domestic energy resources, through Project Independence. With almost half the free world's known coal reserves, we have enough coal to meet our total energy needs for centuries. And we have the equivalent of one trillion 800 billion barrels of oil locked in our massive oil shale reserves in Colorado, Wyoming, and Utah, enough to last more than a century.

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While few of us may accept the fact, America's energy resources are largely undeveloped.

We have the technology to convert coal into gas, crude oil, petrochemicals, and even gasoline, and must now bring this technology into the marketplace.

The time has come to take oil shale research out of the laboratory and press these new-found techniques into production, thus creating another alternative to oil imports.

Some of these ventures are risky. But the payoff of just one major breakthrough could be spectacular: we can produce synthetic oil from either coal or gas, at $5 to $6 a barrel.

Proposals to develop revolutionary new industries employing a new generation of technology in the span of a few years may seem far-fetched.

But look what we did in synthetic rubber during World War II. In 1940 the United States was responsible for more than two-thirds of the world's total annual rubber consumption. The United Kingdom, which controlled 75 percent of the world's rubber, imposed export restrictions driving the price of rubber up from 14 cents a pound, to $1.23 a pound. Faced with soaring market prices and a critical need for this vital resource, Government and industry initiated a vigorous effort to develop synthetic rubber. By 1944 -- in the span of less than five years -- we produced not only enough rubber to meet our needs, but one that was far superior to natural rubber.

I say that there is no reason today, that we can't do this same thing today with synthetic gas, and other new coal and shale technologies.

We also must move vigorously to accelerate the pace of oil and natural gas leasing on the Outer Continental Shelf. It seems incredible that less than three percent of the potentially productive OCS has been leased in the twenty-odd years since the program was originated.

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And there are an estimated 100 billion barrels of oil reserves on the North Slope, in Naval Petroleum REserve No. 4 in Alaska, and off the Alaskan Coast.

We can no longer afford to allow these critical resources to lie undeveloped, or underutilized.

Fourth, we must develop a new relationship between government and industry to ensure that we have an accurate, and timely auditing process to cover every aspect of the energy situation. We have already taken firm action, within existing powers, to get that kind of information as soon as possible. And, where additional authority is required, we have asked Congress to enact the needed legislation.

Fifth, we must forge a new structure of international cooperation within the world community, between producing and consuming nations.

The international implications of the energy crisis are profound because of the obvious economic and national security ramifications. For this reason, President Nixon has called a meeting on February 11 with the major oil-consuming nations of the world to be followed by a meeting of the consuming and producing nations of the world. This is a major step to address our mutual problems.

Today, most industrialized nations are competing for limited supplies in a market with dramatically escalating prices.

The economic impacts of oil brinkmanship has registered shock effects in nearly every sector of the international monetary structure because of spiraling oil prices.

If current prices hold, the oil import bill for the United States will rise from a projected $7 billion to as high as $21 billion this year. One World Bank report estimates that by 1980 five nations belonging to the Organization of Petroleum Exporting Countries (OPEC) -- Saudi Arabia, Qatar, Abu Dhabi, Kuwait and Libya -- could hold close to 75 percent of world financial liquidity.

And as doubled and even tripled OPEC oil prices roll through the economies of many industrialized and third-world nations, inflation has risen at incredible rates. Rates of inflation today in Britain are running at 12 percent -- 13 percent in France; 20 percent in India; and 22 percent in Japan. Like it or not, the energy crisis is not just a regional or national problem -- it is one that could literally sever the economic and diplomatic sinews that bind together the world community as we know it today.

Last week, Secretary Simon and I met with Canadian Energy Minister Donald MacDonald to discuss common questions regarding future energy development that would affect both countries, as well as current and anticipated cross-border allocation problems.

Our talks were wide-ranging, and I believe productive for both sides. They certainly will lead to closer dialogue between Ottawa and Washington -- and the Canadian and American peoples -- on the vital energy question.

I have every confidence that if we continue to pursue every avenue -- not just at home, but abroad -- we can turn the energy crisis around, and cross the threshold into an era when every nation, and every world city will no longer look at resource development through the portals of national or economic self-interest.

While the threat of international blackmail is clearly a condition of oil diplomacy today, we must not lose sight of the opportunities before us. If, for example, we can perfect reasonable cost processes to convert oil shale to petroleum or that will liquefy coal into petroleum at $4 to $5 a barrel, the yolk of oil imports we shoulder today will be cast aside forever.

The greatest challenge we face in the months and years ahead will be to translate our energy policy into new attitudes, values, and patterns of action that will lead to the ability for energy self-sufficiency.

I am convinced that the people of the U.S. have begun to recognize the enormity of the job ahead of us. I am convinced that we have turned the corner in energy planning and are now beginning down the road which will lead to energy self-sufficiency.

With this new sense of purpose -- with this new realization of the need to increase our energy supply while protecting our natural resources -- we can build a stronger America.

-FEO-

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EMBARGOED FOR RELEASE UNTIL
1:30 P.M., TUESDAY, FEBRUARY 5, 1974

REMARKS OF THE HONORABLE JOHN C. SAWHILL
DEPUTY ADMINISTRATOR OF THE FEDERAL ENERGY OFFICE
BEFORE THE
NATIONAL ASSOCIATION OF AUTOMOBILE DEALERS
AT THE HILTON INTERNATIONAL HOTEL
LAS VEGAS, NEVADA
TUESDAY, FEBRUARY 5, 1974

I am delighted to have this opportunity to be a part of the National Automobile Dealers Association, and especially value your President, Mr. John S. Hinkley's gracious invitation.

While preparing my remarks, I found myself reflecting on the ancient king's practice of "slaying the bearer of bad news." Fortunately -- at least in Washington -- the practice has been abandoned. I wouldn't be frank, if I didn't admit that I hope the National Automobile Dealers Association shares our view on that matter.

There is little question that the energy crisis has brought disquieting and even cold news into the lives of nearly everyone in the country. For some people, it has brought a sudden change in life style and for still others, it has even brought a little discomfort. For nearly all of us, it has brought new attitudes, and new values.

Of all the sectors of the American economy, however, the auto industry -- and especially the members of the National Automobile Dealers Association -- have begun to absorb the first waves of economic impact.

We are accurely aware of your concerns.

* Concerns over a drop in domestic auto sales, which according to some estimates, will drop from $9.69 million last year, to about $8.85 this year and no matter how you balance the figures, many of you will be unable to sell as many units as you did last year.

* Concerns over auto inventories that are simply not compatible with the energy conscious needs of consumers today, that have resulted in a reduction in full-sized medium car sales from 18 percent of the market a year ago last December, to about 12 percent in 1973.

* And, most important of all, we are sensitive to your concerns over the future of your businesses, and of the millions of people whose livelihoods depend upon the role of the automobile in America.

We know that some dealers throughout the country are losing their businesses.

We know that some dealers have had to reduce their sales forces, and these kind of decisions are hard, because we're not just talking about the economic cost of the energy crisis -- but the human cost.

It is for this reason -- above all others -- that Secretary Simon places the highest priority on getting the facts on the energy crisis to you and the almost 21,000 members of NADA as quickly and as accurately as possible.

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That is exactly what I would like to do this afternoon.

Each of you, I'm sure, as well as many other people across the country, have seen accounts that the energy crisis is contrived.

We have seen accusations that there are millions of barrels of oil hidden away in capped-off wells, and that there are tankers laying off our coasts waiting only for the next price increase before their supplies are brought to the market.

We have heard allegations that the oil industry, in search of massive windfall profits, conspired to create the energy shortages, and drive prices up at an almost phenomenal pace. (I am sure, incidentally, that both Secretary Laird and Frank Ikard of the American Petroleum Institute will comment on both these questions later in the program.)

We have yet to see any hard evidence that these charges are true -- there is so much rhetorical grapeshot in the air, that many people are beginning to lose sight of the fact that the energy crisis is here.

The fact that energy consumption has been growing at the rate of four to five percent a year over the past 20 years, and the fact that the U.S. with 6 percent of the world's population accounts for a third of its energy, is not contrived.

The fact that domestic exploration peaked in 1956, and that our domestic production has been decreasing since 1970 is not contrived.

The fact that we have allowed our domestic refinery capacity to stagnate over the last few years is not contrived.

And, most important, the fact that we are importing 5 million barrels a day now -- and even prior to the embargo we were importing 7 million barrels a day, is not contrived.

For years now, the American consumer has been on an energy joyride.

We have underwritten economic growth and one of the highest standards of living in the world, and even a generation of social and cultural development with abundant supplies of low cost energy.

Those days -- not only for the U.S. -- but nearly every industrialized nation in the world, are changing.

It is worth noting, I might add, that the Soviet Union is the only industrialized nation in the world that is totally self-sufficient in energy today.

I am sure that all of you have heard much of this before, and are asking yourselves the question, "Yes, but how does this relate to me?"

In my view, one of the underlying factors is that we have become victims of our own success -- victims, if you will, of the achievements of our technological and economic success.

The private automobile has given the American consumer the greatest mobility in world history. Today, there is one

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auto to every 2.2 people in America.

One pundit has even suggested that at our current rate of growth, some day there may even be more autos in America than there are people.

The energy cost of our technological and economic success has been high, growing at rates that literally have outstripped our ability to meet those needs. Since 1958, for example, the sales weighted fuel economy has dropped from 14.07 miles per gallon to 11.67 miles per gallon for last year's model. The reason for this is simple: while our cars may have been better, they've also been bigger, giving us more speed, safety and comfort while using a lot more gas. Weight,as you know, is a major factor in gas mileage. It's no wonder, then, that today's intermediate car weighs about the same as full-size cars did just two years ago.

While some people, including a large number of environmentalists have found it easy to simply "blame Detroit" for what now are wholly unacceptable rates of energy use, the fact remains that the American automobile was designed and constructed to meet consumer needs.

And for decades now, the American motorist has been able to buy gasoline, as well as other energy sources such as natural gas and electricity at truly bargain prices. Consider just a few of the following facts:

* While the cost of living has more than doubled in the last 25 years, the average price for residential electricity has actually decreased by a third.

* Natural gas, our cleanest burning fuel, has essentially been controlled at rates far below the comparable price, on a BTU basis, other fuels. Today, in fact, natural gas is being sold at controlled prices in interstate markets two to almost three times less than it is in intrastate markets.

* And gasoline, even today, is selling at prices one-half and even two-thirds less than it is many European and Asian countries. And,I should add, I'm talking about industrialized countries like France, Germany, Italy and Japan.

In fact, just a year ago, energy costs in the United States accounted for only four percent of our total Gross National Product, compared with eight to twelve percent for most Western European nations.

I am not citing these facts because we in the Federal Energy Office feel that higher consumer prices for oil and other energy sources are necessarily desirable. There is, however, a clear relationship between energy pricing and the economics of supply. The results are that:

-- Exploration, refinery construction, and nearly every dimension of domestic energy development has fallen off.

-- While demand has risen at four to five percent annually, at exponential rates, because we have not had the incentives to use energy sparingly, to eliminate waste, and -- most important of all -- to ensure that our technology reflects "life-cycle" energy costs.

In the past, the auto industry -- like many other sectors of our economy -- simply was not competing in a marketplace

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which reflected the cost and effects of energy consumption.

The Administrator of the Federal Energy Office, William Simon, and I have met personally with the leaders of the auto industry.

And I can tell you today, that there is no question in my mind about the determination of the auto industry to bring their technological capability, and vast economic and human resources to bear on the problem. We have every confidence that with that kind of a commitment, your industry will be able to retool, and literally bring a new generation of design based upon energy efficiency into the market during the next years.

The oil embargo is by no means the major contributing factor to the long-term effects of the energy crisis. What it has done, however, is shorten the transition period. We frankly believe that _if_ the oil embargo is lifted, and _if_ the American consumer continues to use energy sparingly, without waste, that we can ease through the next years without severe economic disruptions.

Some analysts, for example, have suggested that the initial shock tremors of the energy crisis will ease off after the first waves of energy price increases, and new purchasing attitudes roll through our economy.

If we are to resolve the energy crisis, we must face some hard decisions -- economic, environmental, and even social choices. The ability for energy self-sufficiency is simply no longer an alternative. It is an imperative. It is a challenge that we _can_ -- and we _must_ meet. And that, as you know, is the premise behind Project Independence, achieving our three major goals:

First: The immediate problem of matching energy demand with supply, through conservation and allocations that will allow us to manage the energy shortages without severely disrupting jobs, or the vitality of the economy.

Second: A longer term goal of weaning the United States away from such a heavy dependence on energy imports, by accelerating domestic energy production and cutting energy waste.

And Third: To develop new energy sources that will use our fossil fuel more effectively, and bring still more sophisticated energy sources on line including nuclear, geothermal and solar systems.

During the first quarter of 1974 we expected to have 14 percent less oil than we normally would be using. The actual shortfall should be much lower because the American people are conserving fuel, the weather has been warmer than normal, and initially the Arab oil embargo was not as effective as it is today. I cannot over stress the fact, however, that even after the embargo is lifted, we will still face shortages. But we are hopeful that the determination of the American people to avoid rationing and continue conserving our finite energy supplies will ensure that the shortages, when they occur, are "manageable."

Let me stress, however, that without a lift in the oil embargo and at least continuing favorable weather we *may* face shortages -- especially of gasoline -- on a broader scale this

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summer. Both factors will be major determinants in deciding if we have to go to rationing. Even then, however, we will institute rationing only as a last resort.

Let me add, that if we have to go to rationing we will be adding 17,000 employees and a one and one-half billion dollar year burden on the taxpayer. And even then -- no matter how equitable our rationing plan is -- we cannot guarantee that just because you will have a coupon you will be able to buy enough gas for your car, electricity for your factory, or heating oil for your home. Rationing is a only a mechanism -- a mechanism to ensure that limited supplies are distributed equally. No rationing plan -- no matter who designs it -- will increase energy supplies.

Efficient energy use, and a new "energy conservation ethic" to use all our finite energy sources more judiciously must be an integral part of our quest for energy independence.

Fortunately, the United States has vast untapped energy resources. Our coal and oil shale reserves are equivalent to 10 times the known total petroleum reserves, and could serve our needs for hundreds of years.

And we have significant undeveloped deposits of oil and natural gas reserves on the Outer Continental Shelf. To date, however, only about 2 percent of the Outer Continental Shelf has been leased in the twenty-odd years since the Federal leasing program was established.

We must move expeditiously to bring on line our abundant domestic energy resources.

While few of us may accept the fact, America's energy resources are largely undeveloped.

We have the technology to convert coal into gas, crude oil, petrochemicals, and even gasoline, and must now bring this technology into the marketplace.

The time has come to take oil shale research out of the laboratory and press these new-found techniques into production, thus creating another alternative to oil imports.

Some of these ventures are risky. But the payoff of just one major breakthrough could be spectacular: when we produce synthetic oil from either coal or gas, at $5 to $6 a barrel, we will no longer be vulnerable to foreign economic and political blackmail.

Proposals to develop revolutionary new industries employing a new generation of technology in the span of a few years may seem far-fetched to you.

But look what we did in synthetic rubber during World War II. In 1940 the United States was responsible for more than two-thirds of the world's total annual rubber consumption. The United Kingdom, which controlled 75 percent of the world's rubber, imposed export restrictions driving the price of rubber up from 14 cents a pound, to $1.23 a pound. Faced with soaring market prices and a critical need for this vital resource, Government and industry initiated a vigorous effort to develop synthetic rubber. By 1944 -- in the span of less than five years -- we were able to not only produce enough rubber to meet our needs, but one that was far superior to natural rubber.

I say that there is no reason today, that we can't do this same thing today with synthetic gas, and other new coal and shale technologies.

Our final goal is to develop new energy sources -- solar, geothermal, nuclear, and others.

We have the achievement of almost three decades of nuclear research behind us to optimistically predict that by the end of the next decade we will have perfected commercial scale nuclear breeder reactors, and that nuclear energy will generate a fourth of our electricity.

We already have proven coal gasification and liquefaction technology that will convert our most abundant fossil fuel into clean burning, and hopefully low cost supplements to our existing energy sources.

The promise of oil shale, and the almost 1.8 trillion barrels of oil in our oil shale deposits, is still another potential source of energy that can begin to make a contribution to our national needs over the next years.

Geothermal steam, which today provides a third of San Francisco's electrical power, is still another source that remains untapped.

And solar energy fusion, and energy from the tides and wind are still other potential sources for a new generation of energy supplies.

The President, as you know, has made an $10 billion commitment to energy R & D for Project Independence. In the meantime, however, we must not lose sight of the fact that we are literally talking about years before these new sources will really assume a major share of the energy market.

Even today nuclear power, which provides about 1% of our total energy needs, only gives us about as much energy as we get from firewood.

Each of you, as consumers and more important as members of one of our largest industries, can make a personal contribution to meeting our national energy needs in the years ahead.

As businessmen, you are in daily communication with a vital sector of consumers: the millions of men and women who buy and drive automobiles.

We know that the auto industry, for example, has hard evidence that simple changes in driving habits can lead to massive energy savings. These same results, derived independently by EPA indicate that:

- By cutting out short trips fuel economy can be boosted by a margin of a third, and even doubled for trips less than one mile.

- By eliminating rapid acceleration, we increase mileage by as much as 15 percent.

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- By keeping cars properly tuned we can raise mileage almost 6 percent over what we get from an untuned engine.

- And simply driving at stead speeds, will reap even greater fuel savings.

We are not asking the American people to give up their cars altogether, What we are asking, however, is that they use their cars more efficiently. Taking public transportation, eliminating unnecessary trips, carpooling and the many other energy saving measures each of us can take will contribute not only to our national energy goals, but the vitality of the auto industry.

We believe that Government -- even a lean and unbureaucartic organization like the Federal Energy Office -- can only do so much. In fact, without a spirit of commitment in the private sector -- and I mean every industry, business, and consumer -- our efforts would be hollow. Today, I would like to ask each of you to join in our effort, and to assume greater leadership in bringing the vital message of energy conservation to everyone.

The challenge of returning America to energy independence and developing the ability for energy self-sufficiency may well be the most significant challenge our people have faced in decades. I believe, however, with truly massive natural resources -- the world's most powerful economy -- and leadership in nearly every field of world technology -- there is <u>no</u> reason why we <u>cannot</u> -- and <u>will not</u> achieve that goal.

I hope that each of you will join us in that great task.

Thank you.

-FEO-

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FOR RELEASE ON WEDNESDAY

REMARKS OF DR. H. I. LIEBLING,
DEPUTY DIRECTOR, OFFICE OF FINANCIAL ANALYSIS,
OFFICE OF THE SECRETARY, DEPARTMENT OF THE TREASURY,
AT THE LUNCHEON ADDRESS
OF THE NATIONAL ECONOMISTS CLUB,
WASHINGTON, D.C.,
TUESDAY, FEBRUARY 5, 1974

QUANDARIES IN THE 1974 FORECAST

It is not a new concern of economic analysis of the scene to be concerned with prices and supplies. Indeed, it is one of the oldest -- pre-dating Keynes. But, that concern over the last several decades has been directed mainly to the general level of prices, that is to say, the course of inflation in the economy. That was worry enough. And recent developments have done nothing to lower the level of worry. But events, first in agriculture, then in internationally traded industrial raw commodities and lately in oil, have introduced new dimensions to the causes of inflation.

Now, the response of the various sectors of the economy to particular prices typically is the concern of microeconomics -- that older and seemingly inconsequential concern of economists. In 1973 and prospects for 1974, however, microeconomic issues have emerged as factors which are influential in, if not determining, the general level of prices and of production. The year 1974 will witness the effects of many special situations regarding relative prices and supply, which will provide major impacts on the course of the general price level.

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As the forecasts of 1974 prices are being made, the usual attention to the complex of productivity, wage increases, unit labor costs and profit margins will not be enough in forecasting the general level of prices.

One feature of prospective 1974 developments is clear: The micro-economic factors will be operating in an economic scene where the ordinary rules and criteria of macro-economics do not apply. For example, both the "official" and the "standard" economic forecasts for 1974 involve a slow-up in real economic growth. Ordinarily, that might suggest a certain sluggishness in the pace of economic activity resulting from deficiencies in aggregate demand, which are accompanied by slow-ups in expenditures and production, and rising unemployment. Indeed, that is the standard approach to business fluctuations. I quote from the standard textbook on business cycles by R.C.O. Matthews entitled The Business Cycle: "There is general agreement that cyclical fluctuations are caused by changes in the level of aggregate demand."

Of course, slow-up in growth may well characterize the economic scene in 1974, but its cause is rather uncertain. If it originates in an insufficiency of demand, then it would clearly fit the standard post-World War II pattern. Indeed, the latest Economic Report discusses a weakness in demand which emerged in late 1973, spilled over into early 1974 and might extend throughout the first half of this year. The Report notes that real growth may turn negative in early 1974.

I would prefer to view this sluggishness in real growth differently. Should the sluggishness in real growth result from constraints on the supply side, it would represent an entirely different state of affairs than sluggishness which results from deficiencies in aggregate demand. That is why I would set aside the usual procedures of the National Bureau of Economic Research in identifying and characterizing this slowdown. I would not agree that a slowdown in real growth in the usual National Bureau sense already had developed after the first quarter of 1973; and that the U.S. already is in the grip of a "growth recession."

When the economy runs out of room to grow and thereupon real growth slows, that is quite different from the usual characteristics of a "growth recession." A demand-induced

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"growth recession" typically is accompanied by some letup or even larger downswing in business, consumer, or Government demand, some reaction in prices, etc. But I would expect that there would appear to be less prospect of that reduction in sectoral demands, prices and the rest than in earlier cyclical experiences. Indeed, with respect to prices, we are witnessing in 1973 and early 1974 not merely a horizontal "Phillips Curve" but one that is rising sharply.

That is saying something to us: I would submit that what is being transmitted to us are continuing signals of strong demand, rather than the sluggishness and apathy that was said to beset the consumer and investor; and that sectoral expenditure drags, if they exist, are reflecting supply limitations more than demand. Indeed, I would characterize all of 1973 -- extending straight through the fourth quarter of the year and into early 1974, as far as the statistics go -- as a period of strong demand for goods and services in nearly all areas, with the outstanding exception of housing. And I would add, parenthetically, that the housing slow-up is more characteristic of a boom than any "growth recession."

Only one rough adjustment is required to show how strong demand has been and continues to be. If the real GNP is calculated by elimination of the effects of only one of the many supply constraints -- automobiles plus consumer expenditures for gasoline -- real GNP in the fourth quarter advances at an annual rate of 3.4%. This follows an adjusted real GNP growth rate of 4.6% and 3.0% in the third and second quarters of 1973, respectively. Those rates do not bespeak a sluggish economy nor flagging demand.

(Those rates compare with the total GNP advances of 1.3% in the fourth quarter -- a deceptively low rate and one which was preceded by 3.4% and 2.4%, respectively in the third and second quarters of 1973.)

Another set of figures appears interesting. Real consumer demand is said to have eased, indeed declined, in the fourth quarter. That, too, seems to be supported because consumer expenditures in 1958 dollars declined at an annual rate of 2.6%. But, if a simple adjustment is made for car sales and purchases of gasoline and oil and home heating fuel, the decline is converted into a rise of about 3%.

It was the aggregative GNP figures, affected by small car and other shortages, which have led to characterization of this period as a "growth recession" by some forecasters. But, if the National Bureau methods were to examine a variety of measures in addition to total GNP, then the strong demands throughout 1973 and the strain on resources become clearer.

- Capacity utilization rates were -- and are -- very high. Indeed, bottlenecks were widespread even before the energy problem arose.

- Unfilled orders for durable goods and other goods have continued to mount, as have capital appropriations, and other measures of intended capital goods spending.

- Delivery time for production materials remains very high.

But even after citing these figures, there would still remain the question of why the unemployment rate was inching up in late 1973 and rose to 5.2% in January of this year. The January establishment employment figures were indeed disturbing. If demand is so strong, why is there growing unemployment of some resources? (Incidentally, I would stress the uncertain quality of the January figures on employment and unemployment -- something of a statistical quirk must have affected the figures. For example, when the steel industry turns down orders because they already are too large to handle and reports come in that employment and hours decline, I would suggest that the figures merit substantial scrutiny.)

I would suggest that the answer to the question of why there is and will be slow growth and growing unemployment in 1974 is in a basic economic proposition: The production-possibilities curve for the economy has shifted to the left, or perhaps stayed the same, instead of moving "rightward," as it normally would with advances in productivity and the labor force. (That production-possibilities curve is taught to each beginning student in economics but somehow the memory of it has faded.) The demand-oriented macro-models have always viewed the production-possibilities curve in perpetual shift to the right. I would think that the 1973 non-oil shortages and the oil shortage, itself, could mean a leftward shift in this curve.

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- To begin with, non-oil shortages already had reduced the room to grow in 1973.

- The shortage of oil, itself, would make less U.S. production possible -- clearly this would be so in terms of the "value added" to the imported oil.

- The production and sale of services connected with these products would also decline -- gas station activities, etc.

- There would also be a threat to the production of certain products. (Hopefully, that aspect might be minimized by the conservation and allocation programs -- as well as by higher prices.) Certainly, large cars now need to be considered outside the production-possibilities curve. Large cars are not quite in the same category as "buggy whips" but clearly not in demand. In addition, the demand for hotels, motels, and other related activities would diminish. The supply is there -- but they are "complementary" goods and services and clearly are supply-induced reductions of expenditures.

But, if the supply of these energy and energy-related items is not available, could not supplies of other items be expanded and serve as sources of increased economic growth? If unemployed resources are available, why should not they be put to work and contribute to growth?

The problem with that proposal is that it would take time. The transferability of resources is not easy -- indeed, it is very difficult. The auto worker does not easily adapt to a steel or textile mill. The gas-station attendant may not find it easy to get other skilled or unskilled employment. In other words, the structural barriers to the movement of unemployed economic resources are very large.

If this analysis is correct, then a question arises with respect to what might be done to ameliorate the situation because there would remain the human problem arising out of growing unemployment. There might be two approaches arising out of this analysis of a worsening in the production-possibilities curve for the economy. The first of these does not require Government action because:

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- To some extent, the supply situation will be self-correcting and, indeed, the seeds for self-correction exist. If the problem is one of shortage of small cars, the conversion of facilities to do that is in process. By April and May, a significant portion of large-car production facilities might be converted.

- The uncertainties regarding gasoline may well have been cleared up by the spring. This might cause some pickup in large-car purchases. In addition, this might change the outlook on spending for auto-related goods and services -- that on motels, hotels, vacations, etc.

- Finally, there is agreement among most forecasters that the second half of 1974 will show much stronger economic growth because the capital goods boom now in progress will still be going strong, housing starts will again be rising because the current congestion in housing markets will have cleared up and the Federal fiscal position might be less restrictive than earlier.

The role of government policy in affecting economic growth will be more difficult. If the foregoing analysis is correct, then the standard stimulative measures of tax reduction might clearly be inappropriate. If the real growth potential is reduced, additions to purchasing power by this means might result more in inflation than in anything which would promote real growth, and the inflation is bad enough now.

Should the Government do nothing as unemployment rises? That, too, would be clearly undesirable. The following steps might be considered -- should they become necessary.

- Monetary policy might be responsive to whatever develops. Housing might be most directly affected by this, but as noted earlier, there is a current congestion in housing markets. But, other benefits might develop, although it is difficult to specify them in advance.

- The unemployment insurance system needs strenghtening with respect to coverage, duration and level.

- Some speed-up in public works projects might be desirable.

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- Some direct housing assistance by the tandem plan, already announced.

- Public service employment (but there is some question of the gross and net additions that would result).

Other steps by Government surely can be contemplated. But, the basic conclusion of the limits provided by the "production possibilities" analysis is that any rush into stimulation of the economy might have worse effects on inflation than any betterment of employment.

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TESTIMONY OF THE HONORABLE WILLIAM E. SIMON
ADMINISTRATOR OF THE FEDERAL ENERGY OFFICE
BEFORE THE
SENATE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS
Tuesday, February 5, 1974

Mr. Chairman,

I welcome the opportunity to appear before you today to discuss our nation's energy data requirements.

One of the highest priorities of the Federal Energy Office is to develop a comprehensive, accurate, and timely energy information system. The information we now have to work with is not adequate and its reliability cannot be checked. Today, and in the years ahead, we need better data on every aspect of energy -- reserves, refinery operations, inventories and production costs. We need data that we can check, verify and cross-check, and we intend to get such data.

Current Data Sources

The data we now use comes from a variety of sources. Data on the domestic petroleum supply system are currently gathered by the Bureau of Mines (BOM) and by the American Petroleum Institute (API). The Bureau of Mines data are gathered primarily through a monthly report by refining companies, supplemented by monthly data gathered from terminal operators. Information on crude oil production is also obtained from state agencies, and information on imports, primarily imports of refined products, is obtained through Census Bureau reports based on Bureau of Customs data. The Bureau of Mines reporting system is voluntary, but there is a very high degree of cooperation by the petroleum refining companies, and the response rate is in fact higher than that achieved in many supposedly mandatory information reporting systems.

The API has a much less detailed reporting system than the Bureau of Mines, but it receives and publishes data on a weekly basis. For example, API collects refinery information from about 60% of the refiners which account for over 90% of domestic operations. These data include refinery crude runs, production and yields of all major refined products and inventories of crude oils and finished products. Detailed information on imports are also compiled by the API.

We have already completed preliminary cross-checks of these reporting systems and have found them to be reasonably accurate and quite consistent over long periods of time although on a week-to-week or month-to-month basis differences of up to several hundred thousand barrels per day can and do occur For example, during the first 10 months of 1973 API reported imports differed from the data published by the Bureau of Mines (based on Customs Bureau data) by less than one half of one percent.

While these cross-checks indicate that the data appear sufficiently accurate for management decisions, there are still significant deficiencies in these systems. Let me briefly summarize the problems.

First, industry coverage by the API for the weekly statistics is not complete. Smaller refiners and importers are not included and the statistical techniques used to extrapolate the sample to industry totals may not be completely adequate in these times of shortage and rapid change.

The second major problem deals with secondary stocks -- those petroleum inventories not held by refinereis and major terminal operators. In contrast to the primary supply system, where both the Bureau of Mines and the API provide comprehensive, although not completely adequate data, information about secondary stocks can only be pieced together from a number of sources, but even the combination of all these data sources does not provide complete information.

Information about actual consumption is also scattered. The Federal Power Commission compiles data on the use of all fuels, including petroleum, for the generation of electricity. The Civil Aeronautics Board collects data on the use of aviation fuels by certified carriers. The Bureau of Census collects data on fuels and electric energy consumed in manufacturing industries once every five years of manufacture, and estimates are provided in intervening years. However, from all of these data sources one can build only an incomplete picture.

A related deficiency concerns the lack of regional and seasonal differences in consumption. To make our allocation programs work properly, we must know where and when the different petroleum products are needed. Current needs must be determined in large part by reference to past consumption levels and trends, but data on past consumption patterns are not available by states and by month. Further breakdowns of consumption by industry or other users are not available. These kinds of data are not available primarily because the Federal Government is only now allocating scarce fuels.

To develop sound public policy on energy resource development, pricing policies, and research and development programs, accurate information on reserves is needed. The Federal Government should have the authority to compile, maintain, and verify an inventory of the reserves and resources on public lands.

Other energy information is also vitally important. We need cost and operating data for long range planning, as well as for current allocation programs. Information on our progress in reducing demand in the industrial, commercial, transportation, and residential sectors are necessary for evaluating energy conservation options. Environmental information is also needed to evaluate energy policy alternatives with consideration of their environmental impacts, as mandated by the National Environmental Policy Act. Another area where more information is needed is on the international scene. The operations of the major energy companies are worldwide and it is essential that we have the key information on their international activities which are critical for our domestic needs.

One final point must be made. All of our current sources of data are voluntary and for many of the programs we now must operate this is simply not enough. We now clearly need mandatory reporting systems and mechanisms to check and enforce their proper operation.

<u>FEO Data Activities</u>

As I have testified in recent weeks, we have already instituted a number of actions to correct the deficiencies I have cited. These actions will enable us to collect better energy data and to improve our management capabilities.

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We have instituted immediate daily reporting of tanker arrivals by the Bureau of Customs, so that petroleum imports data can be available and processed with a lag of only about one week instead of the month or two required for complete Census Bureau processing of all Customs imports data, including petroleum. This will provide a direct check on imports reported by the API and give the Federal Government a timely and independent measure of the import situation.

We are establishing a system for obtaining, on a sample basis, measures of actual consumption of home heating oil, adjusted for the weather. Data have been coming from New England for more than a month, through the cooperation of the New England Fuels Institute, its member dealers, and their computer service bureaus. The results, which we report weekly, indicate that conservation measures have affected significant reductions in use of heating oil. Broader coverage will be achieved as additional companies or associations are brought into this program.

We have been working with the FPC to establish a rapid reporting and forecasting system for the consumption and stocks of all fuels, including petroleum, used to generate electricity. These data are needed to operate our allocation programs properly.

In January, I visited the Texas Railroad Commission and I am meeting with other state regulatory agencies to see what can be done to get more accurate and timely information on reserves, capped wells and maximum recovery rates.

The FEO, working with the National Oil Jobbers Council, is surveying the storage capacity and inventories of about 15,000 jobbers and wholesalers. The responses will give us a much better indication of secondary stock levels for kerosene, diesel fuel, heating oil and gasoline.

These systems represent just a start in the overall mandatory reporting systems we need and are developing. Most important perhaps is an integrated mandatory reporting system for petroleum products. FEO is now developing and implementing such a system for all refiners. It has three essential parts. First, reports of expected refinery operations during the coming quarter and reports of expected inventories and shipments to each state for the coming month will be required. This information will provide the backbone for planning and operating our allocation programs.

Secondly, we are now developing a weekly reporting system for all refiners, major bulk terminal operators and pipeline companies to give FEO production, yields, and stocks information directly from industry. This system will obviate our need to rely on API aggregated data.

Finally, monthly reports, certified by company officials of refiners, pipeline companies and bulk terminal operators will be required. FEO audit teams, assisted by the IRS will make continuous field checks of the information contained in these forms. We expect that every major refiner will be audited at least partially four times each year. The forms, computer systems and implementing regulations are now being developed and the complete system will be operational in about five weeks. This system will provide the detailed, verifiable information we must have to operate. The system will be further expanded to include secondary stocks as soon as possible. I understand that we have sufficient legal authority under both the Economic Stabilization Act and the Emergency Petroleum Allocation Act to require these repots be filed and enforce legal sanctions if they are not.

None of these systems will provide all of the information we need during the short-term crisis or for long range planning. There will continue to be important facts or questions that only targeted spot checks can confirm. Reports of price gouging, hoarding or the possibilities of ships off-shore awaiting higher prices are all cases in point. We have already dealt with problems like this. We used over 1,000 IRS agents late last year to sweep the 48 states looking for price gouging. The Coast Guard used its District Commanders and major port personnel to make physical checks on unusual tanker activities. Let me assure this Committee that we intend to maintain sufficient flexibility and manpower resources to continue these activities as needed to cope with the current shortage.

Need for Mandatory Legislation

While we have sufficient authority to mandate the petroleum data we now need, I still feel that specific mandatory reporting legislation is required. First, tailored sanctions and enforcement provisions may be more appropriate than those in our current authorities. Secondly, expansion of mandatory reporting to other energy sources, such as coal and uranium, is a necessity in the months ahead and may not be practical under our existing authorites.

Comments on S. 2782

The proposed Energy Information Act, S. 2782, would set up a Bureau of Energy Information and establish it within the Department of Commerce. The Bureau would operate and maintain a National Energy Information System which would consist of three libraries of energy information with different degrees of accessibility. The Bureau would follow procedures similar to those governing the operations of the Bureau of the Census. Specific studies to be conducted by the Bureau are mandated in this Bill, as well as very specific data requirements and reporting frequencies. Penalties for false disclosure of information are also provided.

While I support the general intent of this proposed Energy Information Act, there are a number of provisions we believe should be changed. Accordingly, we are now developing legislation to require mandatory reporting and expect to submit such legislation to the Congress shortly. This legislation will go beyond information on petroleum inventories, imports and refinery operations, and will include information on reserves, corporate structure, economics, and non-petroleum products.

Organization of Energy Information

As recognized by S. 2782, there is a great need to provide a focus for the for the collection and analysis of energy data. The President, in his Energy Message to Congress on June 23, directed us to establish an Energy Information Center within the FEO. This center will coordinate energy data within the government, and will provide the information to the public, the Congress, and other Federal agencies. This is a major function of FEO, as accurate data provides the framework for sound policy decisions.

Only by having direct and immediate access to the information collected can the FEO effectively provide timely analysis. This information is needed quickly, on demand, and must be responsive to the needs of such important efforts as the mandatory allocation program. Furthermore, FEO has established a network of regional offices which can be used to verify and check the accuracy of the data. The FEO audit teams will be able to check not only cost and price information, but all data required by this Office as well.

Since its formation less than two months ago, the Federal Energy Office has taken several actions to open up the data gathering and analysis process. We have published a weekly Petroleum Situation Report which explains the dimensions of the energy shortage, discusses weekly fluctuations in the data, predicts the supply and demand in coming months, relates the accuracy of our previous projections, and compares our analyses to the data compiled by the API. We have also established an advisory group of distinguished experts to review our data procedures and forecasts. I recognize the issue of credibility, but at the same time I feel that the FEO has demonstrated its commitment to objectivity and credibility. To assure the public of the objectivity of the Office, we will propose the establishment of an independent review group. This group would review the Office's procedures and would report to the President and the Congress on objectivity.

Public Disclosure

The public has a right to complete and accurate information on the energy situation. This policy should give way to limitations imposed by statute and to limitations where important public policy considerations dictate otherwise. For example, there will undoubtedly be national security constraints upon the release of certain information about military fuel supply levels. Further, competitive considerations will dictate confidentiality such as in cases where disclosure of future production or shipment plans could be used for anti-competitive or predatory purposes. I propose that an independent group, composed of agencies such as the Antitrust Division of the Justice Department and the FTC, have the opportunity to review data collected by this Office to determine what information should be considered confidential. But I would expect these limitations to be relatively narrow and that most of the information would be available to the public.

Both the government and the public are entitled to much more information about the petroleum industry than is now available. We intend to see that it is gathered and made available. S. 2782 establishes three libraries of information disclosure: a public library of energy information available for public use; a confidential library for restricted governmental use; and a secret library to be used only by employees of the Office or other employees the agency designates to prepare aggregated or anonymous statistics. We believe that this approach is too inflexible and propose instead that broader categories for disclosure be set up. Obviously, one category will be that information generally available to the public. There is also a need for a restricted class

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of information, with access limited to other government bodies or solely to FEO as needed in carrying out its responsibilities. The Administrator would prescribe by regulation the degree of accessibility of information in this restricted class. These regulations would reflect the existing statutory requirements and traditional practices regarding disclosure of certain types of information. I believe these proposals will greatly broaden public acceptance of the information which the government collects and publishes on this subject. I also believe that stiff penalties should be established for false or erroneous reporting of information and that these penalties be strictly enforced.

Specificity of Data

Rather than specify in the legislation each piece of information to be supplied to the Bureau, as in S. 2782, I feel that the legislation should specify types of data needed (such as reserves, production, and price and cost information) and should empower the Administrator of FEO to promulgate data gathering regulations. In particular, I feel that Section 501 of S. 2782 is entirely too detailed in its specifications. The proposed Bill is also too inflexible in the frequency with which the data is required. In some cases, we may want data more often and in others we may not need the information as frequently or as regularly as prescribed in S. 2782. Instead, I propose that the Administrator be given greater flexibility to set reporting intervals.

Relationship with Other Federal Agencies

As I indicated earlier, there are many Federal agencies now collecting energy data or data on energy related factors such as prices or tubular steel production for drilling rigs. While it is not necessary to abandon or replace all existing data systems, in many cases our data systems are inadequate. FEO's new Energy Information Center must develop and implement new systems to meet our energy information needs. At the same time I would not propose abolishing existing data collection mechanisms in other agencies where they provide accurate and useful information as part of an agency's non-energy mission. To the extent that these agencies can supply this information on a timely basis and in usable formats, FEO will continue to rely upon them. However the new Office must be the central focus for the collection, verification and dissemination of all energy data.

Summary

In summary, the Federal Energy Office fully intends to get all the information needed to do our job and fairly present the facts to the American people. We have already made substantial progress in our energy data systems. Under the authorities we now have, we will implement mandatory reporting requirements for the petroleum industry. And, under authorities we are now evaluating, and would hope to work closely with Congress in finally formulating, we will develop the broad-based energy information systems needed, not only to deal with our current problems, but with the challenges in the decade ahead.

Our proposed legislation should be completed and ready for review by the Congress by next week. At that time I would like to work with the Committee in taking the best parts of our legislation, S. 2782 and any other ideas which may develop as a result of these hearings and assure quick enactment of a bill which we all agree we need.

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FOR RELEASE 6:30 P.M. February 6, 1974

RESULTS OF TREASURY NOTE AUCTION

The Treasury has accepted $2.25 billion of the $3.1 billion of tenders received from the public for the 3-1/4 year 6-7/8% notes auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield
High	100.92	6.56%
Low	100.35	6.75%
Average	100.51	6.70%

The $2.25 billion of accepted tenders includes 46 % of the amount of notes bid for at the low price, and $ 0.3 billion of noncompetitive tenders accepted at the average price.

In addition, $0.3 billion of the notes were allotted to Federal Reserve Banks and Government accounts at the average price, in exchange for securities maturing February 15.

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THE DEPARTMENT OF THE TREASURY 1789

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FOR RELEASE 6:30 P.M. February 6, 1974

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $ 1.8 billion of 52-week Treasury bills to be dated February 12, 1974, and to mature February 11, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

High	- 93.638	Equivalent annual rate	6.292%
Low	- 93.536	Equivalent annual rate	6.393%
Average	- 93.588	Equivalent annual rate	6.342% 1/

Tenders at the low price were allotted 33%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 45,005,000	$ 12,905,000
New York	2,530,975,000	1,585,875,000
Philadelphia	29,505,000	825,000
Cleveland	13,595,000	9,360,000
Richmond	12,885,000	10,885,000
Atlanta	10,560,000	6,560,000
Chicago	212,980,000	88,830,000
St. Louis	43,565,000	5,865,000
Minneapolis	19,055,000	8,055,000
Kansas City	15,350,000	7,300,000
Dallas	27,700,000	5,700,000
San Francisco	140,250,000	57,900,000
TOTALS	$3,101,425,000	$1,800,060,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 6.76%.

2/ Includes $43,495,000 noncompetitive tenders accepted at the average price.

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RELEASE ON RECEIPT

February 7, 1974

TREASURY SECRETARY SHULTZ NAMES MALCOLM T. STAMPER
WASHINGTON STATE CHAIRMAN FOR U. S. SAVINGS BONDS

Malcolm T. Stamper, President and member of the Board of Directors, Boeing Co., Seattle, is appointed volunteer State Chairman for the Savings Bonds Program in Washington by Secretary of the Treasury George P. Shultz, effective February 8.

He will head a committee of business, banking, labor, government, and media leaders, who -- in cooperation with the U. S. Savings Bonds Division -- assist in promoting Bond sales in Washington.

Stamper is a native of Detroit. He was graduated from Georgia Institute of Technology with a BS in Electrical Engineering. He also studied law at the University of Michigan.

After 14 years with General Motors, Stamper joined Boeing in 1962 as Manager of Electronics Operations, in what was then the Aerospace Division. In June 1965, he was elected a Boeing Vice President, and made General Manager of the Turbine Division. A year later, he was appointed Manager of the Boeing Everett Branch -- now the 747 Division -- where he directed the 747 program from its inception to the beginning of fleet deliveries.

Stamper became General Manager of the company's commercial airplane group in April 1969, directing production and development of the 707, 727, 737, and 747. In May 1971, he was named Senior Vice President, Operations, and in September 1972, he assumed his present post.

Stamper had previously served the Bond Program as Boeing's Payroll Savings Plan Campaign Chairman in both 1972 and 1973. Participation in the Plan in both those years topped 99 percent.

He is married to the former Mari Guinan. They have six children.

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FOR RELEASE 6:30 P.M. February 7, 1974

RESULTS OF TREASURY BOND AUCTION

The Treasury has accepted $300 million of the $1,144 million of tenders received from the public for the 19-1/2 year 7-1/2% bonds auctioned today. The lowest price accepted was 100.45 which is the price to be paid by all successful bidders. This price results in a yield of 7.45% to the first callable date, August 15, 1988, and 7.46% to maturity.

Accepted tenders include 93 % of the amount bid for at the low price, and $31 million of noncompetitive tenders.

In addition to the amount allotted to the public, $250 million of the bonds were allotted to Federal Reserve Banks and Government accounts in exchange for securities maturing February 15, at the price at which other tenders were accepted.

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RELEASE ON RECEIPT February 8, 1974

TREASURY SECRETARY SHULTZ NAMES JOHN M. MARTIN AS DELAWARE STATE CHAIRMAN FOR U. S. SAVINGS BONDS

John M. Martin, Chairman of the Board, Hercules, Inc., Wilmington, Del., is appointed volunteer State Chairman for U. S. Savings Bonds by Secretary of the Treasury George P. Shultz, effective immediately.

He will head a select committee of Delaware business, banking, labor, government and media leaders, who -- in cooperation with the U. S. Savings Bonds Division -- assist in promoting Bond sales throughout the state.

Martin, an Alabama native, was graduated from the Georgia Institute of Technology, with a BS in Mechanical Engineering, in 1934. That same year, he joined Hercules as a member of the Technical Service Division/Explosives and Chemical Propulsion Department.

After service in various supervisory positions, in a number of Hercules owned or operated facilities, Martin was appointed General Manager of the Explosives and Chemical Propulsion Department, in 1953. He was then named a company Director that same year.

In 1960, he was elected Vice President and Member of the Executive Committee. He became Vice Chairman of the Board, in May 1970, and was elected to his present post in December of that year.

Martin is active in many business, civic and educational organizations, including -- member of the Board of Trustees, U. S. Council, International Chamber of Commerce; President, Greater Wilmington Development Council; former Chairman, National Security Industrial Association; member, Four-H Foundation Advisory Council, and member, American Institute of Mining and Metallurgical Engineers.

He is married to the former Mary Malone. They have seven children -- two sons and five daughters.

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FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
BEFORE
THE JOINT ECONOMIC COMMITTEE
FRIDAY, FEBRUARY 8, 1974
10:00 A.M., EDT

Mr. Chairman and Members of the Committee:

Since your review of the economy last summer, we have witnessed an abrupt change in world economic circumstances, The cutback in oil production and the precipitous increase in oil prices have dramatically affected prospects for world production, employment, price stability and balance-of-payments equilibrium. The lives of people in all parts of the world are directly affected, with potentially devastating effects on those in the poorest countries who can afford it least.

Chairman Stein and his colleagues on the Council of Economic Advisers have discussed with you the prospects for our domestic economy in light of these developments. My statement today will concentrate on the world economic environment and its implications for our policies in the period ahead.

The World Economy: Boom, Shortages and Inflation

The oil crisis developed late in 1973. It came on top of a situation already characterized by worldwide shortages of foodstuffs and industrial raw materials and the most serious general inflation since the World War II period.

To a considerable extent, these conditions were an outgrowth of world boom. The major industrial countries for the first time since the Korean War found themselves facing similar cyclical situations, with strong demand pressures, strains on capacity, and rapid inflation. Price increases, summarized in the first table attached to this statement, were of depressing magnitudes. For the major industrial countries as a group, consumer prices increased about 9½ percent. U.S. consumer price increases, at 8.8 percent, were only slightly less than average. The pressure on commodity prices was reflected in the much sharper wholesale price increases in almost all countries, with the increase in the U.S. amounting to 15.5 percent.

As this contrast suggests, what the world experienced last year was essentially a commodity price inflation. World commodity prices rose two or three times as fast as prices of finished goods and services, and the pressure on commodities accounted fully for the acceleration in rates of inflation. Food prices alone may have been responsible for half the increase in consumer prices in the major industrialized countries, and toward the end of the year particularly, energy prices also contributed heavily.

Supply deficiencies at a time of worldwide boom were the principal factors behind the escalation of commodity prices. The combination of natural forces which led to inadequate harvests over the past two years -- there was in fact a fall in worldwide agricultural production per capita in 1972 -- produced a scramble for food supplies in a world accustomed to worrying about surpluses. Shortages of other raw materials, such as non-ferrous metals and timber, also developed.

Domestic markets in some countries, where currencies appreciated during the year, were partially shielded from the strong international price pressures. Others, whose currencies depreciated, such as the U.S. during the first half of the year, were not only fully exposed to the world trend, but had to absorb an additional source of inflationary pressure. But these exchange rate changes -- which made an essential contribution to restoration of international payments balance -- should not obscure the main point that no country could escape a pervasive worldwide phenomenon.

The cuts in oil production imposed in the Middle East for essentially non-economic reasons then created supply difficulties in another critical area, and the resulting increases in oil prices dramatically altered world economic prospects. From a $2 per barrel range in September, we saw open-market prices of crude rise to in excess of $15 per barrel within a brief period.

The low point of oil production seems to have been reached in November; by January, production was about at the same levels as consumption, which has of course been reduced. With easing of supplies, and the continuing efforts to reduce consumption around the world, arms length market prices have declined. By the end of January, it appeared that spot market prices had fallen to the $10 to $11 per barrel range. There can be no certainty how greatly consumers -- and their governments -- will be inclined to reduce their consumption in the light of the higher prices. But it seems likely that consumption this year at anything even approaching present prices would be significantly less than what the free world could produce through responsible and efficient use of existing and planned facilities. It seems likely, therefore, that market forces will push in the direction of further reductions in the open market price of oil in the international market.

Moreover, looked at as an economic phenomenon, I am convinced the current levels of international oil prices are neither sustainable nor tolerable over a longer period. As we look ahead, additional sources of energy can and will be developed at lower cost. Yet compared to earlier years, the future cost of energy will be high. This implies a fundamental change in the world economy -- a re-evaluation of one of the basic tenets of a world industrial society built on the assumption of relatively cheap and plentiful oil.

Fortunately, in areas other than oil a few encouraging signs are visible in the battle against inflation. Food production is expanding rapidly, and with normal weather, a record crop is in prospect this year. The prospective slowdown of the boom in the industrial countries should temper pressures on raw material and commodity prices.

Also, for the United States, the recent strengthening of the dollar, and consequent fall in the cost of our imports, can help dampen inflationary pressures.

Internationally, one possible danger is that attempts will be made to maintain exhorbitant commodity prices through the exercise of sheer monopoly restraint on supplies. It should be possible to avoid this danger without confrontation through a constructive dialogue aimed at identifying and meeting the legitimate needs of consumers and producers alike.

At home, it is important that the effects of the rise in commodity prices are not aggravated by irresponsible pricing policies or abandonment of the responsible pattern of wage settlements we have seen in the past year -- a process that in the end would only be self-defeating by twisting the cost-price screw another turn. Finally, as we pass from overheated boom and face the new problems of production and employment imposed by energy shortages, we must not lose sight of the inflationary dangers of lax budgeting or excessive money. We should be, and we are, prepared to adapt our monetary and fiscal policies flexibly as the need is demonstrated. But, as we appraise that need, let us recognize that more money is not a substitute for more oil.

The World Economy: International Payments

The prospect that the world was moving toward a better balance of payments equilibrium has been vastly altered by the recent oil price increases.

There have been suggestions that current price levels imply a $75 billion jump worldwide in the annual costs of imported oil. These estimates assume the price rise comes on top of previous forecasts of oil consumption. This same calculation would imply an increase of perhaps as much as $10 billion in the annual oil import costs of the less developed countries which are not oil producers, an amount exceeding the total official assistance they have been receiving.

These calculations are obviously purely mechanical. In fact, no one knows what prices the consuming nations will be paying for oil imports this year. Higher oil prices and conservation measures do lead to reduced oil consumption and a less volume of imports. With higher revenues, oil exporters will expand their purchases, mainly from industrial countries.

Even making some allowances for these factors, there have been estimates that the investible funds of oil producers could increase this year by more than $50 billion. This would imply a deterioration in the current account position of the rest of the world of a corresponding magnitude.

The implications of a change of this magnitude, coming with such abruptness, are difficult to comprehend. For a number of developing countries, the calculations must plainly have an air of frightening unreality. They simply do not have the funds to pay, or any realistic prospect of repaying loans in the large volume that would be required. Nor can industrialized countries find the consequences acceptable, even though in the aggregate they can anticipate large flows of investment from the oil producers.

We therefore must act promptly to bring the problem within manageable proportions, both by reducing its magnitude and by developing cooperative techniques for handling it. In doing so, we believe we can be working with, and not against, the legitimate aspirations of the oil exporters for fair compensation for their resources, and for stable and profitable investment outlets. The consequences of failure are evident. We are already beginning to see tensions mount as countries begin to react to the prospect of swollen oil import bills. The exporting countries can have no real interest in actions which severely disrupt the economies of their customers.

Obviously, the pressures and the means for handling them are not evenly distributed among all nations. The United States and some other countries could, if necessary, through their own actions cope with the problems which these oil price increases create, although the impact on the United States will be a good deal more serious than many seem to realize. The U.S. was prospectively the world's single largest importer of oil, and under any foreseeable circumstances, our oil import bill will soar in the near-term. Oil imports were expected to represent a bigger proportion of our total imports than is true of most major European countries.

On the other hand, our strength is that, even in the short-term, we are in a better position than many to conserve on our consumption of oil and to cut back our oil imports. We are the world's largest producer of oil, with many good possibilities for increasing our output; and over the longer term, we are capable of becoming fully independent of foreign oil. While I would discount substantially the fact that in December we had the largest monthly trade surplus in our history -- over $940 million -- we fortunately do not start from a deficit balance of payments position.

The strong turnaround in the U.S. balance of payments last year is traced in an attached table. Although the final figures for the fourth quarter are not yet available, we expect that they will confirm that the marked improvement in the trade balance was accompanied by better results in the other accounts.

An Integrated Approach

No matter what the precise impact on the United States and other countries is individually, the very substantial adjustments the world now faces present a sharp and fresh challenge to our ability to work together in the common good. The challenge needs to be met on four fronts, each crucial to the whole: by devising new forms of cooperation to deal with the energy situation; by completing our negotiations for reform of the international economic system and to liberalize world trade; by maintaining the momentum of development; and by working to restore the fabric of international stability torn by inflation, payments inbalances, and now the oil crisis.

1. Energy Cooperation

We hope that the international energy meeting to be held next week will succeed in reaching a common analysis and understanding of the energy problem, and will begin to define the nature and scope of new forms of cooperation to deal with it. The agenda for the meeting includes questions of reliable supply, conservation, development of alternative energy sources, research and development, emergency sharing of supplies, and financial management. We are looking forward to consultation with developing countries, and we want to lay the base for constructive discussions with producing nations.

What we want is not confrontation but cooperation, in the conviction that in the end producers and consumers both will find a large common interest in reconciling their needs in a manner which is consistent with economic stability, open trade, and rapid development. All nations need to have confidence that goods they need will not be arbitrarily restricted, and that, conversely, markets will not be closed to them. All will benefit from increased supples of energy. All need a framework of financial stability.

2. Monetary and Trade Reform

Our efforts to reform the international monetary system were reassessed in the light of uncertainties related to the oil situation at a meeting of the Committee of Twenty in Rome last month. The Committee decided it should complete its work on the main features of a reformed monetary system as quickly as possible -- hopefully at its next meeting, scheduled for mid-June. At the same time, we recognized that in some areas, the desired approach could only be implemented over time in an evolutionary way, and that a number of important operating characteristics of the system would need to be worked out in detail later.

It was also agreed that, in light of recent developments, intensive attention should be given to certain needs that are both immediate and "do-able," in order that elements of reform of particular relevance to present conditions can be put in place as promptly as possible.

One critical requirement is to find new procedures for improving the effectiveness of the International Monetary Fund and continuing cooperation among financial officials. A long step toward that objective was taken by agreement that a twenty-member Council of Governors would be established in the IMF, or, pending the formal and legal establishment of the Council, a temporary Committee. The Council would meet regularly, three or four times a year, with broad and continuing authority to manage and adapt the monetary system, to oversee the continued operation of the international balance-of-payments adjustment process, and to deal with sudden disturbances which might threaten the monetary system. The Council, or the temporary Committee, would come into being when the C-20 finishes its work and will be charged with continuing the evolutionary process of reform within the context that the C-20 has established.

Other aspects of reform will also be included in the substantive agreement that we expect the C-20 will reach in June. One need is to establish techniques for valuing the SDR in situations--like the present--in which most of the major currencies are floating, and important elements of an agreement on that point were developed in Rome. More broadly, the long discussion of the need to develop codes of conduct to guide the operation of the adjustment process should be brought to a conclusion. I am encouraged that discussion on appropriate guidelines for floating will become more intensive in coming months, and some convergence of approach seems to be developing.

Developments of the past year lead us also to consider new priorities in the trade negotiations. More emphasis is needed with respect to restrictions on the supply of internationally traded commodities, alongside the traditional emphasis on access to markets. The barter deals some countries are negotiating with oil producers raise anew the old questions about the role of bilateral trading arrangements in a multilateral order and how they may be placed within a framework of generally agreed rules. I think it essential that the debate on these issues--and debate it will be, for there is certainly no consensus--should be initiated promptly.

The tensions inherent in the major trade and balance of payments adjustments that countries will experience shortly--even with more reasonable oil prices--underscore the importance of maintaining the impetus toward trade liberalization. The difficult problems ahead can be solved more easily within a context of expanding world trade, encouraged by renewed progress toward trade liberalization.

I hope the Congress will move expeditiously to complete action on the trade legislation before it. Few things would be more damaging to the prospects for cooperative solutions to our common problems than the appearance that the United States was faltering in its commitment to a liberal and reformed international trading order.

3. Economic Development

The third task I cited earlier was to maintain the momentum of economic development. I have already emphasized the new burden on developing countries from the higher oil prices. I see no way that aspect of the problem can be reasonably handled unless those oil producers with excess funds provide grant and other concessional assistance to offset the soaring cost of oil imports to the LDC's. But such assistance devised to meet new needs in no way can substitute for the assistance programs now in place financed by the industrialized world. Indeed, the need for maintaining, and even expanding in an orderly way, those programs is at least as urgent as before. The new problem of the oil situation simply cannot be an excuse for further compounding the extreme difficulties of the poorest people in the world, further widening the gap between the "have," and the "have nots."

The United States is being asked--and properly so--to bear a fair share of that cost. We cannot, in my judgment, fail to answer that call without severely damaging the entire fabric of the cooperative world order that we promote. In that context, the action by the House of Representatives last month in voting down the bill for replenishment of the resources of the International Development Association is particularly disturbing. We want to work closely with the Congress in the period ahead with the objective of carrying out our share of this joint effort--a share, I should point out, that has been reduced at our request to one-third from the 40 percent level maintained earlier.

4. Maintaining International Economic Stability

As we move ahead in those areas, we need to deal on a continuing basis with the threats to international economic stability inherent in the present situation. Temptations for individual countries to seek their economic salvation at the expense of their trading partners are present. Fortunately, it is equally apparent that such actions would not only be self-defeating in their immediate objective, but could leave us all worse off, caught in a maze of controls, restrictions and dislocations that impair growth and stability. The need is to make sure that that intellectual understanding of the common danger is, under the pressure of swiftly moving events, made effective in our national decision making.

In approaching this problem against the background of large imbalances in international payments, sudden changes in payments flows, and rapid inflation, I believe there is a general consensus that, for the time being, a general system of par values and fixed exchange rates would not be workable or desirable. While the sizable changes in exchange rates in the past year have posed some problems floating rates have probably worked better than any other system that could have been devised during the past year. We have seen trade and investment continue to prosper, and businessmen and bankers have been able to accommodate to the situation. At the same time, the new uncertainties created by the rise in oil prices emphasize again the need for exchange rate policies which are internationally responsible, whether par values or floating rates are used, if the destructiveness of competitive devaluation is to be avoided.

A floating regime, like a par value system, requires agreed principles of good conduct if conflicts are to be avoided. We believe criteria relevant in a par value system are also relevant to floating. For instance, under either regime, the aim should be to avoid prolonged imbalances, and significant movements in reserves can help tell us when governments unduly resist market forces and suggest when policies need to be adapted. In either regime, we should not use widespread controls on trade or capital to maintain an undervalued exchange rate. As I suggested earlier, in coming months I hope we can reach agreement on broad guidelines to help assure cooperative behavior in this area.

At the end of January, the U.S. was able to announce the effective elimination of our capital control programs. This move was, of course, made possible by the improvement in our balance of payments position and the stronger performance of the dollar. We also felt that, at a time when many countries are concerned about how they might finance deficits in their current balance of payments, ending of our controls could provide an important element of reassurance. I am gratified that the move has been widely accepted as constructive, and a number of other countries have also reduced controls.

Conclusion

Mr. Chairman, the problems in the year ahead pose the greatest challenge to the spirit of international cooperation since we viewed the ruins of World War II. Our success in the past quarter century in finding cooperative solutions gives us grounds for hope that we can do so again. If we are to expect of our partners the responsible conduct now required, we must not fail in our own responsibilities.

Table I

Price Increases in Major Industrial Countries, 1969-73
(average annual rate of increase)

	Consumer Prices 1/		Wholesale Prices 1/ 2/	
	1969-72	1973	1969-72	1973
U. S.	4.6	8.8	3.9	15.5
Canada	4.0	9.1	4.6	18.1
Japan	6.0	15.0	3.0	13.5
U.K.	7.2	9.9	7.1	10.0
France	6.1	8.7	6.3	13.5
Germany	4.9	7.0	3.9	8.3
Italy	5.4	11.3	6.2	28.0
Total OECD	5.0	9.6	4.3	14.2

1/ Percentages for 1973 are calculated for the latest 12-month period available.

2/ Since aggregate wholesale price indices are not generally available, indices are those of the wholesale prices of manufactured goods, or closest available alternative.

Source: OECD, Department of Labor

Table II
U.S. Balance of Payments
1970-73
(dollars billions)

	1970	1971	1972	1973 2/
Exports	42.0	42.8	48.8	70.3
Imports	39.8	45.5	55.7	69.5
Trade balance	2.2	-2.7	-6.9	0.8
Investment income and other services	1.5	3.5	2.3	2-1/4
Unilateral transfers	-3.2	-3.6	-3.7	
Current account balance	0.4	-2.8	-8.4	3
Government capital flows, net	-2.0	-2.4	-1.3	-1 to +1
Long-term private capital flows, net	-1.4	-4.4	-0.2	
Balance on current account and long-term capital	-3.0	-9.6	-9.8	+2 to +4
Short term capital and errors and omissions	-1.7	-13.1	-4.8	-6 to -8
Net liquidity balance 1/	-4.7	-22.7	-14.6	-4
Official reserve transactions balance 1/	-10.7	-30.5	-11.1	3

1/ Excluding SDR allocations

2/ 1973 figures, except for the trade figures, are estimates or preliminary

Note: Totals may not add because of rounding.

CORRECTION: TABLE II
P. 12, SECRETARY SHULTZ's Feb. 8 JEC
TESTIMONY (Corrected 1973 est.)

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Short term capital and errors and omissions	-1.7	-13.1	-4.8	-8 to -9
Net liquidity balance 1/	-4.7	-22.7	-14.6	-8
Official reserve transactions balance 1/	-10.7	-30.5	-11.1	-5-1/2

1/ Excluding SDR allocations

2/ 1973 figures, except for the trade figures, are estimates or preliminary

Note: Totals may not add because of rounding.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE February 8, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 21, 1974, in the amount of $4,253,610,000 as follows:

91-day bills (to maturity date) to be issued February 21, 1974, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated November 23, 1973, and to mature May 23, 1974 (CUSIP No. 912793 TN6) originally issued in the amount of $1,800,415,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated February 21, 1974, and to mature August 22, 1974 (CUSIP No. 912793 UL8).

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Friday, February 15, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own

(OVER)

account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on February 21, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 21, 1974. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

4d

FOR RELEASE 6:30 P.M. February 11, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on February 14, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing May 16, 1974		:	26-week bills maturing August 15, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	98.232	6.994%	:	96.546a/	6.832%
Low	98.203	7.109%	:	96.502	6.919%
Average	98.210	7.081% 1/	:	96.521	6.882% 1/

a/ Excepting 1 tender of $10,000

Tenders at the low price for the 13-week bills were allotted 17%.
Tenders at the low price for the 26-week bills were allotted 1%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 44,295,000	$ 32,295,000	:	$ 23,805,000	$ 11,805,000
New York	3,066,260,000	2,056,980,000	:	2,553,775,000	1,473,160,000
Philadelphia	53,085,000	43,085,000	:	34,380,000	28,980,000
Cleveland	40,450,000	40,350,000	:	30,970,000	20,470,000
Richmond	54,815,000	45,805,000	:	36,445,000	30,280,000
Atlanta	23,185,000	22,205,000	:	18,530,000	13,245,000
Chicago	218,875,000	118,175,000	:	235,095,000	114,650,000
St. Louis	57,965,000	42,965,000	:	61,685,000	46,185,000
Minneapolis	21,165,000	11,165,000	:	18,705,000	7,705,000
Kansas City	35,940,000	33,695,000	:	24,955,000	18,755,000
Dallas	34,950,000	19,950,000	:	25,465,000	10,475,000
San Francisco	104,515,000	34,490,000	:	102,370,000	24,345,000
TOTALS	$3,755,500,000	$2,501,160,000 b/		$3,166,180,000	$1,800,055,000 c/

b/ Includes $ 383,920,000 noncompetitive tenders accepted at the average price.
c/ Includes $ 174,865,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.31 % for the 13-week bills, and 7.23 % for the 26-week bills.

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FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
Washington, D.C. 20461
Telephone: 395-3537

FOR RELEASE
12:00 NOON

FEBRUARY 7, 1974

TRUCKERS PROMISED ADDITIONAL FUEL BY ADMINISTRATOR SIMON

The Nation's over-the-highway truckers will be allocated 100% of their current fuel needs from the total national supply available, according to a change in the allocation program announced today by Federal Energy Office Administrator William E. Simon.

This change will make an additional 76,000 barrels of diesel fuel a day available at truck stops throughout the United States and at trucking terminals operated by bulk purchasers.

In addition, those truckers using gasoline have been promised similar treatment by Administrator Simon.

A nationwide toll-free telephone number will be in operation by 9 A.M. Monday, February 11, to receive complaints from truckers regarding alleged price gouging or supply problems. The number is 800-424-8660.

Simon said FEO headquarters, Regional Offices and Internal Revenue Service will immediately follow-up on information received through this network.

(more)

E-74- 53

The Federal Energy Office will determine appropriate inventory levels of truck lines buying in bulk quantities. The inventory levels will be based upon 1972 average inventory levels as compared to historical usage. This action is taken to assure industry wide equity in fuel availability, Simon said. As part of the previously announced petroleum Industry Audit Program FEO will monitor the established inventory levels to prevent excess storage in violation of the mandatory petroleum allocation regulations.

-FEO-

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PETROLEUM SITUATION REPORT

FEDERAL ENERGY OFFICE

FOR WEEK ENDED FEBRUARY 1, 1974

PETROLEUM SCORECARD

FORECAST SUPPLY DEFICIT

February 1974	2.5 million B/D
1st Quarter 1974	2.7 million B/D

APPARENT DEMAND
(Million Barrels per Day)

For Period Ended February 1, 1974	Current Week	Latest 4 Wks.
Forecast Demand	20.2	20.1
Apparent Demand	16.6	17.1
Indicated Savings	3.6	3.0

PERCENTAGE SAVINGS BY FUEL TYPE

For Period Ended February 1, 1974	Current Week	Latest 4 Wks.
Gasoline	12.1	9.0
Jet Fuels	23.4	25.3
Distillate Fuel Oil	22.3	14.6
Residual Fuel Oil	21.2	17.9
Total, 4 Products	18.0	20.3

IMPORTS
(Million Barrels per Day)

1st Qtr. 74
Forecast, with Fully Effective Embargo 4.9

For Period Ended February 1, 1974	Current Week	Latest 4 Wks.
Actual	5.2	5.1
Increase over Forecast	0.3	0.2

EMBARGOED FOR RELEASE UNTIL
2:30 P.M., THURSDAY, FEBRUARY 7, 1974

HIGHLIGHTS

DEMAND FOR ALL PRODUCTS in the week ended February 1 was down from the previous week and remains significantly below forecast. The total demand this week for the four major products was 18 percent less than the forecast demand for the four weeks ending February 1.

CRUDE OIL IMPORTS: In the week ending February 1, an increase of 258,000 B/D in PADs I-IV was offset by a 310,000 B/D decrease on the West Coast. The latest 4-week average of 2,328,000 B/D is 97,000 barrels below the latest 4-week forecast ended February 1.

CRUDE OIL PRODUCTION increased marginally this week to 9,234,000 barrels a day. The 4-week average, at 9,184,000 barrels a day, is 190,000 barrels a day less than last year, but 167,000 barrels a day higher than forecast for the four weeks ending February 1.

GASOLINE production of 5,889,000 barrels a day increased almost 2 percent over last week and represented 49.2 percent of the input to crude oil processing units, up from last week's 48.2 percent. Apparent demand of 5,633,000 barrels per day for the week ended February 1 was 12.1 percent less than the latest 4-week forecast. This reduced demand is allowing a buildup of gasoline stocks, which increased 3 million barrels this week, but remain 4 million barrels less than last year.

DISTILLATE FUEL OIL: Stocks of distillate fuel oil were drawn down by almost two million barrels. Production was down and imports were up, for a net decrease of 111,000 barrels a day from last week. With stocks at 50.6 million barrels more than last year, this net decrease is not a cause for concern. A sampling of over 30,000 accounts covering the New England States indicates consumption for the week ended February 2 was close to 13 percent less than last year, adjusted for weather.

JET FUEL production fell 48,000 B/D in the week ended February 1, with all of the decrease occurring with naphtha type fuel. The current week's production, 840,000 B/D, is only slightly higher than the latest 4-week forecast. Demand for jet fuel in the week ended February 1 was 23.4 percent below the latest 4-week forecast. Demand in the past four weeks has averaged 25.3 percent below the latest 4-week forecast ended February 1. This decrease in demand, reflected by the small drawdown of stocks, came about, in part, because the military did not take anticipated supplies in January.

FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
Washington, D.C. 20461
Telephone: 395-3537

EMBARGOED FOR RELEASE
2:30 P.M. FEBRUARY 7, 1974

IRS, FEO PROBE PROPANE PRICING

Federal Energy Office Administrator William E. Simon revealed today that a special, intensive investigation into propane pricing is being conducted by the Internal Revenue Service and the FEO.

Simon said he expects to have results soon on the investigation, which is being concentrated in the major propane-using states of the midwest and south.

"we're looking for variations in the marketing of propane that have caused the prices to climb," he said. "We have already acted to limit future propane price increases and now we are making certain that marketers are not taking advantage of those Americans who must depend on propane to heat their homes and dry their crops."

Data for the investigation is being developed by IRS agents in the field and by FEO pricing auditors.

"If we find manipulations in the market, we will act to correct the situation immediately," Simon said. "We have the authority to require that any overcharges be returned to customers."

(more)

E-74-56

Under FEO regulations, violators of pricing rules can be forced to roll back prices and return overcharges to identified customers or to the marketplace, and are subject to fines of up to $5,000 for each infraction.

New pricing controls announced by the FEO last week limit propane price increases to proportional rises in the cost of crude oil.

-FEO-

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FEDERAL ENERGY OFFICE
PUBLIC AFFAIRS
4001 NEW EXECUTIVE OFFICE BUILDING
WASHINGTON, D.C. 20461
Telephone: 395-3537

EMBARGOED FOR RELEASE UNTIL
2:30 P.M., DST, THURSDAY, FEBRUARY 7, 1974

EAST COAST SHIFTS TO GREATER USE OF COAL FOR ELECTRIC GENERATION; "BORROWS" ELECTRICITY FROM OTHER UTILITIES

Utilities on the East Coast are saving about 62,000 barrels per day of residual oil by switching to coal to generate electricity, Federal Energy Office Administrator William E. Simon said today. The FEO also reported that about 50,000 barrels per day of oil were saved in January as Canadian utilities and coal burning utilities in the United States transferred electricity to the East Coast.

Since December 6, when Mr. Simon sent telegrams to 19 utilities, 18 generating units at 10 electric power plants have begun to use coal, rather than oil. By the end of February, four additional units at four plants are expected to be converted, resulting in a total savings of almost 80,000 barrels per day of oil.

Additional generating units have been identified as capable of shifting to coal. Twelve plants, with a total of 29 units, can and are willing to convert but must solve environmental, technical, transportation or supply problems.

E-74-54

(more)

Coal production for the month of January was 44.15 million short tons. This is below the level the FEO feels necessary to meet increasing demand and maintain necessary stock piles. FEO is striving to identify additional sources of coal and to develop policies to stimulate production.

Attached is a summary and a status report detailing the plants involved in the conversion program, coal production for the month of January, and "wheeling" of electricity to the East Coast.

-FEO-

E-74-54

February 6, 1974

FEDERAL ENERGY OFFICE
Status Report on East Coast Utility
Coal Switching Program

As of February 1, 1974, 18 units at 10 electric power plants on the East Coast have completed the conversion from oil to coal in response to a telegram sent on December 6 by William E. Simon, urging this conversion. The conversion will represent a total savings of 61,985 barrels/day of residual fuel oil. Four additional units at four plants are expected to have completed the conversion in February, resulting in further reductions in residual fuel oil use of 17,495 barrels per day. Thus, by the end of February, residual fuel oil use will be reduced by some 79,480 barrels per day as a direct result of the coal conversion program.

Another 12 plants with a total of 29 units can and are willing to convert if and when environmental, technical, transportation, and supply problems are solved. These conversions could result in a further savings of 90,352 barrels per day of residual fuel oil. The FEO is communicating with these plants on a regular basis, in an effort to help solve their problems.

Coal production for the month of January was 44.15 million short tons. This somewhat ahead of the comparable period for last year, although it is still well below the level required to meet increasing demand and maintain the necessary stockpiles.

During the month of January, a net total of 986 million kilowatt hours were wheeled into the New England/PJM/New York power pool areas. This is equivalent to a residual fuel savings of 49,000 barrels per day. Breaking this into residual fuel oil savings, some 30,000 barrels per day were saved through wheeling power from Canadian sources, and another 20,000 barrels per day through wheeling power from coal burning American sources into the NYPP, PJM, and New England power pools.

The accompanying report details the status of the plants involved in the conversion program.

February 6, 1974

STATUS REPORT: COAL CONVERSION PROGRAM

I. Units Converted to Date

As of February 1, 1974:

- Eighteen units at 10 plants have completed the conversion from oil to coal (Table 1).
- Resulting in a savings of 61,985 bbl/day of residual fuel oil (equivalent to 15,496 tons/day coal) at the end of January.

TABLE 1 -- Estimated February Oil Savings From Coal Switch

Plant	Company	Unit	Date Conv.	RESIDUAL FUEL OIL SAVED 1/ (Monthly average, bbl/day
England	Atl. City Elec., N.J.	1	11/73	9,920
		2	11/73	(total)
Deepwater*	Atl. City Elec., N.J.	1	12/73	2,680
		6/8	2/74	2,360
Bergen	Public Service Elec. & Gas, N.J.	1	12/1/73	4,640
		2	12/18/73	4,640
Burlington	Public Service Elec. & Gas, N.J.	5	12/1/73	2,500
		6	12/1/73	2,500
Middletown	Hartford Elec. & Lite, Conn.	1	12/73	5,830
		2	12/73	(total)
Mt. Tom	Holyoke Water & Power, Mass.	1	12/73	4,700
So. St. Sta.	Narragansett Elec., R.I.	121	1/23/74	1,275

1/ Utility response to phone calls placed by FEO in January.
* This plant was not included in the list of the 26 plants urged to convert in the December 6 Simon telegram but has been added subsequently.

(CONTINUED NEXT PAGE)

Plant	Company	Unit	Date Conv.	RESIDUAL FUEL OIL SAVED1/ (Monthly average, bbl/day)
Chalk Point	PEPCO, Wash. D. C.	1 2	10/73 10/73	5,000 (total)
Salem Harbor*	New England Elec. Mass.	2 3	2/1/74 2/1/74	5,940 (total)
Lovett2/	Orange & Rockland, N.Y.	4 5	1/27/74 1/21/74	5,000 5,000

II. Units Anticipated to be Converted in February

As of the end of February:

- Four units at 4 plants are anticipated to convert from oil to coal (Table 2).
- Resulting in an additional savings of 17,495 bbl/day of residual fuel (equivalent to 4,374 tons/day coal).

TABLE 2 -- Units Anticipated to be Converted in February

Plant	Company	Unit	Date Conv.	RESIDUAL FUEL OIL SAVED1/ bbl/day
So. St. Sta.	Narragansett Elec., R.I.	122	2/11/74	1,275
Salem Harbor*	New England Elec. Mass.	1	2/14/74	2,600
Arthur Kill*	Con Ed., N.Y.	30	2/18/74	12,4004/
W. Springfield3/	Western Mass. Electric	1	3/	1,220

* These plants were not included in the list of 26 plants urged to convert, but have been added subsequently.

1/ Utility response to phone calls place by FEO in January.

2/ As of 2/4/74, unit #4 is down for 24 hours and unit #5 is on oil for a week due to ash shutdown.

3/ Mass. has granted a variance subject to EPA approval to burn coal with a 2½% sulfur and 15% ash content. The variance also grants W. Springfield the right to burn coal which it already has on hand (7 month supply with high sulfur/ash content) from May 16-Sept. 30, 1974. Springfield is set up to convert immediately if granted a variance to burn coal with 3% sulfur and 17% ash. Public Hearing to be held 2/21.

4/ FEO Calculation.

III. Plants with Delays in Conversion

- Twelve plants having a total of 29 units can and are willing to convert when environmental, technical, transportation and supply problems are solved.

- This is a potential oil saving of 90,352 bbl/day (equivalent to 22,588 tons/ day coal). (See Table 3.)

TABLE 3 -- Plants with Delays in Conversion

Plant	Company	Unit No.	Est. Date of Conv.	Potential Oil Savings	Nature of Problem Causing Delay: Environmental	Coal Supply	Transportation	Techni
Montville	Conn. Lite and Power	1		4,167	X5/	X		
		2		(total)	X5/	X		X
		5			1/	X		X
W. Spring-field	Western Mass Elec	2		1,200	X5/	X		
		3		2,271	X5/	X		
Mason	Central Maine	3		1,302	X2/	3/		X
	Power Co.	4	4/74	1,285	X2/	3/		X
Down	Vineland, N. J.	10		842	X4/			
Edgemoor*	Delmarva Power & Lite, Del.	1		1,743	X	X		
		2		1,621	X	X		
		3		2,113	X	X		
		4		3,903	X	X		
Vienna	"	5		800	X	X		
		6		800	X	X		X
		7		1,700	X	X		X
Brayton Point*	New England Elec. Sys. Mass.	1	-	8,000	X			
		2		8,000	X			
		3		20,000	X			
Devon	Conn. L&P	7		7,534	X5/	X		
		8		(total)	X5/	X		
Norwalk Harbor	Con L&P	1		4,500	X5/	X		
		2		3,900	X5/	X		
Pt. Jef-ferson	Long Island Lite Co.	3		4,500	X	X	X	
		4		4,500	X	X	X	
South Meadow	Hartford Elec.	6			X5/	X	X	X
		7		2,679	X5/	X	X	X
		8		(total)	X5/	X	X	X
Shiller	Public Svc. Co., N.H.	4		2,992	X5/	X	X	X
		5		(total)	X5/	X	X	X

* Not included in list of 26 plants urged to convert.
1/ Temporary variance expires 2/28 for unit #5 which has long-term technical pr
2/ Hearing scheduled 2/22.
3/ Coal supply hopeful but not certain.
4/ A third request for variance has been submitted.
5/ Have not applied for variances.

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IV. Coal Production

- Coal production for the month of January 1974, was 44.15 million short tons.

- This is somewhat ahead of the comparable period for last year, although it is still well below the level required to meet increasing demand and maintain the necessary stockpiles.
  Weekly production figures are compared to those of the last three years, as shown in Table 5 below.

TABLE 4 -- January Coal Production (1971-74)

Week Ending	1974	1973	1972	1971
		(Millions of short tons)		
January 5	9.79	9.150	11.30	12.6
January 12	10.78	10.32	12.10	12.8
January 19	11.640	11.16	11.60	12.8
January 26	11.940[1]	11.32 [1]	12.02	12.3
Cumulative to Date	44.15	41,95	47.02	50.5

1, Subject to Adjustment.

* Not included in the list of 26 plants urged to convert.

1/ Conversions at the following plants are dependent upon a Federal Order to convert. Some companies need this to get release from oil contracts, etc. Others will not move unless forced to do so.

2/ Barrett indicated 2/4/74 that it was now interested in conversion. If it can get a variance and coal it can begin coal switching 5/1/74.

V. Wheeling Power

- During the month of January, a net total of 986 million kilowatt hours were wheeled into the New England/PJM/New York Power Pool areas.

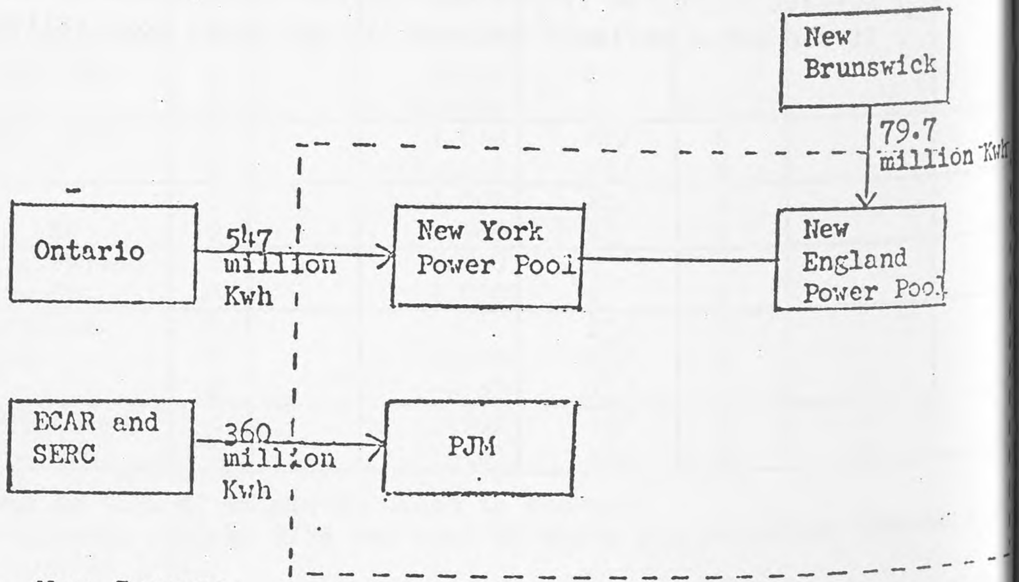
- This is equivalent to a residual fuel savings of 49,000 barrels per day.

- Of this total, 360 million kilowatt hours (net) was moved into PJM from the ECAR and SERC Power Pools and all regions to the West and South; 547 million kilowatt hours were moved into NYPP from Ontario (a portion of this may have come from Chicago to Ontario to the New York Power Pool as the shortest route); and 79.7 million kilowatt hours were moved into New England from New Brunswick.

- Thus, the net total from American sources was 360 million kilowatt hours as opposed to the 600 million kilowatts predicted by the National Electric Reliability Council. The difference is due to (1) fears of the midwestern utilities as to the availability of coal supplies, and (2) the unknown quantity going from Chicago to NYPP through the Canadian route.

- Breaking this into residual fuel oil savings, some 30,000 barrels per day were saved through wheeling power from Canadian sources, and another 20,000 barrels per day through wheeling power from coal burning American sources into the NYPP, PJM, and New England Power Pools.

- The schematic diagram shown below illustrates the net wheeling of power into the NYPP/NEPP/PJM area.



PJM-Pennsylvania, New Jersey, Maryland

ECAR-East Central Area Reliability Coordination Agreement

SERC-Southseastern Electric Reliability Council

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EMBARGOED FOR RELEASE 2:30 P.M. FEBRUARY 7, 1974

FEO ADMINISTRATOR SIMON URGES STATE - LOCAL HELP TO QUELL PANIC GASOLINE-BUYING

Federal Energy Office Administrator William E. Simon today urged state and local governments to take immediate action to help quell panic-buying at gasoline stations, and to allow the Federal allocation program time to work.

In telegrams to the governors of the fifty states, Simon suggested that state and local governments can take steps to assure emergency service vehicles their gasoline supplies, to coordinate the operating hours of retail outlets to assure even distribution of gasoline sales throughout the day and month, and to initiate voluntary gasoline distribution plans such as that implemented in Oregon.

"Under the regulations, no area will be favored over another," Simon said, "but all must cooperate if the regulations are to work."

Attached is a complete text of the telegram.

-FEO-

E-74-55

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Text of Telegram

To: Each Governor, copies to local county, city officials (through Nat'l Assn. of county officials, League of Cities)

Despite the existence of federal regulations allocating petroleum products, serious problems in gasoline supply are developing in some areas of the nation.

Since the creation of the Federal Energy Office on Dec. 4, 1973, we have taken a number of mandatory and voluntary actions to conserve energy use, however, since additional federal legislation to conserve energy has yet to be enacted, we need your assistance and that of local officials in your state to help solve our energy problems and carry out programs.

The most apparent problems are: (1) A rash of panic buying which has caused time delays, personal inconvenience, and extra traffic problems around service stations and (2) the ability of emergency service vehicles to get the gasoline they need when they must compete at service stations in long lines, causing critical time delays.

These problems are serious and therefore I would suggest the following:

1. Immediate attention should be given to assure gasoline for emergency service vehicles through current suppliers, or from set-aside programs. Local governments can arrange, through retail outlets, or government supplies, 24-hour service for emergency service vehicles.

2. Local governments can coordinate the operating hours of retail outlets to assure even distribution of gasoline sales throughout each day and month. Minimum purchases of $3 in gasoline and a maximum of 10 gallons should be encouraged to avoid customers seeking to "top off" gasoline tanks. Retail gasoline dealers, or other sellers of petroleum products, are not allowed to enforce the minimum $3 gasoline purchase when it conflicts with federal regulations specifying per gallon price limits for gasoline, even if this requires a sale totaling less than $3. Dealers, of course, should encourage their customers to comply with the $3 minimum when it is practical.

3. If State problems are severe, immediate consideration should be given to a voluntary state gasoline distribution plan, such as that implemented in Oregon, to allocate gasoline more equitably. For information on the Oregon Plan and subsequent findings, contact Mr. Ed Rovner, Energy Director, National Governors Conference, 202-659-9644.

It is further suggested that the public be guided in these programs' orderly implementation, through the use of local government hotlines, the news media, associations, and clubs.

Under the regulations, no area will be favored over another, but all must cooperate if the regulations are to work.

The urgency of the situation demands that all levels of government take immediate steps to implement such measures as are appropriate to avoid further disruption within our society.

As Administrator of the Federal Energy Office, my office and I stand ready to listen to your comments and suggestions to assure tranquility and cooperation in these difficult times.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE FRIDAY
FEBRUARY 15,1974 AT 3:30 P.M., PDT

REMARKS OF MATTHEW J. MARKS
DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR
TARIFF AND TRADE AFFAIRS
BEFORE THE
NATIONAL INSTITUTE ON CUSTOMS, TARIFFS AND TRADE
AMERICAN BAR ASSOCIATION
SAN DIEGO, CALIFORNIA, FEBRUARY 15, 1974
3:30 P.M. PDT

THE COUNTERVAILING DUTY AND ANTIDUMPING LAWS AS EFFECTIVE DEFENSES AGAINST UNFAIR TRADE PRACTICES OVER THE NEXT DECADE

INTRODUCTION

In his appearance before the Joint Economic Committee on February 8, Secretary of the Treasury Shultz stated:

> "***the problems in the year ahead pose the greatest challenge to the spirit of international cooperation since we viewed the ruins of World War II."

The challenge, the Secretary noted, needs to be met on four fronts, each crucial to the whole: "by devising new forms of cooperation to deal with the energy situation; by completing our negotiations for reform of the international economic system and to liberalize world trade; by maintaining the momentum of development; and by working to restore the fabric of international stability torn by inflation, payments imbalances, and now the oil crisis."

Turning to the subject of international trade, with which we are particularly concerned, Secretary Shultz added:

> "The tensions inherent in the major trade and balance of payments adjustments that countries will experience shortly -- even with more reasonable oil prices --

underscore the importance of maintaining the impetus toward trade liberalization. The difficult problems ahead can be solved more easily within a context of expanding world trade encouraged by renewed progress toward trade liberalization.

"I hope the Congress will move expeditiously to complete action on the trade legislation before it. Few things would be more damaging to the prospects for cooperative solutions to our common problems than the appearance that the United States was faltering in its commitment to a liberal and reformed international trading order."

The Secretary has painted the broad schema for dealing with the major problems ahead. The subject of my speech deals with a narrow but nevertheless important segment of this broad picture, unfair international trade practices and how to cope with them. At the suggestion of your Program Committee, I plan to focus on the Administration's activities in enforcing the antidumping and countervailing duty laws; past accomplishments, prospects for change, and what role these activities will play in the Multilateral Trade Negotiations.

ANTIDUMPING

How Antidumping Act Operates

The Antidumping Act of 1921, as amended, has often been cited as a very complex statute. A former colleague and dear friend of mine once speculated that: "The reader who approaches the nine closely written pages of the law's text for the first time is likely to find the experience rather terrifying." While the Antidumping Regulations may provide some assistance in comprehending the administration of the law, the novice is likely to encounter a similar terror as he reads these Regulations for the first time.

The concept of dumping under U.S. law, and internationally as well, is nevertheless quite simple. Dumping occurs when foreign merchandise is sold in the United States at less than its "fair value." In the normal situation this means at less than its home market price; and in addition such less than fair value sales cause injury to a domestic industry in the United States. If the Treasury, which conducts the fair value investigation, and the U.S. Tariff Commission, which performs the injury investigation, make affirmative determinations, the Secretary of the Treasury is required to issue a "finding of dumping." Merchandise covered by such a finding is assessed special dumping duties only to the extent there is price discrimination. Normally such duties are assessable on all entries effected after publication of a notice of "withholding of appraisement" by the Treasury Department. Thus, if the export price to the United States is $10 while the foreign market value is $12, a special dumping duty of $2 would be assessed to equate the prices.

The intent of the law is to nullify the effects of injurious price discrimination. The Antidumping Act does not, and is not intended to act, as a protectionist cushion for U.S. industry, but rather as a means of defending domestic enterprise from unfair international pricing practices.

Information regarding suspected dumping supplied to the Commissioner of Customs by domestic complainants must, under the Antidumping Regulations, contain data not only concerning the alleged discrimination between foreign market and export prices but also regarding the alleged injury being suffered by a domestic industry.

I raise this point because all too often the fallacious assumption is made by some complainants that, since the Treasury by law is restricted to determining whether sales at less than fair value are taking place, it has no need for injury information and, indeed, no right to inquire into this area in determining whether to initiate an antidumping investigation. It would obviously make no sense for Treasury to proceed with an extensive investigation only to learn that no injury conceivably could have existed. This would be a waste of the taxpayer's money and valuable Treasury manpower.

Antidumping Activity in Recent Years

Beginning shortly after the Nixon Administration assumed office, the Treasury undertook a major effort to rejuvenate its administration of the antidumping law. The large consumer market in the U.S. was a prime target for foreign firms. To gain a foothold in our marketplace, some foreign firms were resorting to unfair trade practices, including dumping. The new Administration, Congress and American producers were all in agreement that something had to be done to better defend American industry from foreign dumping practices.

Tightened administration of the Antidumping Act and substantial increases in manpower devoted to the administration of antidumping investigations brought dramatic results. Final actions taken by Treasury under the Act increased from 16 in Fiscal Year '68 to 42 in Fiscal Year '73. During this same time period, findings of dumping jumped from one to eight, reaching a peak of 18 in Fiscal Year '72.

Notwithstanding the increase in Treasury's workload, the time required to process antidumping cases was sharply reduced. During Fiscal Year '68, the average number of days required by Treasury to complete an antidumping investigation was 560, with some cases taking more than two years. The comparable figure for investigations initiated in Fiscal Year '73 is 248 days, a reduction of more than 50 percent.

It is frequently overlooked that foreign as well as domestic interests benefited from this "rejuvenation" of the Antidumping Act. Foreign firms are now relieved from the long period of uncertainty which had previously prevailed as a result of drawn-out antidumping investigations, which some of our trading partners had described as an American Non-Tariff Trade Barrier.

The number of investigations initiated reached a peak of 39 in Fiscal Year '72, and then declined to 27 in Fiscal Year '73. In the first half of Fiscal Year '74, only four cases were initiated.

The decline in the number of cases under investigation should not be construed as signifying a relaxation in the Treasury's policy to administer the Antidumping Act effectively, swiftly and vigorously. Exogenous factors have undoubtedly played a role in the large drop in antidumping activity. As a result of international monetary realignments, U.S. products have become more price competitive with imported merchandise. Thus U.S. markets, for the moment, have become less attractive to foreign producers. In addition, with burgeoning economic demand abroad, there is diminished foreign productive capacity available. This situation may be temporary in view of the recent strengthening of the dollar. Moreover, the need of foreign governments to pay the increased oil cost in dollars may lead to a renewed foreign export drive in the U.S. market.

Vigorous and fair enforcement of the Antidumping Act still is, and will continue to be, a primary concern of this Administration. Indeed, the Act has received much attention within the context of the pending Trade Bill and amendments have been proposed to make it an even more effective and precise tool for the promotion of fair international trade.

Prospects for Change: Trade Bill Amendments to Antidumping Act

Even though many Members of Congress have commended the Treasury for its more effective administration of the Act, the Executive Branch in close collaboration with the Congress explored further refinements to the statute for inclusion in the Trade Bill package.

New Open Disclosure Policy

The most important amendment in the present law -- and one which was long over-due, I might add -- would provide that the publication of final decisions by the Treasury Department and the Tariff Commission contain "a statement of findings and conclusions and the reasons or bases therefor, on all the material issues of fact or law presented." In the past, Treasury's public notices of tentative and final decisions have too frequently tended to be skeletonized, containing a minimum of information concerning the facts gathered and the motivating rationale behind decisions made in a particular investigation. As a result persons not involved in the investigation in question, including practicing members of the Customs bar, found it difficult to gauge the precedential impact of individual decisions. The new provision, which incidentally the Treasury plans to extend to tentative as well as final determinations, will substantially correct this omission and increase significantly the amount of information available to outsiders, i.e. those not involved in the particular investigation.

Under our new policy we propose, in particular, to furnish more information regarding the adjustments made in reaching our fair value determinations, for these can be crucial to the final decision. This will help clarify Treasury's policy on these and other important issues. A detailed notice should be of tremendous benefit to legal practitioners, and all others concerned with antidumping, by making it easier to follow and comprehend Treasury's precedents in the decision-making process.

I might add that Treasury prides itself in adhering to the doctrine of stare decisis. I do not mean to imply by this that we shall never reverse earlier precedents if we are convinced that they are wrong. On the contrary, we follow the traditional Common Law evolutionary approach in administering the Antidumping Act. If we abandon an earlier precedent, I can promise you that under the new policy we shall fully explain what we are doing and why. We are living in an ever-changing world and there is no justification for intellectual sterility in the administration of the Antidumping Act.

In this same vein of apprising the public and practitioners of the rationale behind Treasury's antidumping decisions, the Treasury now has available for inspection an informal book entitled Compilation of Adjustments and Issues in Recent Antidumping Investigations. Starting in August 1972, this compilation was prepared by a Treasury officer of the Office of Tariff and Trade Affairs for his personal use in processing antidumping cases. Although it is not, and does not pretend to be, an official compilation of Treasury precedents, it can be of considerable help to practitioners desiring to research specific technical issues which have arisen in past cases.

I might add as an aside, that this new, more open Treasury policy of providing significant information regarding our decision-making process, will in no way conflict with our traditional practice of respecting and protecting the confidentiality of price and other private business information supplied to us in confidence during investigations. Our Antidumping Regulations lay out clearly the types of information entitled to claims of confidentiality. We have no intention of putting foreign or American firms in a position where, in order to prevail in an antidumping proceeding, they must disclose their innermost business secrets to their competition.

Sales Below Cost

Under the present law, if the cost of production of an item is $20 and that item is sold for $15 in the home market and for $15 to the U.S., the sale is not at less than fair value. During the consideration of the Trade Bill, the Ways and Means Committee concluded that American producers should not have to compete with foreign merchandise sold below cost. The Trade Bill therefore contains an amendment which allows the home market price to be disregarded for fair value comparison purposes to the extent it fails to reflect the full cost of production.

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To prevent application of this change to situations which were never intended to be encompassed within its scope, e.g. the sale below cost of outdated models at the end of the year, H. R. 10710 provides that the new sales below cost provision would apply only when the Secretary of the Treasury determines that such sales: "(1) have been made over an extended period of time and in substantial quantities, and (2) are not at prices which permit recovery of all costs within a reasonable period of time in the normal course of trade***"

Sales By Another

Another proposed amendment would alter the methodology of fair value price comparisons. Under the present Act, when a firm's sales in its home market are inadequate for fair value comparison purposes, its export prices are required to be compared with another firm's home market prices in the same country, which the former company neither knows nor controls.

This inequity would be corrected under the proposed amendment. If a firm's sales in the home market are inadequate to provide a basis for fair value comparison, Treasury will, under the amendment, turn, not to another firm's prices in the home market, but rather to the first firm's prices to third countries, and these will be compared with the prices at which that firm sells to the United States.

Other Changes

Other changes in the Act contained in the Trade Bill are primarily administrative. I would like to mention three of these very briefly.

Time limits largely paralleling those set forth in the Treasury's Antidumping Regulations will be imposed by statute for preliminary Treasury actions on investigations; 6 months for normal investigations, and not more than 9 months for more complicated investigations.

Treatment of sales from state controlled economy countries, which are likewise prescribed by Treasury Regulations, will, under H.R. 10710, become an integral part of the Antidumping Act. Since state controlled economy countries, i.e. Communist bloc countries, operate under an administered price system, their home market prices are relatively meaningless for fair value comparison purposes. They frequently are not reflective of prices that prevail under a free market mechanism. Accordingly, in conducting antidumping investigations of products from these countries, Treasury uses the home market price of the nearest similar merchandise sold in a non-state controlled economy country. Adjustments are, of course, made as appropriate for any differences in the products of the two countries.

The Trade Bill also requires that transcribed hearings be held by both Treasury and the Tariff Commission, and that these transcripts be made available to the public. Treasury recently began to transcribe its hearings on an experimental basis and anticipates no difficulty with this requirement. The Tariff Commission has traditionally conducted transcribed hearings in antidumping cases.

The Ways and Means Committee Report makes clear that the traditional non-adversary nature of antidumping investigations is to be preserved. Accordingly, the bill expressly exempts these hearings from the requirements of the Administrative Procedure Act. Among other things, this will enable both agencies to continue to treat in confidence sensitive price and other trade information furnished in the course of antidumping investigations.

International Anti-Dumping Code

Under the precepts of the International Anti-Dumping Code, to which the United States is a signatory, the United States and its principal trading partners agreed to adhere to basic principles concerning antidumping proceedings. The United States has found the Code to be valuable in that it provides a common, international forum for discussion of antidumping matters and a standard by which the administration of all signatory Governments' antidumping statutes can be measured. A similar forum might well be useful in dealing with international subsidy practices and perhaps other Non-Tariff-Trade-Barriers as well.

COUNTERVAILING DUTIES

How Countervailing Duty Law Operates

The Countervailing Duty Law was enacted in substantially its present form in 1897. A cursory glance at this three-sentence statute would suggest a rather simple law governing a relatively simple concept: that the Secretary of the Treasury shall impose an additional duty equal to the amount

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of any "bounty or grant" determined by him to be paid or bestowed on dutiable imports into the United States. Unlike the Antidumping Act, there is no injury requirement in the Countervailing Duty Law. The Law is mandatory in that the Secretary of the Treasury must assess a countervailing duty once he determines a bounty or grant is being paid or bestowed on imports.

Procedures for Administering Statute

Although the Treasury Department may open a countervailing duty investigation on its own initiative, normally such investigations are launched upon receipt of complaints by domestic concerns. The Customs Service is charged with analyzing the contents of the complaint and verifying its allegations. This normally calls for an inquiry of the foreign government concerned regarding the nature of any assists that it may be paying or bestowing on the particular exports to the United States. Based on the information obtained from the complainant and other interested persons and from the overseas inquiry, a decision is made on the appropriateness of initiating a formal investigation. If Treasury decides to proceed, a Countervailing Duty Proceeding Notice is published in the Federal Register, offering interested parties a given period, normally 30 days, in which to present comments and views. Thereafter, the Secretary of the Treasury makes a final decision. If affirmative, countervailing duties are assessed 30 days after publication of a Countervailing Duty Order in the Customs Bulletin. The countervailing duty is always equal to the bounty or grant being paid or bestowed on exports. Once imposed, countervailing duties cannot be lifted until the foreign subsidy is eliminated. The purpose of countervailing is, of course, to nullify any trade advantage resulting from the bounty or grant.

What Is a Bounty or Grant? -- Domestic and International Implications

The apparent simplicity of the statutory language and investigatory procedures is disarming, for in fact administration of this law entails difficult and complex issues, probably some of the most difficult in the field of unfair international trade practices. The statute does not define the term "bounty or grant", and there is considerable controversy, domestic and international, as to what constitutes an unfair subsidy. This is not surprising, in view of the international economic implications of assessing countervailing duties to offset the trade distorting effects resulting from export subsidy schemes.

Unlike the antidumping area, where an international agreement has been concluded with a detailed code of conduct covering the actions that may be taken to counteract dumping, in the countervailing duty area the only international understanding reached is contained in certain very generalized articles and notes of the GATT.

Also, unlike the Antidumping Act, which deals with international price discrimination practices of private companies, the Countervailing Duty Law almost invariably deals with the actions of foreign governments. From an international trade relations standpoint, this tends to render more difficult the reaching of a decision as to what constitutes a bounty or grant, for once export subsidy schemes become locked in as an integral part of a Government's fiscal policy, the Government concerned is understandably reluctant to alter its practices. At the same time, foreign governments tend to react to a U.S. countervailing action as an economically provocative act.

For its part, however, the United States Government cannot reasonably be expected to ignore foreign export subsidy schemes designed to nullify comparative advantages which American firms enjoy over foreign import competition.

There is controversy as to whether injury should be made a condition precedent to the establishment of a bounty or grant. Most foreign governments follow the provision of GATT Article VI which couples injury and subsidy as conditions precedent to countervailing. The United States Law does not. We are not required to conform to the GATT Article VI requirement because of a "Grandfather Clause" exempting pre-existing legislation.

Foreign governments, while conceding the legal correctness of the U.S. position, contend it is unreasonable for a major trading nation such as the United States to take advantage of such a legal technicality more than a quarter of a century after the signing of the GATT. They argue also that it is in the U.S. interest to allow foreign governments to subsidize the American consumer if this does not cause injury to American industry.

U.S. representatives have at times questioned the appropriateness of an injury requirement in countervailing

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duty legislation. A reasonable argument can be made that export subsidies are inherently bad in that they are trade distorting measures which nullify the principle of comparative advantage.

There is also domestic controversy in the United States as to the meaning of "bounty or grant." Probably the broadest interpretation of this term was stated in dicta of two early United States Supreme Court opinions relating to rebates of indirect taxes. The dicta in the Court's Downs and Nicholas opinions refer to the terms "bounty or grant" as applying to all tax rebates, including rebates of indirect taxes. The holdings, on the other hand stand for the proposition that a bounty or grant exists to the extent a government grants a larger rebate, upon exportation, than the tax originally assessed. (Downs vs. U.S., 113 F.144 (1902), aff'd 187 U.S. 496 (1903); Nicholas & Co. vs. U.S., Ct. Cust. Appls. 97 (1916), aff'd 249 U.S. 34 (1919).

For more than three quarters of a century, the Treasury in its administrative decisions has consistently construed the Downs and Nicholas decisions in accordance with the holdings rather than the dicta. Nevertheless, many in the United States insist that the latter reflects the true intent and spirit of the Countervailing Duty Law. The Downs and Nicholas dicta have fairly recently been quoted with approval in two court opinions which were dealing in their holdings with other issues.

This leads to another controversial issue. Since the Countervailing Duty Law enactment in 1897, international trade has multiplied astronomically. And even more significantly, the tax and fiscal systems which have evolved since the final years of the nineteenth century have understandably become vastly more complicated. To say the least, it is not a simple matter, under such conditions, to construe the term "bounty or grant" as a living reality in the last quarter of the twentieth century. Should, for example, the Value Added Tax, which has been adopted by most European countries as a principal source of revenue, be construed as a bounty or grant under the Countervailing Duty Law? If the Downs and Nicholas dicta were applied to the Value Added Tax the trade effects would not be inconsequential.

Working without a statutory definition of "bounty or grant," the Treasury carved out a general interpretation of the statute on a case-by-case basis. From these administrative decisions, it is possible to derive three broad categories where the Treasury considers a bounty or grant to exist:

(1) Straight subsidies benefiting exports, where it is established, directly or by clear implication, that the payments are being made for the purpose of improving the international competitiveness of such exports;

(2) Rebates upon exportation of indirect taxes, e.g. excise and consumption taxes, where the rebate exceeds the amount of the tax originally assessed; and

(3) Rebates upon exportation of indirect taxes, where the tax paid was not directly related to the product exported or components thereof.

Under GATT Article VI, any rebates, upon exportation, of direct taxes, e.g. income and social security taxes, are countervailable, while rebates of indirect taxes are not. The Treasury has never, so far as I am aware, countervailed a direct tax rebate. On the other hand, it has never ruled that direct tax rebates do not constitute "bounties or grants" under the U.S. Law.

The GATT distinction was established at a time when most economists accepted a general assumption that indirect taxes are invariably passed on to the consumer while direct taxes are not. It was on this basis that Article VI provided for different treatment of rebates of direct, as contrasted with indirect, taxes.

Most economists now appear to be more cautious in accepting this assumption as a general truism. There seems little doubt that indirect taxes are frequently not passed through, while on occasion direct taxes are. What happens, often depends on whether we are dealing with a buyer's or seller's market. I have seen no convincing quantification of the extent to which direct and indirect taxes are, or are not, passed through. The treatment of direct and indirect tax rebates might well prove a difficult issue in the Multilateral Trade Negotiations.

The Treasury, in its administrative decisions, examines the underlying effects of foreign assistance schemes in determining whether they constitute bounties or grants. Thus it has determined a bounty or grant was being paid or bestowed on exports in a case involving foreign regional assistance to a locally depressed area. One of the key elements leading to this conclusion in one case was the fact that more than 80 percent of the output of the plant benefiting from the assistance scheme, was to be exported to the United States.

While the above categories do not pretend to cover every instance where the Treasury has countervailed -- for example, the Treasury has frequently countervailed multiple exchange rate systems, depending on how the multiple rate structure operates and its effect on foreign exports to the United States -- the above reflects a set of very general guidelines that have emanated from decisions reached since the Law was enacted. One problem, of course, is that the principles mentioned relate only generally to the ambit of the varied and highly sophisticated subsidy practices that affect international trade in the 1970's. As business firms become more and more export-oriented, their governments increasingly become partners in making their commodities as attractive as possible on the world market. Such a world did not exist in 1897, when the Congress enacted a three sentence statute. Thus, the crucial question in administering anti-subsidy legislation is how it should be construed in light of present-day realities.

A resolution of this important trade problem is essential, especially as we approach the Multilateral Trade Negotiations. The problem is accentuated on the one hand by a concern in certain segments of our economy over allegedly subsidized import competition. Conversely, foreign governments, many of whose programs to stimulate exports have become entwined in the basic fiscal fabric of their domestic economies, are hardly enchanted at the thought of making major changes in this area. The result until now has been a lethargic effort in the GATT to inventory alleged subsidy practices of all member governments, but unfortunately without meaningful results thus far in coming to grips with the basic problem. What is needed is a new set of international principles which will lay down agreed rules as to what is, and is not, acceptable in the export subsidy area. Such a multilateral negotiation will be difficult, as it will involve much give and take on all sides.

Alternatively, each government could approach the problem unilaterally in terms of its domestic anti-subsidy legislation. To me such an approach is unthinkable in that it would undoubtedly lead to retaliations and counter-retaliations. I should emphasize in this connection that no government, including the United States,can claim to be simon-pure in this area.

Trade Bill Amendments to Countervailing Duty Law

There are a number of major amendments to the Countervailing Duty Law in the Trade Bill, as approved by the House.

Twelve Months Time Limit

The Secretary of the Treasury, under one amendment, would be required to decide within 12 months after a question is presented to him whether "bounties or grants" are being paid or bestowed under the statute. Under the present law, there is no time limit for the completion of investigations. In all candor, this amendment reflects the interest of the Congress in obtaining more prompt action on countervailing duty complaints, some of which have been under consideration by Treasury for very extended periods of time because of problems such as those I have outlined.

Discretionary Authority

Another amendment would grant the Secretary of the Treasury discretionary authority for four years to refrain from countervailing where he determines that such action would be likely to seriously jeopardize the completion of the Multilateral Trade Negotiations. This provision reflects the House's understanding of the difficult international problems I have discussed, and its effort to facilitate an international agreement in the subsidy area as part of the Multilateral Trade Negotiations. If an international agreement is reached, and such agreement is approved by the Congress in the manner provided for in the Trade Bill, it will very likely be necessary to submit to Congress a new amendment to the Countervailing Duty Law under the same procedures to bring the present legislation into conformity with the new international agreement. In the absence of such an agreement, the temporary discretionary authority would lapse and Congress and the Executive Branch would then have to decide how the United States should defend itself, on a unilateral basis, against subsidized imports. I fervently hope that this Government will not find itself confronted with such a decision!

H.R. 10710 grants similar discretionary authority with respect to articles which are the product of facilities owned or controlled by a developed country if the investment in, or operation of, such facilities, is subsidized. In this case, however, the discretionary authority is limited to one year.

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The Trade Bill also grants discretionary authority to the Secretary to refrain from countervailing products that are subject to quota restrictions or effective quantitative limitations on their exportation to the United States, if the Secretary of the Treasury feels that these are an adequate substitute for countervailing. There is no time limit on the exercise of this latter discretionary authority.

Right of Judicial Review

I would like to dwell briefly on the amendment to the Trade Reform Bill providing complainants with the right of judicial review of negative countervailing duty decisions by the Secretary of the Treasury. Under a decision handed down by the Court of Customs and Patent Appeals in 1970, it was determined that American complainants had no right of appeal to the courts against a negative countervailing duty ruling by the Secretary. Members of Congress and others have expressed concern that this judicial ruling might adversely affect the ability of American producers to obtain meaningful relief under the Countervailing Duty Law, and therefore the House approved an amendment of the statute to provide for a right of judicial review. It was felt that American producers should enjoy the same right of judicial review in the Customs Court as is available for importers who are presently entitled to judicial review of the actual assessment of countervailing duties.

Other Changes

H. R. 10710 makes other substantive amendments to the statute. The most significant of these would extend the Countervailing Duty Law to non-dutiable imports. This provision is coupled with a requirement that the Tariff Commission determine injury. The injury requirement for duty-free articles would prevail only as long as this is required under the international obligations of the United States, i.e. GATT Article VI. It should be emphasized that the injury requirement is applicable only to duty-free merchandise.

Summary

The amendments to the Countervailing Duty Law reflect the very strong sentiment of the House of Representatives that the Law should be administered far more vigorously than at present. At the same time, the temporary discretionary authority granted to the Secretary provides for a period of four years, during which intense efforts will have to be made to reach an international understanding on the extremely difficult and complex issues which I discussed earlier. The road toward achieving such an understanding which can be acceptable to the Executive and Congress as well as to our trading partners will be long and difficult. The failure until now of the United States and its trading partners to come to grips with the fundamental problems inherent in this area may have led to a general hardening of positions and inflexibility toward alternative approaches. Hopefully, however, all interests recognize that we have come to a crossroads on this issue. It can no longer be swept under the rug and put off "for future consideration." In this atmosphere, acceptable solutions can and must be found. If we are to continue to make advances in the development of a healthy world trade structure, there is no other choice.

STATEMENT OF MR. WILLIAM E. SIMON
ADMINISTRATOR, FEDERAL ENERGY OFFICE
BEFORE THE JOINT COMMITTEE ON ATOMIC ENERGY

FEBRUARY 6, 1974

Mr. Chairman and Members of the Committee

I welcome the opportunity to appear before you today to present our views on the state of the nuclear power industry as well as information on the development of other significant energy sources.

Few subjects today are being discussed more extensively than the energy situation. The analysis is not completed, however, the conclusions are clear: We must reduce energy demand and increase supply. These measures must be consistent with an acceptable environment, continued economic health, adequate national security, and tranquil foreign relations.

Initially, I will review our overall approach to energy policy, our organization, and then discuss our projection of the Nation's future energy needs as contrasted with our present energy system. I will finally outline the major problems we must overcome in the nuclear as well as non-nuclear fields to accomplish the goal the President outlined for Project Independence.

<u>Five-fold Approach to Energy Policy</u>

Let me start by outlining the five-fold approach we are taking with respect to energy policy.

First, we must establish a central energy organization in the Federal Government. The creation of the Federal Energy Office is the first step toward bringing all energy policy activity under one roof. We hope that Congress will move quickly to provide a statutory base for the Federal Energy Administration and create an effective Energy Research and Development Agency. Beyond FEA and ERDA, we must press forward with the creation of a cabinet- level Department of Energy and Natural Resources to ultimately centralize all Federal energy-related responsibilities. Until these new organizations are created, the Federal Energy Office will provide leadership and coordination in energy matters.

Second, we must establish a permanent conservation ethic" in this country. We have been too extravagent in our energy consumption patterns. The recent embargo has forced us to reduce this consumption now, more important, we must be sure that an attitude of conservation becomes a permanent part of our lives.

Over the long-term, conservation of energy will require investment in insulation of homes and offices, use of efficient automobiles, development of mass transit, changes in methods of handling freight, and central heating plants for groups of buildings and towns.

Third, we must push forward in the development of our domestic energy resources through Project Independence. This includes further development of oil and gas in Alaska and the outer continental shelf, greater utilization of coal, further development of oil shale and nuclear power, and added efforts toward development of geothermal and solar power. Project Independence must be a two-pronged attack. In the short-run, we must both expand production and exploit untapped reserves of existing energy sources. Longer range solutions will be provided by the development of new and existing fuels.

Specifically, this program should include the following:

We must find ways to exploit our coal reserves more effectively. We have 1 trillion, 500 billion tons of identifiable coal reserves, 425 billion tons of which are economically recoverable now. We must develop ways to utilize this abundant resource. We must develop techniques for mining surface coal that do not permanently destroy the landscape. We must also develop efficient methods to deep mine coal while protecting the health and safety of miners.

We have talked for years about the production of oil from our oil shale. There are an estimated 1 trillion, 800 billion barrels of oil in the shale resources in the U.S., and just those reserves that we presently know are exploitable could satisfy our needs for oil for decases. We need an increased effort by both the Federal Government and private industry to develop this potentially productive resource. I am especially encouraged by reported progress in the in situ processes for extracting shale oil. In situ extraction should also have minimal impact on the environment and its development must be encouraged.

We also have to push forward in the development and utilization of nuclear power. The Administration will soon submit legislation to expedite the licensing and construction of nuclear power plants which are an essential part of our program for achieving energy self-sufficiency. We must also develop a broader nuclear program realizing, however, that the breeder and fusion will not help us commercially during the next decade. Consequently, top priority must be given to assuring that the excellent record of safety of our existing nuclear power plants is continued and that new plants are built and operated reliably and safely with an acceptable environmental impact.

We have also talked for years about development of such relatively distant alternatives to fossil fuels as fusion, geothermal and solar energy. For the next decade these alternatives are still very much in the research and development stage of growth and they could not come into widespread use until after 1990. Although we have to invest in the development of these alternatives, our primary focus now must be on nearer term measures for expanding energy supplies.

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Fourth, we must forge a new relationship between Government and industry in several key areas.

° The current information we have to work with is not adequate and its reliability cannot be checked. We must develop a permanent energy information system with a built-in auditing program on every aspect of the energy situation.

° There must then be a new government role in the international activities of the oil industry.

° Finally, there must be a new partnership to assure the development, extraction and use of our domestic energy sources. If we are to see the successful culmination of Project Independence, the Federal Government must work in partnership with American industry.

For the last five years, the President has provided for a continual expansion of our efforts in energy research and development. Last June the President announced a commitment to an even more rapid acceleration of this effort through a $10 billion Federal program over the next five years, and he stressed that we would spend whatever additional sums were reasonably necessary.

On Wednesday, January 23, 1974, the President announced that in fiscal year 1975 -- the first year of the five year energy R&D program -- total Federal commitment for direct energy research and development will be increased to $1.8 billion, almost double the level of a year ago.

Fifth, we must establish a framework of international cooperation among producing and consuming countries. The potential impact of energy supplies on the world economy is staggering and we must work together in developing energy resources and maintaining a healthy world economy in which energy exporting and energy importing nations prosper together.

Having outlined our approach to energy policy, I will briefly describe FEO/FEA and that portion of our organization that will deal with increasing our domestic supply of usable energy sources thus, decreasing our dependency on imported fuels, The Office of Energy Resource Development.

Organization

Federal Energy Office

The Federal Energy Office currently has broad policy and regulatory responsibilities for energy. It is now administering energy price and allocation programs, initiating energy conservation programs, working with the State Department on international aspects of energy, developing programs to increase energy supplies and working with OMB to coordinate energy R&D activities.

Federal Energy Administration

The FEO programs designed to deal with the near and intermediate term problems (i.e. prior to 1985), will become the responsibilities of the Federal Energy Administration upon Congressional approval. One of the major functions of

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this organization as mentioned in the President's January 23, 1974 Message will be to rapidly increase energy supplies.

<u>Office of Energy Resource and Development</u>

The principle task of our Office of Energy Resource Development (ERD) will be to accomplish the rapid increase of energy supplies called for by the President. This office will identify and develop means of overcoming problems and providing incentives for the:

- Development of Domestic Energy Sources
- Construction of Related Facilities (e.g., refineries, power plants, transmission systems, etc.)
- Transportation of Energy
- Efficient Conversion of Energy Sources to more Convenient Forms
- Utilization of Energy Sources
- Full Consideration of Environmental Values
- Interagency Coordination of the Licensing of Energy Facilities and other Regulatory Activities
- Interfacing with State, Regional and Local Agencies on regulatory bottlenecks
- Establishing a national information base to assist in facilities site planning and standardization

- Anticipating environmental and regulatory problems associated with developing new technologies and proposing solutions.

I would now like to outline what we are thinking of in terms of goals for our future energy economy contrasted with where we are today.

Future Energy Needs Contrasted to Our Current System

In the face of the uncertainties that exist in the energy economy as a result of domestic as well as international events, it is difficult to forecast the exact composition of our energy system in the near term let alone during the 1980's or beyond. Because of this uncertainty, we must work to increase production of all domestic energy sources so that we can afford to be less than 100% successful in any or all areas without finding ourselves in a shortage situation similar to todays.

Our initial targets for each energy source in outline form are:

° Coal

The domestic production of coal peaked in 1947 at about 630 million tons per year. Annual production then began declining and bottomed out in 1954 at 392 million tons. Between 1954 and 1970 production again began increasing and reached 603 million tons annual output in 1970. Passage of the Mine Health and Safety Act in December 1969, and ensuing problems caused production to again decline and it has remained fairly steady at about 550 to 590 million tons per year. The industry plans to increase production during calendar year 1974, ten percent above 1973's output to 650 million tons. However, this will require the assistance of the Government and labor. This level of production will still result in a 10 million ton shortfall of production over use for the year as coal demands are expected to exceed 660 million tons. The shortfall is a result of our normal growth in demand and the impact of switching utilities from oil and gas back to coal.

The coal industry probably must double its output by 1980. This target implies an annual growth rate in excess of 15 percent per year between 1974 and 1980. The course we must follow in order to accomplish this include:

- improving technology to increase productivity of current and future manpower;
- attracting and training additional skilled manpower; and
- acquiring the necessary mining and reclamation equipment.

To overcome even these problems will require the utmost cooperation of not only the coal industry labor, and management, but other industries upon whom they are dependent for their supplies. Government action is also needed to create the environment that allows economic utilization of the Nation's vast coal resources.

° <u>Oil and Gas</u>

Domestic production of oil peaked at 11.3 million barrels per day (BBL/d) in 1970 and has declined since then. Natural gas production has leveled in the last four years, and production now amounts to about 63 billion cubic feet per day (CFD).

For the short range, we must not only arrest the decline in our domestic oil production, but we must provide industry with the opportunities and incentives to accelerate their growth.

We must move rapidly to exploit our resources in Alaska. It has long been clear that while an Alaskan oil pipeline was needed, it alone would not be enough. In addition to the huge oil reserves in the North Slope of Alaska, there are also gas reserves there of at least 26 trillion cubic feet -- enough to heat 10 million homes for 20 years. We are working with DOI on a study the President directed to determine the need for future Alaskan oil and gas pipeline capacity.

We must encourage and accelerate the exploration of the untested or lightly explored areas in our country that offer potential reserves, and in particular, we must make our public lands more readily available for such exploration. We are working with DOI to increase the acreage leased on the Outer Continental Shelf to 10 million acres per year

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beginning in 1975. More than tripling what had originally been planned.

We must provide the climate and the means by which the output of oil from our existing fields including the North Slope, can be increased about 35% from today's production rates. And, we also must achieve similar increases in our production of gas.

° Nuclear

When initially ordered, industry planned to have 48,000 megawatts of nuclear capacity in operation by the end of 1973, about twelve percent of our electrical generating capacity. But, we had only 25,000 megawatts licensed at the end of 1973, about six percent of capacity. The reasons for delays in bringing these plants into operations were . licensing, siting and failure to implement standardization.

We must increase our installed capacity of nuclear power by 1980 to 200,000 megawatts, an eight fold increase over our present capacity. To accomplish this objective will require acceleration of licensing and construction of nuclear power plants as called for by the President.

The combined generating capacity of the 56 plants under construction and 116 plants on order or announced will increase our existing installed U.S. domestic electrical generation capacity by 178,000 megawatts which is an increase of 40% over our existing total electrical generating capacity.

To ease our dependence on imported fossil fuels, it is clear to me that we must exploit to the greatest degree the potential of nuclear power. Therefore, I am committed to assisting industry bring these nuclear plants into operation as rapidly as possible, knowing it can be done safely.

° Synthetic Fuels

We presently do not have a synthetic fuels industry in the U.S. However, we are fortunate as a Nation to have sufficient domestic fossil resources to fuel our economy for centuries via a synthetic fuels industry. Our initial approach toward fostering this new industry may best be described as a two phase program.

The first phase will begin immediately to build plants for the most promising synthetic fuel technologies. We would aim to get these plants on line, measure the results and modify them as required to get production costs down as soon as possible.

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The second phase would be aimed at developing at least several million barrels per day capacity in the early 1980's.

This approach has a number of advantages:

- It creates a synthetic fuels production capability in the U.S. The implications of this action will not be lost on those who now export fuels to us.
- The eventual attainment of self-sufficiency utilizing this strategy will be at substantially lower cost than would be possible if we began to build the plants without the benefits of Phase I.

As you know, the President directed me to head an interagency evaluation of financial and economic incentives or regulatory changes that may be needed to stimulate domestic production of a synthetic fuels industry. This project will proceed concurrently with the work we are doing to create a synthetic fuels industry within the existing framework.

If we are to achieve energy self-sufficiency at any time in the future, we must develop methods of overcoming the serious problems that have been plaguing our energy industries. I would like to briefly describe for you some of these problems and the actions proposed or underway to resolve them.

Problems and Solutions

° We know the following problems exist in siting, design construction and operation of energy facilities.

- Regulatory and Licensing Delays
- Siting and Environmental Issues
- Material Shortages
- Personnel Shortages

While we do not have solutions to each specific problem, various pieces of legislation have been proposed and actions are being taken to eliminate, mitigate or minimize them. I will briefly outline for you several of these.

Regulatory and Licensing

In the Energy Facility Licensing Process many agencies at various levels of national, state and local government are involved. At each of several points along the approval process there is potential for misunderstanding, delay and breakdown of the process. For example:

- Agencies involved in the licensing process may view a facility from the basis of their narrow technical interest; and
- No agency views the process in totality as a part of the major source of needed power and as part of the overall energy program.

What has been lacking is a force to coordinate the various governmental and public reviews in an orderly manner which avoids repetition and sequential delays.

To supply the needed forces, the FEA will perform the following:

- We will work with Federal and State agencies to develop a framework for orderly decision-making in siting, licensing, and regulation of energy facilities.
- We will identify existing and potential conflicts between regulations and standards and energy policies.
- We will evaluate policies and regulations and environmental standards in order to highlight the impact of each on the other.

The study headed by Commissioner Doub of Federal Energy Regulatory activities will be helpful in determining what if any additional reorganization of Federal activities after the establishment of the FEA may be desirable.

Siting and Environmental

For future facility planning, FEO will work with states and regions to:

- Coordinate development of regional nuclear facility siting criteria as well as criteria for other type energy facilities.
- Provide guidance, encouragement and incentives

to states to identify and set aside potential sites for energy facilities including nuclear facilities.

Establish a national information base that provides site criteria and availability information to the public, utilities and other companies planning energy facilities.

The AEC's recently announced intentions to allow limited construction activities after accelerated review of the environmental report, but prior to issuance of a construction permit, and the proposed changes to the Atomic Energy Act are both moves that will help relieve the pressure on siting issues relating to nuclear power plants.

Material Shortages

The ability to accelerate construction of our domestic energy facilities will depend upon the ability of industry to provide the necessary materials and components. To this end, government must work with industry to insure that the proper environment is created to insure that shortages do not preclude our ability to build these facilities. We have been working with the Atomic Energy Commission and Cost of Living Council to keep current government actions from prolonging the present energy situation. As a result of our joint efforts, recently the Cost of Living Council relaxed price controls on oil country tubular goods, roof bolts for deep mines and reinforcing steel used in the construction of all facilities.

As a further example of what we can and will do to overcome these types of problems, I want to describe for you an event that occurred week before last.

An independent driller in Northern California had drilled a successful natural gas well but could not complete the well for lack of the final casing. Exhausting all normal channels of supply, the driller contacted Governor Regan's Office of Energy who brought the situation to the attention of our Energy Resource Development Office. Within an hour we had located sufficient casing within 20 miles of the well in question, had contacted the owner of that casing, Shell Oil Company, and had received their assurance that they would sell the casing in question to the independent driller. The casing was delivered and the well completed the next day. This situation is an example of the types of assistance we can and will offer industry.

Personnel Resources

Engineers and Management

The resources of personnel required to carry out the engineering work and related R&D programs in our energy industry are being strained to the point that pervasive and continuing shortages are being experienced. At the same time, experienced engineering ability is being wasted on inflated design and licensing activities brought about by our failure to implement standardization in a substantive way.

Standardization can free up experienced engineering and management personnel so that they may work on those additional facilities we will need domestically or they can be benefically applied to R&D efforts to help correct generic deficiencies in systems and equipments, thus raising the reliability of our energy facilities

° Construction and Operations Personnel

The personnel needed to build and operate our energy facilities are also being strained as a result of the growth in these industries, growth in competing industries and the inefficiencies that result from some of our regulatory and design practices.

Again standardization will help alleviate the construction personnel availability and training problems. However, we will be working with labor and industry to help increase the availability and efficiency of personnel working on energy facilities.

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Conclusions

In conclusion, I would like to add that the approach of the Administration toward our future energy system should be one of flexibility since it is not possible to anticipate every success or failure in our Nation's energy programs. However, it is clear that the investment this country has already made and will make in its energy facilities must be returned in terms of reliable and safe plants. And, the most direct means of assuring our future energy independence is to achieve the highest possible operating efficiency in the facilities we are building.

Acceleration of our use of coal and nuclear energy sources will release significant amounts of oil and gas for other urgent needs in our industry, homes and communities, and reduce our dependence on imported sources of these fuels. And, this must be accomplished with proper respect for our environment. Thus, we must dedicate ourselves to achieving the growth in nuclear power that has been promised during the last decade but has yet to be realized, and to expanding our utilization of coal and shale, our most abundant fossil fuels.

It is also clear that Project Independence cannot achieve success without financial, technical and management assistance from the Government, the utilities and industry. However, the resources of these institutions are finite. Consequently, we must work to apply our limited resources to the areas that promise the highest probability of payoff.

An approach that offers the potential for making a significant contribution towards solving the problems identified as well as others is the use of standardization. Standardization must be made to work in a substantive way for nuclear and non-nuclear energy facilities. For many months we have all heard about the advantages of standardization of nuclear power plants. It has been endorsed by the Government, industry and regulatory groups. However, plans for future standardization such as Snupps, Offshore Power Plants and multiple and modular orders are not sufficient. The real impact of standardization to help us become independent must be realized first in today's activities.

Facilities in the process of licensing, design and construction can benefit enormously and immediately by full utilization of standardization for those parts of the plant where duplication is achievable. I see little reason why plants which have already been approved need go through a redundant review. While I am encouraged that the licensing agencies have indicated an intent to expedite the licensing process, we must work to obtain faster construction and on line operation by exploiting the advantages of disciplining ourselves to build plants duplicating those already coming into operation. In such a process, I am sure that

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the real safety achieved will also be enhanced.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions that the Committee members may have. However, I should say that I may ask Mr. Shatz for his assistance. Thank you.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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MEMORANDUM FOR THE PRESS Feb. 14, 1974

In response to requests, atttached is the outline of a statement by Treasury Secretary George P. Shultz before the Washington Energy Conference on Monday, February 11, 1974.

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OUTLINE OF STATEMENT
BY
THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
TO
THE INTERNATIONAL ENERGY CONFERENCE
WASHINGTON, D. C.
FEBRUARY 11-12, 1974

THE NEED FOR CLOSER INTERNATIONAL-FINANCIAL COOPERATION

Finance officials have a duty to work closely together in the realization that even our best cooperative efforts will offset only a fraction of the serious damage which has been done to many countries by the abrupt and spectacular increases in oil costs.

At the same time, we must carefully avoid creating the misleading impression that such cooperation provides any panacea for the serious economic problems before us. There is no international financial arrangement which can offset the real effects of the oil price changes. It is important that we not kid ourselves here - that we not, as Ministers of Finance, give the impression that somehow or other we can print up some money and use it to "paper over" very real problems.

The problems are there. There is no way to concoct a financial solution that will avoid facing up to severe dislocations; and I think particularly for the developing countries, as has been brought out by many speakers here, great deprivation - in a sense we have that horrible chain in which the lack of fuel goes to a lack of fertilizer, goes to a lack of food, and which goes to starvation. So a point that I want to make is that, I think for many, the situation is not one in which we say to ourselves: "Yes we see the problem. Let us understand it, and then figure out how somehow through financial means to handle it." It is for many not a manageable problem in its present state. And we have to see how it can be changed so that it is manageable.

We need to be concerned not only with the direct impact of higher prices and supply disturbances on our economies, but also with the serious threat of secondary repercussions from instability in financial markets, from inconsistency in internal economic management and in balance of payments policies, and from impaired economic development. These are areas in which we can make a contribution; and why now, more than ever, we have an obligation to seek the optimum contribution from close international economic cooperation.

We have heard reports in this Conference already that this year, and over the next few years, the standards of living of the more developed nations will be reduced significantly below previous expectations. In the short run, we are facing the problem of adjusting to reduced supply, and this has affected our immediate prospects for growth. But as this problem is met, our real income will continue to be affected both by the higher costs of energy imports and by the higher expenditures which nations will find it prudent to make in reaching reduced future dependence on imported energy. Nonetheless, the standards of living of the nations here represented will remain a large multiple of those of some of the less favored nations.

In contrast, the effects of the oil price changes are likely to be near catastrophic for some of the poor areas of the world. In some countries, it is even probable that the new energy costs will result in a reduction of standards of living over the next few years from the present abysmally low level -- to the point, in some cases, of starvation.

We have heard estimates that even after projected reductions in market prices of oil below present levels that:

- -- the developed countries could have their combined current account deficits worsened by as much as $40 billion;
- -- the developing countries could have their current account deficits increased by as much as $10 billion; and
- -- the oil-producing nations could add as much as $50 billion to their foreign asset holdings;

all in the one year, 1974.

In the face of such possibilities, I suggest that it would be in our mutual interest to agree on some basic principles on how we should respond in our economic policies, national and international. I put forward three principles for your consideration:

I. First, at a time of vast new uncertainty, let us each recognize the need to develop internal policies that maintain our production and demand, and deal with inflation, without aggravating the problems of others. This will require not only particularly careful analysis, but also particularly close international consultation and cooperation. In this connection, we know that the "cost-push" effects of oil prices reinforce the strong upward pressures on our price levels. Yet, at the same time, we need to recognize that the greatly increased cost of our oil imports could affect our economies as would a massive increase in taxes from which the revenues were not currently being spent. In this case, of course, this "tax" will be reflected in higher dollar imports, rather than government revenues. But that import bill should not carry the same connotation, or draw the same policy response that we usually associate with a deteriorating trade position. We must realistically take account of potential increases in exports to oil-producing countries, and more important quantitatively the potential large availability -- directly and indirectly -- of flows of investment funds from the producing countries.

II. Second, in our international policies we must agree to keep open our markets for goods and capital, and to avoid the temptation of competitive

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devaluations. No nation can impose trade restrictions, and other beggar-my-neighbor policies without engendering retaliation, so that the whole process would be self-defeating and destructive. Now, more than ever during a period when international adjustments will necessarily have to be large and rapid, governments must maintain momentum for the removal of existing distortions from the international economy. They must proceed resolutely with planned trade negotiations and with feasible further dismantling of capital controls. And they must agree to undertake special efforts to resist those pressures for the introduction of special-interest-serving government controls and interventions which are likely to be put forward during any time of rapid economic change.

III. Third, in our development policies, we should endeavor at least to maintain recent levels of assistance to the most seriously disadvantaged nations; and encourage oil-producing nations with rapidly increasing holdings of foreign assets to take immediate steps greatly to expand their programs of assistance for the developed nations in full cooperation with industrial nations and international institutions.

In the light of the new burden of energy costs upon their economies and their balance of payments, it will not be easy to maintain a climate of opinion in the developed nations to maintain or increase past levels of assistance to the least developed nations. But, in view of the extreme distress faced by some areas of the world, and the economic and political consequences, it would be shortsighted and inhumane for the developed nations to curtail assistance plans and programs at this time of greatest need.

But even with continued assistance from the traditional providers of aid, the least developed nations are faced with a tremendous gap in needed resources. Some of the most important oil-producing nations -- themselves moving rapidly from poverty to affluence and with natural understanding for the problem -- can reasonably be called upon for a major contribution toward reducing that gap.

No channel of aid should be neglected. Increased assistance may be made available through direct country-by-country relationships, through new or already established regional institutions, and through increased contributions

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to the existing broad multilateral financial institutions. But -- in view of the extreme need and the weakened financial position of many of the least developed nations -- it is essential that a substantial proportion of the increases in assistance be in the form either of outright grants or of their equivalent.

As we seek to incorporate these general principles into practical actions, I believe our work can be divided naturally into four broad areas of cooperation:

1. Measures to help ensure that we maintain open markets.
2. Measures we can take to deal with or reduce the uncertainties inherent in the present situation -- uncertainties related both to the extent of oil price increases and to the directions in which the flows of producing-country money -- much of which will be short term -- will be channeled.
3. Measures we can take to facilitate a larger portion of these funds to move into longer term investment in ways beneficial to both the investing and recipient nations.
4. Measures we can take to encourage and facilitate the flow of resources from oil-producing countries to LDC's, particularly the poorest of them.

I. Measures to Maintain Open Markets

The principle of avoiding restrictions on trade and payments that have the effect of transferring problems to others has wide support -- the question is how we can reinforce that principle in practical institutional and operational terms.

The countries here represented include the largest trading nations. Should we not pledge among ourselves, here and now, to take no trade restricting measures -- surcharges, quotas or their equivalent -- for balance of payments purposes?

For the future, we would be willing to consider new institutional means and procedures whereby we would pledge no trade restricting action for balance of payments without prior discussion and approval by the IMF.

. Measures for Dealing with Uncertainty

A. We know, in the aggregate, the money spent for oil, and not used for our exports, will flow back, largely short term. But each country is left uncertain as to the size of its increased import bill and the directions which the reflow of investment money will take. Some countries may naturally attract more or less of this money than their increased balance of payments drain.

1. Much of this sorting out can take place in private markets, and by official borrowing, where necessary, in private markets. Obviously, the flows may take place through home markets or third markets, such as New York or the Euro-currency markets.
2. In sheer bulk, this is mainly a problem for developed countries. Because some LDC's may have special difficulties obtaining credit, different techniques will be necessary there.

B. One thing we can do is be sure private markets are sufficiently free to do the recycling job.

1. Removal of U. S. controls has opened the largest and most efficient capital market once more to the world. Other nations have made moves in the same direction. I believe the results will be beneficial.
2. In the present situation, part of our financial "ethic" should be to permit our nationals to borrow abroad, particularly for countries facing deficit. Conversely, potential surplus countries should permit funds to flow out.

C. Private borrowings, in some cases, will need to be supplemented by official borrowing. Our markets, the Euro-markets, and some others are open. But, possibly, a scramble for money, and sharp pressures on one market or another, could develop in no one's interest. Therefore, it may be worth considering at least informal and confidential exchanges of information about prospective borrowing operations among major nations. Then nations could act in the knowledge of each other's intentions, and help avoid alternate periods of congestion and vacuums in money and capital markets that could in turn affect exchange markets.

D. At times, intergovernmental borrowing may be necessary and desirable, and a greater sense of certainty

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that such facilities would be available in time of need could be very useful -- even if it turns out in the end that such facilities are not used heavily, or at all.

1. This is classic purpose of IMF credits, and those lines fortunately are little used at present. Consequently, there is some spare capacity.
2. A further line of defense, which can readily be expanded, are central bank swap lines. We have indicated a willingness to do this, at least on a selective basis, and we would welcome discussion of the appropriate role and limits of such facilities.
3. Beyond these facilities, the question arises as to whether existing <u>international</u> institutional facilities need to be expanded and rearranged to deal with uncertainty about the direction in which funds will move and, if needed, rechannel funds to take care of balance of payments needs in short or medium term. As we understand it, the proposal made by Mr. Witteveen falls into this category, and has attracted most attention.

a. We feel it essential, in evaluating this proposal, to distinguish sharply the problem of uncertainty and the need for rechanneling potentially sizable amounts of money for limited terms among countries able to repay relatively promptly from the more severe (but quantitatively smaller) problem of the poor LDC's which need grants and heavily concessional long-term aid.

b. Even among developed countries and more prosperous LDC's,a Witteveen-type proposal presents difficult technical and negotiating problems in deciding upon suitable terms. We await further eleboration of Witteveen's thoughts, and in particular how the risk of building up nominally short-term, but in fact unrepayable credits can be handled. We intend to react constructively.

III. <u>Measures to Facilitate Orderly Longer Term Investment Patterns</u>

A. Removal of restraints on longer term investment is equally relevant.

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B. Given the vast flow of potential investment, serious and difficult questions arise in the minds of both investors and recipients that may hamper flows:

1. The investor wants and needs the widest possible diversity of outlets (i.e., open capital markets), professional investment management; and confidence that his investments are secure from political action by recipients.
2. The recipient wants to have some assurance that investments will not be managed for political purposes, and the prospect of reasonable stability in flows.

C. I have no specific proposal in this area. However, I raise for discussion one question: Should we consider a new international investment institution

-- a kind of multinational joint venture, with participation in management by both investor and recipient nations -- as a means of helping to satisfy the concerns I have cited. An essential aim of the institution would be to achieve a diversity of profitable investment outlets, with expert investment management, for the producers. At the same time, the multilateral umbrella might help put to rest mutual fears of political reprisals, thus encouraging recipient countries to permit larger amounts of investment and encouraging investor countries to commit sizable funds for extended periods.

Obviously, in managing such an institution, the investing countries would legitimately maintain control over some basic decisions concerning the volume and distribution of the funds. Many complex organizational problems would arise. Are they worth discussion?

D. We might exercise our collective imagination to devise other means of better assuring the safety and stability of investments.

An international investment guarantee agency has been discussed at length in the past -- fruitlessly. But now the problems appears in another guise and fresh thinking with the producers may be desirable.

The U.S. earlier advanced the concept of an "investment fund" for countries with large official pools of investment money. This concept rested on an essentially simple "code of conduct" or "rule of the road." A recipient country would be

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entitled to know how much investment of what type was being made by other governments in its currency, and to limit the aggregate amount of that investment. But having agreed to that investment, it would also agree to treat that investment in a nondiscriminatory manner.

These questions might well serve as the basis for further international study.

IV. <u>Measures to Encourage the Flow of Resources from Oil-Producing Nations to the Less Developed Countries</u>

-- The LDC's pose a special problem. The prospects of the poor nations, even before the quadrupling of oil prices, were marginal at best. To all, it must be clear that for some of the poorest nations oil prices at current levels spell misery and even starvation.

-- A transfer of resources cannot be done by one group of countries alone. The industrial nations must continue to provide their historical levels of assistance or better. This will not be easy in face of growing concern about domestic impact of energy crisis. Our Congress has illustrated its sensitivity to this problem in its first vote on the IDA Replishment. We do not mean to let that vote stand as the final word.

I say to you, quite frankly, that the vote in our House of Representatives, a couple of weeks ago, on the IDA (International Development Association) IV replenishment was a great disappointment to us and we do not intend to let it stand! We intend to work to turn that around and to maintain the flow of development aid from the United States to the developing countries. We must meet the argument that all we are doing is paying out aid for the developing countries to flow back to the Arab countries and only support the price of oil. That is the argument used against development aid, and we think there are good arguments against it, and we intend to use them and use them aggressively.

-- At the same time, industrial nations cannot be expected to pay for the cost of increased oil bills to LDC's. That responsibility must fall primarily on the oil producers.

-- But the industrialized nations can and must cooperate with producers to facilitate the required flows from producers.

The U.S. would be pleased to join in studying concrete proposals to bring about this goal and believes the following items might usefully be included on a study agenda:

1. Assuring the oil producers play a full role as members or associate members of development organizations, including the Development Advisory Committee and regional economic institutions as well as the World

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Bank and the IMF. In view of their increased economic standing and the greater financial responsibility they are being asked to assume, a prompt provision of larger voting shares in the latter two institutions may be appropriate.

2. Encouraging greater participation in management and staff roles in these organizations by producer nations would also seem appropriate.

3. Expansion of the World Bank and the IMF services as agents to the producer countries for loans to the LDC's.

   These services can include participation in conventional loans and in concessional financing. A direct contribution to, or alongside, IDA IV would be extremely helpful. Our existing institutions, as well as national governments, can also provide direct technical assistance to bilateral and regional assistance programs of producers to achieve a high level of assistance as rapidly as possible.

4. A larger producer share in planned world and regional bank borrowings.

   These institutions, instead of floating issues on the world capital markets, would offer bonds at reasonable rates to oil-producer nations.

5. A rechanneling of loans from existing oil-producer loan recipients -- who now have more funds than they can absorb domestically -- to the poor nations. Newly affluent countries can afford prepayment of past loans, and should be less dependent on new loans. The potential for a rechanneling of loans in these ways is substantial.
6. Beyond the redirection of planned borrowing, the World Bank already has guarantee capital sufficient to permit larger lending and larger borrowing in producers' markets. Lending from ordinary capital raised in this manner could be appropriate for some LDC's, who can afford to pay loans at near market rates provided the repayment terms are long.

I must stress that almost all of the above measures involve loans -- not grants, near-grants, or heavily concessional terms. The poorest nations require a major direct effort to offset the devastating impact of higher oil prices. The offset must come first in the form of lower prices and then from grant aid. Industrial nations can and must be expected to contribute in historical levels of money, institutional expertise and technology to mix with Arab funds in providing the tools to help these poorest nations do the job.

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This then brings me back to where I started. In a way, the problem is a large one as everyone tells each other. Cooperation is essential, as everyone tells each other, but at the same time I think we still need to keep reminding each other that cooperation,

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handling things with a sense of balance, financially, is not a substitute for changing the problem so that the problem is more manageable. There is no way to print up money and use it to "paper over" a real problem. We must face the real problem in its own terms and do everything we can to solve it. Thank you Mr. Chairman.

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FOR RELEASE ON DELIVERY

REMARKS OF DR. H. I. LIEBLING,
DEPUTY DIRECTOR, OFFICE OF FINANCIAL ANALYSIS,
OFFICE OF THE SECRETARY, DEPARTMENT OF THE TREASURY,
AT THE WILLIAM D. WITTER, INC., CONFERENCE,
NEW YORK, NEW YORK,
THURSDAY, FEBRUARY 14, 1974,
11:00 A.M., EDT

OIL, OTHER SHORTAGES AND THE ECONOMIC AND FINANCIAL OUTLOOK

The United States, its major trading partners and other countries are presently confronted with extraordinary economic policy problems which will involve ramifications of a world-wide nature. Before addressing these, it might be well to consider at the outset those problems which directly bear on this country and subsequently attend to some international aspects.

Prior to the oil embargo, the domestic economic policy of the U.S. related to the need for cooloff of the U.S. economy from a growth rate during the first half of 1973 that was too high to be sustained without major inflationary consequences. However, at midyear 1973, hopes were high that a "soft landing" of the economy in 1974 was well within the realm of achievement under the circumstances then prevailing and the economic policies then in place. That prospect for 1974 had envisaged a cooloff in the real GNP growth rate to about 3%, which compared with 6% in 1973. In this process, if it were to develop, some considerable diminishment in the rate of inflation could be expected from very high rates in the general area of 8%, annual rate, during the last part of 1973 and first half of 1974 to a rate approximately half that by the end of 1974.

Those hopes rested on the following general considerations -- many of which continue to apply even under the changed economic conditions that have since evolved for 1974. The factors of expansion which supported this "soft landing" concept were:

- An ongoing capital goods boom, one which shows no sign of diminished vigor in 1974. That vigor has been indicated by the broad array of relevant figures which include the appropriations surveys; the backlog of orders for producers' capital goods; the recent decisions to expand capital goods outlay by the energy industries and those outlays intended towards conservation of energy; etc.

- The relatively low ratio of inventories to sales -- one which needed, and continues to need, considerable redressment to get back to a more comfortable relationship. (Some finely spun theories of pessimists recently have emerged which suggested an apparent involuntary accumulation in November, apart from automobiles; but the December 1973 figures, released today, show no support at all for that position.)

- The very high utilization rate of the economy, straight through the end of 1973. This was most conspicuous with respect to the pressure on facilities to produce major materials (steel, aluminum, cement, paper, petroleum refining, etc.) but also extending to semi-finished and finished products. In addition, the Wharton index of operating rates in manufacturing and mining, at 96% in the fourth quarter, would appear to be suggestive of the high degree of pressure then being exerted on the economy.

- Shortages of many non-oil commodities and long delays in delivery times. This was clearly a response to the over-heated demand prevailing in the U.S. economy.

Accordingly, the principal characteristic of expected 1974 developments prior to the oil boycott was that the economy was running out of room to grow. The "soft landing" forecast of a 3% gain in real growth for 1974 -- half of 1973 growth -- was both a hope and an expectation that the economy could make this adjustment to cooloff with little or no risk of recession. Fiscal and monetary policy appeared geared to accomplish this objective.

Of course, the oil crisis has changed some aspects of the economic outlook, but it has not completely transformed it. The nervousness of the stock market would appear to be an exaggerated response to calamities which may never develop to substantiate that degree of decline in the price of equities. The prophets of doom who had forecast that economic growth would result in unemployment rates of 7% to 8% in 1974 almost surely will be shown to have missed the target by far.

This is not to say that the oil supply deficiency has not meant that the forecasts need not be revised. Indeed, they have been changed along the following lines:

- In terms of real GNP growth, the expected 3% increase for 1974 has been revised down to 1%.

- The unemployment rate which had been expected to cling to 5% in 1974 may now rise about 1/2% more. The highest rate of unemployment might be reached early in the year, when the impact of the oil shortage on the economy would be greatest.

- The GNP deflator which had been expected to show growth of 6% would, in the new circumstances, rise 1% more than that. (But here I would caution again that yearly averages are misleading; the rate of inflation in the first half of 1974 might be twice that in the second half.)

Perhaps, the spirit of the revised forecasts for 1974 might be best captured by recognition that demand generally, with the outstanding exception of housing, has remained very strong and that it is expected to stay fairly vigorous in the balance of 1974.

> <u>Most important of all, following an interval when the structure of production becomes adapted to the structure of demand, real growth in the U.S. economy may be expected to resume at a satisfactory pace.</u>

Against this perspective, lowered real growth in 1974 will be supply, rather than demand, constrained. That is an important consideration. If that were so, then the economic policy remedies to be applied would be quite different than if demand insufficiency prevailed.

The required adjustment on the supply side is seen most dramatically in the automobile industry, where the shortage of small cars has created the appearance of reduced total demand for cars. Because they are complementary products -- and due to the shortage -- consumer spending on gasoline and related products have also declined.

Only one rough adjustment needs to be made to show that demand and growth in the economy remained strong straight through the end of 1973 and into early 1974. If the supply-constrained elements of automobiles and purchases of gas are eliminated, real GNP growth in the fourth quarter rose at an annual rate of 3.4%, which is very close to the 3.8% averaged in the preceding two quarters. (This is in contrast to the total GNP growth rate of 1.3% in the fourth quarter. Against the perspective of 3.6% in the third quarter and 2.4% in the second, some have concluded wrongly, I believe, that the U.S. has been experiencing a "growth recession" since the first quarter of 1973.)

> When converted for supply deficiencies, growth in <u>real</u> consumer expenditures also shows little change in the rate of growth -- about 3%, annual rate. The January 1974 retail sales figures just available also show this trend.

Having noted all this, there would still remain the undeniable fact that industrial production did begin to falter and that unemployment started to rise in late 1973 and increased sharply in early 1974. Much of that rise in unemployment, I would suggest, registers the fact that the production-possibilities for the economy have become more limited. (For those of you still familiar with the standard textbooks, the "production-possibilities curve" has stopped shifting to the right, as it normally does in response to a growing labor force and higher productivity.)

The reduced production-possibilities for the Nation result from the following factors:

- To begin with, non-oil shortages already had reduced the room to grow in 1973.

- The shortage of oil, itself, would make less U.S. production possible -- clearly this would be so in terms of the "value added" to the imported oil.

• The production and sale of services connected with these products would also decline -- gas station activities, etc.

• There would also be a threat to the production of certain products. (Hopefully, that aspect might be minimized by the conservation and allocation programs -- as well as by higher prices.) Certainly, large cars now need to be considered outside the production-possibilities curve. While large cars are not quite in the same category as "buggy whips," they are clearly not in demand. In addition, the demand for hotels, motels, and other related activities would diminish. The supply is there -- but they are "complementary" goods and services and clearly are supply-induced reductions of expenditures.

But, if the supply of these energy and energy-related items is not available, could not supplies of other items be expanded and serve as sources of increased economic growth? If unemployed resources are available, why should not they be put to work by means of Government programs and thereby contribute to growth?

The problem with that proposal is that it would take time. The transferability of resources is not easy -- indeed, it is very difficult. The auto worker does not easily adapt to a steel or textile mill, where employment demands are strong. The gas-station attendant may not find it easy to get other skilled or unskilled employment. In other words, the structural barriers to the movement of unemployed economic resources are very large.

If this analysis is correct, then a question arises with respect to what might be done to ameliorate the situation. There might be two approaches arising out of this analysis of a worsening in the production-possibilities for the economy. The first of these does not require Government action because, to a large degree, the situation is self-correcting and, indeed, the seeds for self-correction exist.

• The low point of the Free World oil production seems to have been reached in November; since then production has increased and appears to be in line with consumption (which has been reduced).

• If the problem is one of shortage of small cars, the conversion of facilities to meet that is in process. By April and May, a significant portion of large-car production facilities might be converted.

• The uncertainties regarding gasoline may well have been cleared up by the spring. This might cause some pickup in large-car purchases. In addition, this might change the outlook on spending for auto-related goods and services -- that on motels, hotels, vacations, etc.

• Two good crop harvests should help to reduce food shortages.

• Finally, there is agreement among most forecasters that the second half of 1974 will show much stronger economic growth because the capital goods boom now in progress will still be going strong, housing starts will again be rising because the current congestion in housing markets will have cleared up and the Federal fiscal position might be less restrictive than earlier, without additional stimulative action.

The role of government policy in affecting economic growth will be more difficult. If the foregoing analysis is correct, then the standard stimulative measures of tax reduction might clearly be inappropriate. If the real growth potential is reduced, additions to purchasing power by this means might result more in inflation than in anything which would promote real growth, and the inflation is bad enough now.

Should the Government do nothing as unemployment rises? That, too, would be clearly undesirable. The following steps might be considered -- should they become necessary.

• Monetary policy might be responsive to whatever develops. Housing might be most directly affected by this, but as noted earlier, there is a current congestion in housing markets. But, other benefits might develop, although it is difficult to specify them in advance.

• The unemployment insurance system needs strengthening with respect to coverage, duration and level.

• Some speed-up in public works projects might be desirable.

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Turning to international aspects, the problems affecting real growth in the industrialized nations of the world are similar to those in the U.S., but with the difference that there would be more pronounced effects in those countries whose oil deficiencies were greater. Those countries, too, would face the problem of adjustments to reduced supply and therefore, reduced growth.

But, by and large, most continental countries have not experienced cutbacks in production due to oil shortages, per se, though some countries like the U.K. are experiencing difficulties arising out of other problems.

More psychological than real, but nevertheless creating much uncertainty on the possible magnitude are so-called indirect effects on spending in the industrialized nations. These effects arise from (1) the fear that oil supplies might again be cut, and (2) that as a result of changed price relationships of oil and other commodities affected by oil, spending on automobiles and gas, etc. -- much the same assortment of goods that might be endangered in the U.S. -- would be lowered.

But, just as there is expected to be only temporary interruption to real growth in the U.S., the adequacy of oil supplies generally in Europe -- and the lifting of previously engendered uncertainty -- should assure resumption of growth rates later in 1974, in my opinion.

The principal fear that has emerged about real growth prospects is that the large increase in the price of oil would reduce real incomes, just as a tax increase might; and that this would result in the standard Keynesian repercussions of reduced spending by consumers and generate reduced business spending on capital goods.

In my personal view, this is too mechanistic to be accepted as the basis for a forecast of the course of economic activity. If anything has to be learned about the effect of the income tax surcharge imposed in the U.S. in 1968, it should be that the reaction of a particular consumer spending-saving pattern is uncertain. Much would depend on whether the higher oil price (the so-called tax) is considered temporary or permanent; and what monetary policies are being pursued by the countries involved.

On the other hand, the effect of the oil price rise on the poor countries of the world would be quite different -- perhaps catastrophic in some cases. They do not have the funds to pay, nor the means to borrow, the required volume resulting from the higher price of oil. Starvation might be one result of this oil crisis in some countries.

The financial situation with respect to the developed countries is less critical but still manageable, if there is international cooperation to prevent instability. Current deficits on international accounts of developed countries might be worsened by tens of billions -- the exact amount is uncertain because the projection of oil prices is uncertain. Oil producing nations might gain $50 billion or so in 1974.

There is a hopeful side to this transfer of ownership of financial assets to the oil producing countries. If these nations do what they have done in the past, the money that the oil exporting countries will accrue which is not spent for exports will flow back into Euro-currencies. The greatest part of these new reserves will find their way into deposits in the Euro-market.

Of course, the financial reprecussions might still be substantial. Much would depend on how the European banks would handle these increased deposits and whether they would lend them to countries in deficit. Another factor is the uncertainty of direction in which this inflow of investment might go. The size of each country's oil deficit is not clear.

Still, the problem might work itself out for the developed countries, if private markets are permitted to function, supplemented by official borrowing, where necessary. Of course, international cooperation through intergovernmental borrowing, the IMF, use of swap lines, etc., would also be needed.

Perhaps the principal human problem that appears critical is that of the less developed countries.

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FOR IMMEDIATE RELEASE February 14, 1974

ANTIDUMPING INVESTIGATION INITIATED
ON 45 R.P.M. FLAT SPINDLE ADAPTERS
FROM THE UNITED KINGDOM

The Treasury Department announced today the initiation of an antidumping investigation on imports of 45 R.P.M. flat spindle adapters from the United Kingdom. This adapter fits over the spindle of a record changer thereby enabling the automatic play of 45 R.P.M. records.

Notice of this action will be published in the Federal Register of February 15, 1974.

The Treasury Department's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a complaint alleging that dumping was occurring in the United States. The information received tends to indicate that the prices of the merchandise sold for exportation to the United States are less than the home market prices.

During calendar year 1973, imports of these adapters from the United Kingdom were estimated at approximately $1 million.

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FOR RELEASE 6:30 P.M. February 15, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on February 21, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing May 23, 1974		26-week bills maturing August 22, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	98.230	7.002%	96.580 a/	6.765%
Low	98.219	7.046%	96.558	6.808%
Average	98.226	7.018% 1/	96.569	6.787% 1/

a/ Excepting 1 tender of $5,000,000

Tenders at the low price for the 13-week bills were allotted 41%.
Tenders at the low price for the 26-week bills were allotted 18%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 49,620,000	$ 32,815,000	$ 24,510,000	$ 7,510,000
New York	3,292,435,000	2,062,250,000	2,734,715,000	1,454,810,000
Philadelphia	58,935,000	33,785,000	31,095,000	6,095,000
Cleveland	39,270,000	36,950,000	27,260,000	15,190,000
Richmond	47,945,000	28,080,000	29,925,000	9,685,000
Atlanta	22,180,000	18,530,000	21,125,000	10,115,000
Chicago	272,995,000	108,260,000	324,015,000	172,765,000
St. Louis	52,405,000	26,805,000	37,730,000	10,920,000
Minneapolis	25,475,000	7,295,000	32,040,000	2,720,000
Kansas City	43,830,000	34,765,000	19,695,000	11,870,000
Dallas	34,700,000	15,700,000	24,045,000	8,020,000
San Francisco	192,655,000	96,265,000	229,810,000	90,410,000
TOTALS	$4,132,445,000	$2,501,500,000 b/	$3,535,965,000	$1,800,110,000 c/

b/ Includes $369,600,000 noncompetitive tenders accepted at the average price.
c/ Includes $138,155,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.24 % for the 13-week bills, and 7.13 % for the 26-week bills.

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FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
Washington, D. C. 20461
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EMBARGOED FOR RELEASE UNTIL
8:30 A.M., WEDNESDAY, FEBRUARY 6, 1974

REMARKS BY THE HONORABLE JOHN C. SAWHILL
DEPUTY ADMINISTRATOR OF THE FEDERAL ENERGY OFFICE
BEFORE THE
LOS ANGELES AREA CHAMBER OF COMMERCE
ENERGY SEMINAR
LOS ANGELES HILTON HOTEL
LOS ANGELES, CALIFORNIA
FEBRUARY 6, 1974
8:30 A.M.

I feel that I owe all of you a special thanks for getting up in the dark to be here. For once the jet lag is working in my favor, since it's 11:30 A.M. in Washington.

It's an honor to be appearing on the dais today with such distinguished Californians as Mayor Bradley and Governor Brown and the leaders of the energy industry in Southern California today.

I am pleased to participate with you in the Los Angeles Chamber of Commerce Energy Forum for two reasons. First, because I expect to learn a good deal about the impact of the energy shortage on a large urban area almost totally dependent on petroleum. Second, because you here today will play a major role in helping us cope with the immediate crisis and in planning for the long pull.

The energy problem is global and very complex. So I'll limit myself this morning to just three main points: how we got into this situation, what we are doing about it, and what will be expected of you and other leaders throughout the country, if we are to achieve our national goal of energy self-sufficiency.

Let me state the short-term solution in its simples terms: we must expand our domestic supply and reduce demand.

As an embryonic organization, the Federal Energy Office -- now 8 weeks old -- finds itself wrestling with both short-term and long-term problems. We are trying to deal with the immediate shortages precipitated by the Arab embargo. At the same time we are developing an overall strategy for the years ahead.

While we have been simultaneously stamping out brush fires and shaping long-range policy considerations, a third problem has arisen -- that of credibility. Not everyone believes that the energy crisis is real.

Bill Simon and I have set records for the number of consecutive days that we have been up to Capitol Hill testifying on this subject. I think our attendance has already surpassed that of a few Members themselves.

The Energy Crisis is real, not contrived. We got into this mess because the demand for energy in the U.S. has been growing at a rate of four to five percent a year for the past 20 years. If the present trend continues unchecked, our

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energy demands by 1990 will be twice what they were in 1973. Domestic oil exploration peaked in 1956. And our domestic production peaked in 1970.

Last year our production actually declined slightly while daily consumption increased by more than a million barrels.

Furthermore, no new refineries were under construction at the beginning of last year, and refinery expansion had nearly ceased. Growth in refining capacity had come to a halt for a number of reasons: environmental restrictions made it difficult to find new refinery sites; import quotas made it difficult to guarantee supplies of crude; and tax and other economic benefits made it more profitable for U.S. companies to invest abroad.

With domestic production and refining leveling off, we turned more and more to overseas suppliers to meet demands. In 1969 we imported 22 percent of our oil. By last October, when the embargo was announced, 35 percent of America's oil was imported -- about half of it from the Middle East. We were vulnerable to a cutoff of supply and to price hikes. And we got hit with both. The price of a barrel of crude oil has nearly tripled in the past year.

The energy problems of the world aren't going to be solved overnight, or perhaps even in our lifetime. Our goal is to be able to demonstrate energy self-sufficiency by the mid-1980's.

In short-term development, we must take steps to increase our energy supply within the next 3 to 5 years. These include:

- building the Alaskan pipeline, to deliver 2 million barrels of oil a day by 1980;

- offering economic incentives to stimulate domestic oil and gas exploration; expanding exploration and drilling on the Outer Continental Shelf, and stepping up our coal production.

Our coal resources, for instance, are practically untouched. We have a nearly infinite supply of coal and nearly one-third of it is economically recoverable now. But we have to develop techniques for mining surface coal that do not destroy the landscape, and ways to deep mine coal that protect the health of miners.

It now takes nearly ten years to build a nuclear generating plant - to cut through the licensing red tape, find a site, settle the litigation, design and build the plant. That's totally unacceptable.

The intermediate phase will concentrate on forms of energy that require an incubation period of 10 to 15 years. These include coal gasification and liquefaction, the recovery of oil from shale, and the construction of nuclear generating plants.

We have oil shale resources in the U.S. vast enough to satisfy our oil needs for decades. Yet, despite some recent progress, we lack an environmentally compatible method of extracting the oil.

We should push the research and development program for the nuclear breeder reactor, a prototype of which is being built at Oak Ridge.

Our long-term initiatives will take us to 1990 and beyond.

We must greatly expand and accelerate the R and D of solar and geothermal energy sources and the exotic possibilities of fusion reactors.

These are not small endeavors. The initiative will begin with the Federal Government. We have proposed a series of bills that would mean a "giant leap" forward in our energy maturation, short-term and long-term. But the Federal Government cannot act alone.

We need the cooperation of State and local governments, and the private sector, to make this self-sufficiency program work. We also need your help and support for the immediate crisis, the shortages that face us at this hour. And our 3 to 5 year plan won't assuage the energy problems of 1974.

One part of the solution to the energy crisis can, in fact must, be implemented on a short-term basis. That is a national conservation program, an effort involving all sectors of society.

We are going to have to subscribe to a new energy ethic. We are going to have to adapt our lifestyles to the energy that is available, rather than adapt the energy supply to our lifestyles.

Much of our current energy consumption is pure gluttony. Each of us in this room uses approximately 36 percent more energy than we did 10 years ago. What is more, we waste thirty percent or more of the energy we produce. One analysis indicates that 210 million Americans waste as much energy as 110 million Japanese consume. We simply cannot afford that kind of profligacy.

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Changes in our consumption patterns will mean changes in domestic priorities. We will put more people into fewer, more energy-efficient vehicles, and we will use more bicycles and foot power. We might even experience a reversal of the flight to the suburbs.

The energy ethic is compatible with the goals that the environmentalists have been advocating for years.

By the way, the environmentalists have been receiving a lot of blame for the energy situation, including charges that they have held up construction of the pipeline and prevented the extraction of new coal by strip mining. Actually, the environmental control measures have been a relatively small constaint. And the environmentalists were the original energy conservationists.

For several years, they have been advocating cutting down our consumption of gasoline, jet fuel, and middle distillates. Many environmentalists have been advocating research into sources of energy such as wind power, and environmentally safe fission and breeder reactor processes. And the Council on Environmental Quality feels that, in any case, nuclear energy production should move forward.

With the scaled-down consumption of gasoline that is now necessary, but which the environmental advocates have long espoused, we should see our pollution level decrease; our vehicles will be constructed to be more energy-efficient, and our accident rate will decrease.

In fact, the energy crisis has already been saving lives. In November the National Highway Traffic Safety Administration reported a 15-20% drop in accident fatalities in those States with reduced speed limits. By December, 18 States had lowered the maximum limit, resulting in a 25% reduction in fatalities below December 1972.

This brings us to the second half of the Federal Energy Office's two-pronged attack on the energy crisis--the reduction of demand.

There is probably more waste in the consumption of automobile gasoline than in any other form of fuel. You in Los Angeles are particularly aware of this problem, and are particularly affected by it. We must all work to do something about it.

Admittedly, the automobile has been absolutely essential in our economic development, but it has also been a tremendous drain on our resources. It is a luxury we have used beneficially, but also abused.

In 1973, for instance, private autos accounted for 12-13% of the Nation's energy consumption, or roughly five million barrels of oil per day. Much of this gasoline is used inefficiently.

Perhaps only 25 percent of its energy content is actually transmitted as driving force to the road. The rest is wasted.

Part of the problem has been decreased auto efficiency in the ratio of miles to gallons. Cars built today average less gasoline mileage than cars did in 1960.

Our primary conservation goal, then, must be to reduce the demand for gasoline, without imposing any real hardships on consumers, retailers, and wholesalers. To reach the goal we must increase the efficiency of the automobiles we drive, and turn increasingly to mass transit.

We have been considering setting efficiency standards for new automobiles, and deadlines for reaching them. If, by 1985, our cars could average 19 miles per gallon, we could save 1.5 million barrels of oil per day. That is equivalent to 3/4 of the maximum per diem yield of the Alaskan pipeline, and three times the pipeline's initial yield.

As a consumer, of course, you cannot rebuild your automobile to meet new efficiency standards. But you can contribute to gasoline conservation by keeping your engine well-maintenanced, and your tires checked.

Where you can have the greatest impact, however, both as consumers and civic leaders, is in the creation of a mass transit system for the Los Angeles area.

I know that you in the Los Angeles Area Chamber have been aware of a need for mass transit for several years. I know that your rapid transit committee has spent a great deal of time and effort considering alternatives to automobile use. That is a. herculean task, especially in Los Angeles.

The bond issue you helped sponsor in 1968 was an idea that hadn't seen its day. But now its time has come.

Our proposed fiscal year '75 budget for mass transit is $2.3 billion, and $16 billion for the next 6 years. That will cover increased funds for the construction of new buses. That will be of particular benefit to Los Angeles, since you have only 1550 buses here now.

However, even those 1550 buses are underused today. You should begin immediately to provide low-capital improvements that will increase the use of the buses. This includes special express lanes for commuter buses, lowered fares for special days,

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and bus-limousines that vary their routes according to their passengers.

Meanwhile, on a national level, we have initiated several programs to develop new transit systems, and encourage the use of those already available. For instance,

--The Transportation Improvement Act, which the Administration will soon submit, will help to revitalize the rail industry.

--Under the 1973 Highway Act, we will be spending, in fiscal year '75, $200 million to subsidize buses, and in FY '76, that figure will be $800 million.

--The Urban Mass Transportation Administration's capital grant program is now funded at $1 billion annually, and has preserved or stabilized bus service in 114 cities.

--The Department of Transportation has initiated a research and development program which includes: studying the reduction of automotive fuel consumption without sacrificing emission control or safety standards, developing aviation navigation techniques to increase airport and airway capacity, and construction of a new type of bus, the Transbus.

The next conservation priority is reduce use of lighting and middle distillate fuel in our homes and buildings.

Nearly all our buildings, particularly our commercial buildings, are wastefully lighted. The World Trade Center in New York City, for instance, uses enough energy to serve a city the size of Syracuse. Most of that energy is electrical power for lighting; a lot of the rest goes to year-round air conditioning to offset the heat given off by the lights.

Even in the new Federal Energy Office's headquarters in Washington, we found 275- footcandle light fixtures all over the building. We had them removed, and substituted 50 footcandles in work areas, and 10 and 15-footcandles in halls and corridors. If all office buildings adopted these standards, we could save nearly 4 percent of our total national oil consumption.

The erection of new commercial and industrial buildings will, in the future, have to adhere to "energy engineering" codes. That means new insulation and lighting standards, to reduce commercial building's energy use by 25 to 30 percent.

There are also ways that householders can save energy at home. Caulking and weather stripping of doors and windows could reduce your fuel bill by at least ten percent. The installation of storm windows or plastic sheet protection could reduce fuel bills by about fiftenn percent.

In Los Angeles, of course, air conditioning is more of a problem than heating. The Federal Government has been setting its cooling systems at between 78 and 80 degrees, and we'd like you to follow suit.

If everyone followed these measures, the Nation's fuel oil demand would drop the equivalent of 780,000 barrels per day each winter.

By the way, my staff and I have made a habit of carrying light meters with us; in fact, I have brought one with me this morning. This is one way by which you can gauge the amount of light being used in either your office or home, and thereby cut down on your consumption.

Some of our greatest gains in fuel conservation are being made on the industrial level. We have discovered that electrical and petroleum cutbacks can be achieved without sacrificing manpower or efficiency. We recently telegrammed 43,000 companies and asked them to set up their own audit committees. From the reports we have received back, the indication is that some businesses can cut energy consumption by as much as 40%.

Some of our more extraordinary examples of industrial energy savings include:

*The Pepsi Cola plant in Texas, which cut its oil requirements nearly in half, simply by rerouting its trucks and getting stores to accept larger deliveries,

*A Dow Chemical facility, which cut steam consumption in half by sound conservation techniques and a more efficient heat transfer medium, and saved $44 thousand,

*Alcoa Aluminum, who, through a new smelting process, is expected to reduce as much as 30% the amount of electricity required to make a pound of aluminum.

The main ways of conserving energy in industrial processes is through heat confinement, scheduling, heat and waste materials recovery, and maintenance. The maintenance factor can be especially important, as we had one company discover that about 90% of its hydraulic oil was being lost through leakage.

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None of these alterations should make any difference in projected production schedules -- in fact, we estimate that it is economically feasible for the largest 6 to 7 firms in the Nation to limit their increase in energy consumption to 1 percent per year, without cutting back on their projected production schedules.

This is really only the tip of the iceberg. I have mentioned a few areas especially relevant to you, the people in the Southern California area who rely upon your leadership.

We in the Federal Energy Office also rely on your leadership and guidance. Not only do we need responsive action in the States and regions, we need feedback on how our national programs are working.

We have designed our fuel allocation program and our gas rationing contingency plans to be flexible, and if our standards are inequitable, or unworkable, we want to know about it. We are all pretty new in this business, so we are prepared to make reparations for any mistakes that may occur.

I know that American has the will, the resources, and the leadership to meet the energy challenge. Make no mistake about it -- the real challenge is a challenge of attitudes and of values. It is a challenge to our individual and collective determination to develop the full potential of our resources.

I am asking each of you, today, to join us in that task.

Thank you.

-FEO-

GPO 871-677

STATEMENT OF DR. JOHN C. SAWHILL
DEPUTY ADMINISTRATOR, FEDERAL ENERGY OFFICE
BEFORE THE SUBCOMMITTEE ON ENERGY
COMMITTEE ON SCIENCE AND ASTRONAUTICS
HOUSE OF REPRESENTATIVES

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FEBRUARY 7, 1974

Mr. Chairman and Members of the Committee.

I appreciate the opportunity to appear before you today to comment on the provisions of H.R. 11212, The "Geothermal Energy Research, Development and Commercial Demonstration Act of 1973." I would first like to review briefly our overall approach to energy policy and our organizational plans for carrying out this policy in order to provide an overall perspective for my specific comments on the bill.

Five-fold Approach to Energy Policy

Let me start by outlining the five-fold approach we are taking with respect to energy policy.

First, we must establish a central energy organization in the Federal Government. The creation of the Federal Energy Office is the first step toward bringing all energy policy activity under one roof. We hope that Congress will move quickly to provide a statutory base for the Federal Energy Administration. We need legislation to provide us with the capability to recruit and hire top-flight administrators and to let contracts with qualified performers so that we can build the organization needed both to run the short-term allocation program and to carry out the more important assignment of moving the country toward energy self-sufficiency. Beyond FEA and ERDA, we must press forward with the creation of a cabinet-level Department of Energy and Natural Resources to ultimately bring together all Federal energy-related responsibilities. Until these new organizations are created, the Federal Energy Office will provide leadership and coordination in energy matters.

Second, we must establish a permanent "conservation ethic" in this country. We have been too extravagent in our energy consumption patterns. With 6 percent of the world's population, we consume 35 percent of the world's energy. The recent embargo has forced us to reduce this consumption now, but even more important we must be sure that an attitude of conservation becomes a permanent part of our lives.

Over 30 percent of our energy is wasted in one way or another -- wasted in conversion from one form to another, wasted in transmission, and wasted in unnecessary usage. Over the long-term, conservation of energy will require investment in insulation of homes and offices, use of more efficient automobiles, development of mass transit, changes in methods of handling freight, and central heating plants for groups of buildings and towns.

Third, we must push forward in the development of our domestic energy resources through Project Independence.

This includes further development of oil and gas in Alaska and the outer continental shelf, greater utilization of coal, of which we have a supply unmatched by any other country in the world, further development of oil shale and nuclear power, and of particular concern to the subcommittee we must expand our efforts toward development of geothermal and solar power. Project Independence must be a two-pronged attack. In the short-run, we must both expand production and exploit untapped reserves of existing energy sources. Longer range solutions will be provided by the development of new and existing sources of energy.

Fourth, we must forge a new relationship between Government and industry in several key areas.

The information we now have to work with is not adequate and its reliability cannot be checked. We are developing a permanent energy information system which includes an industry auditing program on every aspect of the energy situation-reserve refining operation, inventories and production costs -- so that we will be in a better position to assure the American people that our energy data is accurate and not subject to the charge that it can be manipulated by industry.

There must then be a new government role in the international activities of the oil industry.

Finally, there must be a new partnership to assure the development, extraction and use of our domestic energy sources, including geothermal energy.

If we are to see the successful culmination of Project Independence, the Federal government must work hand-in-hand with American industry.

For the last five years, the President has provided for a continual expansion of our efforts in energy research and development. Federal funding increased almost 75 percent from $362 million in fiscal year 1970 to $672 million in fiscal year 1973 and was then raised to $1 billion for fiscal year 1974. Last June the President announced a commitment to an even more rapid acceleration of this effort through a $10 billion Federal program over the next five years, and he stressed that we would spend whatever additional sums were reasonably necessary.

On Wednesday, January 23, 1974, the President announced that in fiscal year 1975 -- the first year of the five year energy R&D program--total Federal commitment for direct energy research and development will be increased to $1.8 billion, almost double the level of a year ago. Included in this budget is $44.7 million for geothermal energy R&D. This figure represents a 310% increase over the FY 1974 level and is ten times the amount of Federal spending on geothermal R&D in FY 1973. It is only with the help of such accelerated research and development that we can achieve real self-sufficiency in energy.

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Fifth, we must establish a framework of international cooperation among producing and consuming countries. The potential impact of energy supplies on the world economy is staggering and we must work together in developing energy resources and maintaining a healthy world economy in which energy exporting and energy importing nations prosper together. Greater cooperation must be initiated on research projects, on new ways to conserve energy and most important on establishing energy prices.

In this regard, I would like to point out in passing that for the past year the Bureau of International Scientific and Technological Affairs in the Department of State has had a special concern for promoting U.S. cooperation with other nations in the area of R&D on new or alternative forms of energy. Geothermal energy is one of the highest priority items on the cooperative R&D agenda, and several bi-lateral and multilateral agreements are now under development.

In the context of this overall policy, I will summarize the proposed Federal Energy R&D Organizational Structure because its impacts directly on the proposed bill.

Organization

Federal Energy Office/Agency

The Federal Energy Office currently has broad policy and regulatory responsibilities for energy. It is now administering energy price and allocation programs, initiating energy conservation programs, working with the State Department on international aspects of energy, developing programs to increase energy supplies and working with OMB and the Domestic Council to coordinate energy R&D activities.

Federal Energy Administration

The FEO programs designed to deal with the near and intermediate term problems (i.e. prior to 1985), will become the responsibilities of the Federal Energy Administration upon congressional approval. One of the major functions of this organization, as mentioned in the President's January 23, 1974, Message, will be to rapidly increase energy supplies. This is really the principle task of Project Independence. Within the FEA, the Office of Energy Resource Development will be aimed at this goal. This office will identify and develop means of overcoming problems and providing incentives for the:

- Development of Domestic Energy Sources
- Construction of Related Facilities (e.g., refineries, power plants, transmission systems, etc.)
- Transportation of Energy
- Conversion of Energy Sources to more Convenient Forms
- Utilization of Energy Sources
- Full Consideration of Environmental Values
- Elimination of Regulatory Problems

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Federal Energy Office

Energy policy is broad-based and reaches into all areas of government. For example, it encompasses building codes, environmental matters, international aspects, etc. And it is important to consider the impacts of energy policy on such diverse groups as farmers, poor people, and businessmen. Therefore, even after the formation of the FEA, there may still be the need in the Executive Office of the President for a small central office with responsibility for providing coordination across the Government in matters of energy policy. This office will deal with a broad range of policy issues including those related to R&D. In particular, it will coordinate the energy related programs of EPA, NASA, DOT, DOD, NSF, DOC, DOI, etc.

Energy Research and Development Administration

Also with Congressional approval, R&D programs to develop new technologies will be the responsibility of the Energy Research and Development Administration (ERDA). ERDA would include the research and development as well as the production functions of the Atomic Energy Commission, along with selected energy R&D functions of the Department of the Interior, the National Science Foundation, and the Environmental Protection Agency. Thus, the agency would bring all major energy R&D programs within the Federal government under one management structure.

Department of Energy and Natural Resources

As the longer-run solution to the many interrelated problems in the energy and natural resources area, the President proposed the establishment of this new department. DENR would incorporate most of the responsibilities of the Department of the Interior; the activities of the Forest Service and certain water resource functions of the Department of Agriculture; the activities of the National Oceanic and Atmospheric Administration of the Department of Commerce; the water resource planning functions of the Corps of Engineers, the gas pipeline safety functions of the Department of Transportation, and the Water Resources Council. Drawn together, these responsibilities would form the basis of a modern department truly capable of providing a much needed balance between the wise utilization and careful conservation of our Nation's precious natural resources.

Once DENR is established, it should incorporate the functions of ERDA & FEA.

Near Term Use of Geothermal Energy

Naturally occurring geothermal steam is today generating 400 megawatts of electricity in the United States. And with proper incentives, geothermal energy could be used to generate substantially more electricity in the near future. The Geothermal Steam Act of 1970 is an example of how the Federal Government can stimulate private industry to develop this important resource.

We are encouraged by the results of the first bids received in the Federal geothermal leasing program. As you know, bids were received on 26,190 acres of know geothermal resource areas, with the total of the highest bids being $6,812,000. This expressed interest on the part of the private industry of this country in geothermal energy sources is indicative of the role geothermal energy could play in the near term in special regions of the country.

However, the leasing of Federal lands alone will not insure the development of an extensive geothermal power industry. Many barriers still remain, in addition to those of a technological nature, such as unclear tax structures, licensing and regulatory policies at the federal, state and local levels, and unknown environmental impacts. Further Federal incentives may be necessary to overcome these barriers. The Federal Energy Office will be evaluating the financial incentives or regulatory changes that may be needed to spur the rapid development of our geothermal resources.

Longer Term Potential of Geothermal Energy

Even though we expect geothermal energy to contribute in some measure to the domestic supply of energy in the 1970's, we recognize that the full potential of geothermal energy can only be reached if we develop the technologies to extract energy from the more common geothermal sources:

hot waters and dry hot rock formations, as well as from geopressured systems. We agree with the subcommittee that Federal financial assistance will be necessary to encourage the extensive exploration, research and development which will be required to bring these technologies to the point of commercial application. And as I have already noted, in the President's 1975 energy budget, $44.7 million were allotted for geothermal energy research and development. However, the thrust of this effort is somewhat different from that of the proposed bill and I will now discuss some of these differences.

Technological Aspects of Program

The geothermal R&D agenda proposed by the Administration will include exploration and assessment of the various types of geothermal resources. Geopressured systems and hot rock formations will be included, but so will a variety of hydrothermal systems. Component technologies will be developed for the total spectrum of resource types and pilot facilities for several types will be planned and some construction will begin in FY 1975. Considerable attention will be paid to the environmental factors associated with geothermal energy development. Participation of the USGS, NSF, AEC labs, private industry and universities is expected.

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This program was assembled with the cooperation of the many Federal agencies concerned with geothermal energy along with consultants from private industry and universities. We believe this program has certain advantages over that proposed in the H.R. 11212.

. Adequacy of Proposed Funding Level

The funds provided by H.R. 11212 - \$80M for 6 years - are somewhat less than that proposed in the Administration's program. We believe that the higher funding level will result in more rapid solution of the problems currently preventing widespread utilization of geothermal energy because it will permit greater spending on exploration and assessment of all types of geothermal resources on the development of critical system components on the construction of pilot facilities for all promising forms of geothermal energy, and on in-depth studies on the environmental implications of widespread geothermal development.

Length of Time for the Program

The production of electricity from hot dry rock will require the development of exploration, accessing and fracturing technology as well as suitable power generating equipment. To assemble a commercial power generating system which incorporates all these aspects could possibly require a period in excess of 6 years - the time frame of H.R. 11212.

Power generating systems for the various resource types will have much common technology. We believe that by building plants to generate electricity from certain types of hydrothermal systems, many of the problems involved in utilizing geopressured and hot rock systems will be solved. Consequently, an integrated and comprehensive geothermal program, as proposed by the Administration, will provide for a greater utilization of geothermal energy in a shorter period of time. However, we should be prepared for an R&D effort that may have to extend beyond 6 years.

Administrative Mechanism

In order to capitalize on the potential of geothermal energy, it will be desirable to have a centralized Federal organization that provides support for geothermal energy within an overall energy context. We believe the Administration's proposed energy package, which includes FEA and ERDA would be the most suitable administrative mechanism for accelerating the development of geothermal energy.

Because of the variety of geothermal resources, encompassing immediately exploitable dry steam field as well as undiscovered hot rock formations, a federal program with continuity between the near term solutions and longer term results is essential. Certain types of geothermal resources can be expected to be used to meet a portion of the Nation's energy needs within the next 5-10 years, as I have discussed. The FEA, which has been proposed by the President to rapidly increase energy supplies, is preprepared to include geothermal energy among those sources of domestic energy supply which it will seek to develop. On the other hand, R&D on geothermal energy would be carried out by ERDA, upon Congressional approval of the President's proposal to create such an agency. ERDA would include and expand on work presently being conducted at several AEC laboratories, as well as the development effort currently sponsored by the National Science Foundation.

ERDA would thus consolidate much of the Federal R&D on geothermal energy and incorporate it into a management structure capable of effectively carrying out the multi-disciplinary program necessary to insure that geothermal energy will make a significant contribution to the Nation's energy future. Those aspects of geothermal R&D which remain in other Federal agencies (such as the U.S. geological survey) will be closely coordinated with the programs of ERDA. As I mentioned, such coordination will be part of the responsibilities of the FEO.

Concluding Remarks

In conclusion, I would like to say that we at the Federal Energy Office agree with the subcommittee's views that the Nation's critical energy problems require a national commitment to dedicate the necessary financial resources and enlist the cooperation of the private and public sectors to develop geothermal and other non-conventional energy sources. We have indicated the Administration's desire to be just that. Moreover, we have described the functions of our current Federal Energy Office and the plans to form new organizations with the capability to handle the near term and longer term energy problems of this country in a coordinated manner.

We are fully prepared to move ahead with these plans. However, we need the legislative tools proposed in the package by the President and we strongly urge your support and swift enactment of these bills to ensure, not only the rapid development of geothermal energy, but the general advance of energy technology towards meeting our national goal of energy self-sufficiency.

GPO 871-711

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PETROLEUM SITUATION REPORT

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FEDERAL ENERGY OFFICE

FOR WEEK ENDED FEBRUARY 8, 1974

PETROLEUM SCORECARD

FORECAST SUPPLY DEFICIT

February 1974 .... 2.5 million B/D
1st Quarter 1974 .... 2.7 million B/D

APPARENT DEMAND
(Million Barrels Per Day)

	For Period Ended February 8, 1974 Current Week	Latest 4 Wks.
Forecast Demand	20.9	20.3
Apparent Demand	16.9	16.9
Indicated Savings	4.0	3.4

PERCENTAGE SAVINGS BY FUEL TYPE

	For Period Ended February 8, 1974 Current Week	Latest 4 Wks.
Gasoline	14.1	13.1
Jet Fuels	34.0	26.4
Distillate Fuel Oil	20.1	15.3
Residual Fuel Oil	29.5	19.0
Total, 4 Products	21.0	16.2

IMPORTS
(Million Barrels Per Day)

1st Qtr. 74
Forecast, with Fully Effective Embargo 4.9

	For Period Ended February 8, 1974 Current Week	Latest 4 Wks.
Actual (FEO)	5.0	5.2
Actual (API)	4.4	5.1
Increase over Forecast (FEO)	0.1	0.3

EMBARGOED FOR RELEASE UNTIL 11 a.m., EDST, THURSDAY, FEBRUARY 14, 1974

HIGHLIGHTS

DEMAND FOR ALL PRODUCTS in the week ended February 8 increased slightly over last week, but remains significantly below forecast. Demand for the four major products this week was 21.0 percent less than forecast and, for the 4-week average, 16.2 percent under the 4-week forecast ended February 8.

CRUDE OIL PRODUCTION this week, of 9,212,000 barrels a day, has not changed significantly over the last several weeks. The 4-week daily rate of 9,214,000 barrels increased actual figures to 189,000 barrels a day over the 4-week forecast ended February 1.

CRUDE OIL IMPORTS as reported by API, for the week ending February 8, fell to 1,795,000 barrels per day, the lowest weekly average since November 10,1972. Last week's (February 1) import figures were revised upward by 319,000 barrels per day to 2,742,000, due principally to company accounting revisions. The The latest 4-week average of 2,283,000 barrels per day of crude is 142,000 barrels below the current FEO forecast of a fully effective embargo. FEO's own import tracking system is now operative and shows current week imports of crude and product of 4.96 million barrels per day as compared to the API total of 4.4 million barrels per day. Almost all of the difference was accounted for by higher imports of crude oil reported by the FEO monitoring system. The FEO system is based on measurements of all ship arrivals into the U.S. while the API system is based on a sample of major refineries and bulk terminals.

MOTOR GASOLINE: A sample of industry sources shows that changes in refinery yield pattern toward higher motor gasoline production would not adversely affect jet fuels and residual oil production. In changing the pattern, middle distillate production yields would be lower. Most refiners would attain higher gasoline yields by reducing the proportion of middle distillate products.

NAPHTHA JET FUEL PRODUCTION, which generally has wide swings, increased to the highest level for the year. Even though demand was up, stocks increased by 150,000 barrels.

DISTILLATE FUEL OIL: Stocks of distillate fuel oil were drawn down by 5.1 million barrels during the week. Refinery production was down 204,000 barrels a day. The weather was almost 19 percent colder than normal for the week, although it has been 8 percent warmer for the season. Stocks remain at 49.6 million barrels (39 percent) greater than last year, so this week's decrease is not real cause for concern.

ASPHALT: An analysis made by FEO indicates that, while asphalt will be in tight supply in 1974, its availability will be adequate to meet a demand of approximately 400,000 barrels a day in 1974. This amount represents about 85 percent of the demand in 1973.

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Public Affairs
U. S. Post Office Building
Ben Franklin Station
Washington, D. C. 20461

FOR IMMEDIATE RELEASE FEBRUARY 12, 1974

SIMON NAMES RETAIL DEALERS' GROUP

Federal Energy Office Administrator William E. Simon today announced the appointment of ten veteran gasoline and diesel fuel dealers to the Retail Dealers Group, an advisory committee on programs involving the retail sale of gasoline and diesel fuel.

"We have a good cross-section of the more than 250,000 men and women who are in the business of selling gasoline and diesel fuel in the United States," Simon said. "I am looking forward to working with them on programs that affect them and eventually affect the Nation's motorists."

The 10 named to the group are:

John E. McCutcheon, of Jackson, Tenn., Wholesaler;
William S. Black, of South Bend, Ind., Wholesaler;
Rod G. Flannery, of Wessington Springs, S. D., Wholesaler;
Robert M. Lentz, Silver Spring, Md., Service Station Operator;
Emmett E. Welch, Oklahoma City, Okla., Service Station Operator;
Philip M. Hudson, Fresno, Calif., Service Station Operator;
Edward D. Haddad, Pittsburgh, Pa., Service Station Operator;
Don Conrad, Covington, Ky. Service Station Operator;
James L. Miller, Tampa, Fla., Service Station Operator;
Oran V. Jarrel, Doswell, Va., Truck Stop Operator.

Named as alternates are:

Robert G. Heath, Yonkers, N. Y., Service Station Owner, and
Daniel C. Hanna, Portland, Ore., Operator of Car Washes.

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(more)

The group will hold its first meeting at the FEO's offices at 2000 M St., N. W., in Washington, at 2 P.M., Wednesday, February 13. The meeting is open to the public.

Simon announced his intention to form the group on January 24. The group is scheduled to function for the next 90 days.

Simon said the group will give the FEO a greater insight into the petroleum business at the retail level. One of the group's first projects will be to work with FEO officials to identify equitable ways to compensate station operators whose businesses are jeopardized by decreased sales volumes. Another priority project will be to assess current fuel distribution patterns, both to the retailer and the public, and to help FEO officials find ways to improve the flow of limited fuel supplies.

Members of the group were selected by the FEO from nominations, and according to the various classificatons of retailers and jobber/retailers.

McCutcheon, 31, has been active in the operations of the E. L. Morgan Co. for over 10 years. The firm sells more than five million gallons of gasoline a year in the greater Memphis area. It has 20 owned or leased retail outlets.

Black, 31, is vice president of the Pacer Oil Co., an independent jobber. The firm has nine retail outlets under its "Pacer" brand name and sells about two and a half million gallons annually.

(more)

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Flannery, 33, who represents major brand jobbers selling a million or more gallons a year, is a Mobil jobber and owns three two-bay service stations.

Lentz, 46, pumps over 75,000 gallons a month at his four-bay station in suburban Washington, D. C. He is currently a director of the Greater Washington/Maryland Service Station Assn.

Welch, 34, represents service stations doing 50,000 to 75,000 gallons monthly. He and his brother run a two-bay station. He is also active in his State's petroleum trade association.

Hudson, 52, is currently president of the California Petroleum Retailer Assn. He represents major brand retailers doing 25,000 to 50,000 gallons monthly, and has been in the business 28 years.

Haddad's category is stations with 25,000 gallons monthly or less. He is 46 years old and has been in the retail gasoline business for 20 years. He operates a three-bay station in a suburban area and has seven employees.

Conrad, 45, has 19 years in the service station business. In the group, he will represent major brand station owners doing 100,000 gallons a month. He is president of the Waco Oil and Refining Co.

Miller, 41, represents independents doing up to 50,000 gallons monthly. He operates an eight-bay station in a residential area of Tampa.

Jarrell, 50, has 29 years in the truck stop business. He now has one of the largest truck plazas in the U. S., near

(more)

Richmond, Va. He is one of the 15 original founders of the National Association of Truck Stop Operators.

Heath, 32, currently is president of Nepperhan Service Station, Inc., which operates two units in the Yonkers area. He also has retail experience abroad.

Hanna, 39, is president of Hanna Industries, which operates car washes in and around Portland.

-FEO-

Effective Saturday, February 9, the Federal Energy Public Affairs Office has moved from its present location in the New Executive Office Building to the 3rd floor of the Benjamin Franklin Station Post Office Building at 12th and Pennsylvania Ave., N.W.

Media Relations will be located in Room 3117 and can be reached by phone at 961-6211 and 961-6161. Press releases will be available for pick-up in Room 3130, phone 961-6291.

FEDERAL ENERGY OFFICE
Public Affairs
U. S. Post Office Building
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Washington, D. C. 20461

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FOR IMMEDIATE RELEASE FEBRUARY 12, 1974

FEDERAL ENERGY OFFICE BANS DISCRIMINATION IN GASOLINE SALES

Federal Energy Office Administrator William E. Simon today announced an amendment to the Petroleum Allocation and Price Regulations which explicitly prohibits discrimination in the sale of gasoline, or any other petroleum product, effective immediately.

The action was prompted by the growing nationwide practice of gasoline and diesel retailers selling only to "regular customers," or to those who commit themselves to advance purchases. This has resulted in preferential treatment for some purchasers, while others are denied access to gasoline or diesel fuel. These practices have now been banned by the Federal Energy Office as discriminatory.

Any retail gasoline or diesel fuel customer who is subjected to discriminatory treatment in violation of the amended Regulations may report the violation to the nearest Internal Revenue Service District Office.

The amendment in its entirety is attached to this news release.

E-74-62 -FEO-

Effective Saturday, February 9, the Public Affairs Office of the Federal Energy Office has moved from its present location in the New Executive Office Building: 17th and H Streets, to the third floor of the Franklin Station Post Office Building at 12th and Pennsylvania Avenue, N.W.

Media Relations will be located in Room 3117 and can be reached by phone at 961-6211 and 961-6161. Press releases will be available for pickup in Room 3130, phone 961-5291.

TITLE 10 - ENERGY

CHAPTER II - FEDERAL ENERGY OFFICE

PART 210 - GENERAL ALLOCATION AND PRICE RULES

Refusal to Sell Product

This amendment is issued today in an effort to end the growing practice of sellers providing preferential treatment to customers on the basis of long-standing relationships or for any other reason. The FEO has noted a serious alteration in established business practices -- particularly with respect to gasoline and diesel fuel retail sales -- which result in certain purchasers being served, while others are wholly excluded.

The amendment to §210.62 concerning "normal business practices" is addressed to this situation as well as to other preferential sales devices. Sellers whose normal business practice has been to serve the public may not modify that practice to sell only to "regular customers" or otherwise arbitrarily discriminate among purchasers of an allocated product. The amendment is also aimed at outlawing new preferential volume purchase arrangements in which retail gasoline customers sign up to purchase for example, 1000 gallons, or $50 worth of gasoline, or this month's requirements in advance and thereby receive preferential treatment.

- MORE -

Because the purpose of these amendments is to provide immediate guidance and information with respect to the mandatory petroleum allocation and price regulations, the Federal Energy Office finds that normal rulemaking procedure is impracticable and that good cause exists for making these amendments effective in less than 30 days.

(Emergency Petroleum Allocation Act of 1973, Pub. L. 93-159, E.O. 11748, 38 F.R. 33575; Economic Stabilization Act of 1970, as amended, Pub. L. 92-210, 85 Stat. 743; Pub. L. 93-28, 87 Stat. 27; E.O. 11730, 38 F.R. 19345; Cost of Living Council Order 47, 39 F.R. 24)

In consideration of the foregoing, Part 210 of Chapter II, Title 10 of the Code of Federal Regulations is amended as set forth below, effective immediately.

Issued in Washington, D. C., February 8, 1974.

William N. Walker
General Counsel
Federal Energy Office

- MORE -

Section 210.62 is amended by numbering the existing paragraph (a), and adding paragraph (b) to read as follows:

§210.62 <u>Normal business practices</u>.

* * *

(b) No supplier shall engage in any form of discrimination among purchasers of any allocated product. For purposes of this paragraph, "discrimination" means extending any preference or sales treatment which has the effect of frustrating or impairing the objectives, purposes and intent of this chapter or of the Act, and includes, but is not limited to, refusal by a retail marketer of motor gasoline or diesel fuel to furnish or sell any allocated product due to the absence of a prior selling relationship with the purchaser, or establishment of new volume purchase arrangements where customers of retailers agree in advance to purchase in excess of normal amounts of motor gasoline or diesel fuel and thereby receive preferential treatment.

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FEDERAL ENERGY OFFICE
Public Affairs
Benjamin Franklin Station
Washington, D.C. 20223
Tel: 961-6161

EMBARGOED FOR RELEASE
9:30 A.M., PACIFIC DST

FEBRUARY 13, 1974

FEO'S ZAUSNER URGES UTILITIES TO CONSERVE, NOT WASTE

Federal Energy Office Assistant Administrator Eric Zausner today urged the utility industry to respond to the energy crisis with increased efficiency, a new regard for conservation, and a new commitment to energy research and development.

In remarks prepared for delivery before a meeting of the National Rural Electric Cooperatives Association in San Francisco's Civic Center, Zausner said the utility industry "must view itself as a part not only of the solution, but the problem.

"As recent as a year ago," Zausner said, "some utilities were still running massive advertising campaigns urging consumers on to continued energy spending sprees."

Yet during this time, he said, "the utility industries' commitment to energy research and development was significantly less than expenditures for advertising.

"Fortunately", Zausner said, "this trend is being reversed."

He said some companies had increased their level of energy research, while others promoted such practices as increased home insulation to boost energy savings.

Zausner urged that NRECA cooperatives "fulfill your role as the closest link to the consumer, in instilling in him the need to conserve energy."

Even if the Arab oil embargo ends, Zausner said, America will still face energy shortages, and for this reason must develop its own abundant energy reserves.

Zausner praised the NRECA cooperatives for their use of coal to produce power.

"We have nearly half the free world proven coal reserves," he said, "enough to literally last for centuries."

-FEO-

E-74-63

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EMBARGOED FOR RELEASE UNTIL
11:00 A.M. EASTERN DST,
FEB. 14, 1974

FEBRUARY 14, 1974

FEO URGES STATES, LOCALITIES TO ADOPT MEASURES TO REDUCE LINES

The Federal Energy Office, amplifying a message sent in telegrams to Governors and the top administrators of the District of Columbia, Puerto Rico, Guam and the Canal Zone last week, has urged States and localities experiencing long lines at gasoline stations to adopt measures that would alleviate the problem.

John C. Sawhill, FEO's Deputy Administrator outlined a four-step proposal:

1 - Prohibit sales to cars whose gauges show tanks are more than half-full, or to limit sales to a $3 or $4 minimum;

2 - Stagger station hours so that people who have occupations that have "other-than-normal" hours, such as shift workers, doctors, police, fire-fighters and news media, can obtain supplies of gasoline;

3 - Have a community center to which residents can call to find out what stations are open. This could be at the City Hall, or could be published in the daily newspaper or announced over the radio or television, much in the same way that school closings are announced during bad weather.

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4 - States which have an "odd-even" allocation system to maintain Saturday as an open day, since this will eliminate the need for a car to go three straight days without being able to get any gasoline.

- FEO-

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Benjamin Franklin Station
12th and Penn. Ave. N. W.
Washington, D. C.

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Feb. 14, 1974

FACT SHEET ON PROGRAM TO ALLEVIATE THE PROBLEM OF LONG GAS STATION LINES

For most citizens in many parts of the country, the most harmful and irritating effect of the current gasoline shortage is the long line which forms at virtually every station whose pumps are operating. We have had reports from all over the country regarding the seriousness of this problem and, since we began receiving these reports, we have viewed the problem as one of the most urgent associated with our entire program.

During the past two weeks, a number of states have begun implementing plans designed to reduce service station lines, and some have reportedly achieved positive results. While we commend these efforts, we believe that too few states are taking such action, and that significant additional steps could be taken. Accordingly, FEO is today calling upon every state and municipality currently experiencing lengthy and widespread waiting lines at gas stations to consider taking immediate action in each of the following areas:

1. Establishment of a minimum purchase requirement for retail gasoline sales. Such a measure could take the form of either a requirement that no one could purchase gasoline until his tank was less than one-half full, or a prohibition of sales of less than three or four dollars. In deciding what type of plan to adopt, each locality should consider its particular needs. We believe that adoption of such a minimum purchase requirement would immediately and significantly reduce waiting lines by eliminating from those lines the significant number of people who are currently attempting to keep their tanks as near full as possible at all times.

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2. Requirement for staggered hours of operation. In areas of significant shortages most stations are operating for only short periods during the morning and evening rush hours. This works substantial hardships on those whose work or other responsibilities prevent them from buying gasoline during the limited hours when stations are open, and also adds considerably to rush hour traffic congestion. We are therefore urging those communities which are experiencing the most severe problems, to consider actively the desirability of centralized community planning and direction of gasoline sales, so as to ensure -- to the maximum possible extent -- that one or more stations will be open and selling gasoline in a given area throughout the normal business day. Such a program would, of course, have to take account of the legitimate needs of gas station operators, but with their cooperation it could play an invaluable role in preventing unnecessary hardship and providing for emergency needs. One important facet of such a program should be some system, perhaps on a rotating basis, for ensuring that a minimum number of stations remain open on weekends to handle public service vehicles and other priority and emergency requirements.

3. Information System. One of the most urgent needs is the development on a local level of some system of informing consumers of the location and hours of operation of all stations in their area selling gasoline. Such a program could employ one or more of the following devices:

(more)

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-- prominent posting of operating hours by individual stations

-- a local gasoline information switchboard

-- public service radio announcements, such as those made in some localities regarding school closings due to bad weather

-- daily local newspaper announcements, such as those which now provide weather and movie information.

An information system along these lines could substantially reduce the uncertainty presently existing in many areas, spread demand evenly among all stations operating at a given time, and substantially reduce the gasoline presently consumed by individuals driving around searching for an open station.

4. Saturday and Sunday Operation. In States that adopt the odd-even license plate allocation system, we continue to urge the closing of stations on Sundays. However, it is recommended that stations honor customers with odd and even plates on Saturdays.

-FEO-

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FEDERAL ENERGY OFFICE
Public Affairs

Post Office Building
12th & Pa. Avenue, N. W.
Washington, D. C. 20461
Telephone: 961-6161

Embargoed until 11 A.M. Eastern DST
February 14, 1974

FEO RECOMMENDS CRUDE OIL ALLOCATION CHANGES TO CONGRESS

Citing possible losses of imported crude oil, Federal Energy Office Deputy Administrator John C. Sawhill today announced that the FEO will recommend changes in the crude oil provisions in the Mandatory Petroleum Allocation Act to Congress next week.

Under the FEO proposal, crude oil would continue to be allocated, and a buy-sell list would be published, but only to assist the small refiner and to meet other specific national needs.

Sawhill said that the FEO will suggest that Congress redefine the crude oil program to add greater flexibility in allocating crude oil supplies and to remove legislative disincentives to production and imports.

"It was the intention of the Congress, I believe, to protect the small refineries in the first place," Sawhill said. "We will do this, but we will allow the larger companies--with the capability to search for imported and domestic sources--to operate at a production capacity based on their ability to find crude oil."

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"If these changes in the mandatory allocation act are not forthcoming, the country could face even more severe shortfalls of petroleum," Sawhill said. FEO currently estimates the national petroleum shortfall at 2.7 million barrels per day.

Under the current crude oil allocation program, refiners of all sizes must operate at the same percentage of capacity. If a refiner has crude oil above this level, he must sell to those with less. This percentage has been set at about 76 percent of production levels for the first quarter of 1974.

Final details of the proposed legislation are being readied for presentation to the Congress this coming week, Sawhill said.

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-- FEO --

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Public Affairs
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EMBARGOED FOR RELEASE
11 A.M. Eastern DST

February 14, 1974

SIMON ORDERS REFINERS OF KEROSENE-BASED JET FUEL TO INCREASE YIELDS

Federal Energy Administrator William E. Simon today ordered refiners of kerosene-based jet fuel, the primary fuel for domestic and international airlines, to increase refinery yields of this fuel by six percent over last month. For example, a refiner whose January yield of "kerosene" jet fuel was eight percent of its refinery input would be expected to increase the yeild to 8.48 percent.

Simon asked for this increase in aviation fuel to ease expected shortages aggravated by the crude oil allocation program, which has required that some large refiners of aviation fuel turn some of their crude oil supplies over to other refiners with supply-to-capacity ratios of crude below the national average who are not capable of producing aviation fuel.

The Federal Energy Office action will allow the airlines to continue without seriously curtailing operations.

Simon noted that some refiners may have technological problems that could thwart increased yields and that he would make exceptions in cases where the increased yields are not possible.

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Simon also asked that airlines broaden their jet fuel specifications so that more fuel could be made available through increased yields. He asked the Air Transport Association of America (ATA) and Federal Aviation Administration to help coordinate this project.

-- FEO --

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EMBARGOED FOR RELEASE
11 A.M. Eastern DST

February 14, 1974

ENERGY INFORMATION BILL PROPOSED

Legislation proposing that all energy-producing companies be required to provide the Federal Energy Office "accurate and timely information necessary to effect the formulation of sound public policy," will be submitted to Congress this week, John C. Sawhill, FEO Deputy Administrator, announced today.

Sawhill said that early passage of the proposal -- called the "Energy Information Disclosure Act" -- is essential in order to cope with the nation's energy problems.

"The Federal Government must have timely, accurate, and complete information covering all aspects of energy resource availability," Sawhill said. "The bill will protect the proprietary interests of each energy-producing company, while assuring government access to vital information."

Under the proposed legislation, other Government agencies which obtain energy information from industry also would be required to supply that data to the Federal Energy Office, unless prohibited from doing so "under specific existing legislation."

The bill also provides for both civil and criminal penalties, for companies refusing to submit data or submitting incorrect data, Sawhill said.

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- FEO -

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EMBARGOED FOR RELEASE
11 A.M. Eastern DST February 14, 1974

FEO TO DISPATCH ACTION TEAMS TO
20 STATES AND DISTRICT OF COLUMBIA

John C. Sawhill, Deputy Administrator of the Federal Energy Office (FEO) announced today that action teams will be sent to 20 States and the District of Columbia to give immediate attention to apparent critical shortages of gasoline in these areas.

These action teams of FEO specialists will be sent into those states where state and local officials have reported severe gasoline shortages. Teams will be dispatched within a few days to the District of Columbia, Arizona, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Oregon, Florida, Vermont, Virginia, West Virginia, Alabama, Alaska, Georgia, Illinois, Montana, Nebraska, Nevada, Rhode Island and Pennsylvania. Sawhill said FEO teams would:

1) Work with governors and state energy directors to assist them in using the 3 percent state set-aside to meet more effectively the shortages that have been occuring within states.

2) Review special supply problems and localized shortages.

3) Review FEO and State data to insure accuracy.

4) Help speed action on requests for base period adjustments.

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5) Improve linkage between the States and FEO.

Sawhill said he had requested team reports beginning early next week as a basis for determining whether additional emergency allocations are necessary. Teams will be checking with State and local officials, petroleum industry representatives and others involved in helping to relieve the current gasoline shortages that have been reported in some areas.

Sawhill indicated the need to continually examine potential hardships and to take any special actions necessary to assure an equitable distribution of gasoline prior to the time the allocation programs are fully effective.

-- FEO --

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE February 19, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 28, 1974, in the amount of $4,303,180,000 as follows:

91-day bills (to maturity date) to be issued February 28, 1974, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated November 29, 1973, and to mature May 30, 1974 (CUSIP No. 912793 TP1) originally issued in the amount of $1,797,645,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated February 28, 1974, and to mature August 29, 1974 (CUSIP No. 912793 UM6).

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, February 25, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own

(OVER)

account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on **February 28, 1974**, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **February 28, 1974.** Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
Washington, D. C. 20461
Telephone: 395-3537

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EMBARGOED FOR RELEASE UNTIL
1:00 P.M., FRIDAY, FEBRUARY 8, 1974

REMARKS BY THE HONORABLE WILLIAM E. SIMON
ADMINISTRATOR, FEDERAL ENERGY OFFICE,
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE

WARREN, GORHAM & LAMONT SEMINAR
THE SHERATON PARK HOTEL
COTILLION ROOM
WASHINGTON, D.C.
FRIDAY, FEBRUARY 8, 1974
1:00 P.M.

I appreciate the opportunity to participate in this timely and important seminar, "Your Business and the Energy Crisis." I was glad to accept Tony Chase's invitation for two reasons. First, because the President has given me management responsibility for dealing with the immediate crisis and for setting in motion the program to address the long-range problems we face. Second, because you, as top managers of major businesses and industries, are destined to play a decisive part in this country's drive for energy self-sufficiency.

I'd like to discuss three things with you today. I'll talk briefly about the current crisis and the duration of a long-term, world-wide energy shortage. Then I'll tell you what we see as the necessary steps to manage the current crisis and to get ready for the long haul. But I'll spend most of my time here today discussing your role. I'm going to try to get you to take on part of the job of solving the energy crisis.

E-74-57

If we're going to manage the immediate situation successfully, we need your help. If we're going to shape a workable policy for solving the longer-range problems, we need your thinking, and your experience.

The question I hear most often these days boils down to this: Is the energy crisis real? Many people just don't believe that we are really short of energy. They are confused, frustrated, and looking for someone to blame.

The truth is we're all to blame. We have consumed our natural resources in this country like the last of the big time energy spenders. Now it's time to wake up and face the energy realities.

The Arab embargo, painful as it is, might be just the cold bath we needed. The boycott has abruptly telescoped the transition from an era of cheap and abundant energy to one of greater scarcity and higher cost.

We have been building up to this predicament for a long time. The "energy gap" was created by some of these factors:

-- Energy demand has grown between 4 and 5 percent a year for 20 years.

-- Domestic exploration peaked in 1956 and production peaked in 1970.

-- Use of coal has continued to decline for a variety of reasons, despite the fact that we have an almost infinite supply.

-- And the promise of nuclear power, which provides only 1 percent of our total energy supplies, has failed to match earlier expectations.

The fact of the matter is that today we are importing 5 million barrels a day. Post-embargo we'll import over 7 million barrels a day to meet our needs.

But before we push the panic button, let's think about two vitally important, and often overlooked, facts:

-- The U.S. is 85 percent self-sufficient in energy. That puts us in a better position than virtually any other industrialized nation except Canada and the Soviet Union.

-- From a resource standpoint, the U.S. is literally an underdeveloped nation. We have oil, natural gas, and coal reserves to meet our energy needs for centuries.

But as long as these resources lie buried in the ground, we lay ourselves wide open to boycott, price-jacking, and a thousand-and-one nightmares yet undreamed.

So the energy crisis is real. It's inconvenient. For some, it may be a temporary hardship. But it is a solvable problem. It is a manageable crisis.

The job of a manager is to decide what to do and to see that it gets done. And to me, the indicated actions are quite clear. We must:

-- dampen demand,

-- increase domestic production,

-- bring on-line the alternate sources that can be available in the intermediate-term, and,

-- expand R & D programs to find new energy sources for the medium and long range future.

Since the Federal Energy Office opened for business on December 4, we have taken vigorous action in each of these areas:

-- We have assumed control of the mandatory allocation program to ensure that energy shortages are managed equitably, with the least economic impact and, most important, a minimal effect on jobs.

-- We have implemented realistic energy conservation goals.

-- We have developed the most accurate energy information system possible within the time and authority available to us, and have asked Congress for the legislation necessary to improve it.

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-- We have proposed changes to the tax structure and other legislative initiatives designed to stimulate development of domestic resources.

I'd particularly like to commend American business and industry, not just for lowering their thermostats 10 degrees, but for countless other responsible and resourceful conservation steps.

Whole industries have pitched in. On the East Coast, electric utility companies have converted some of their generator units from oil to coal. By the end of the month 22 units will be burning coal, saving nearly 80,000 barrels of residual fuel oil a day. When the conversion program is complete, an additional 200,000 barrels a day will be saved.

Electric utilities in the Midwest, Mid-South and Canada have worked out a scheme for transmitting, or "wheeling" their power to the East Coast. This allows Eastern power companies to shut down their oil-fired generators for a few hours a day, resulting in another energy savings of 49,000 barrels a day.

The number one goal of the Mandatory Allocation Program is saving jobs, keeping the economy running. In a shortfall environment we want to manage existing supplies as equitably as possible. We want to ensure that shortages are shared regionally as well as distributively within the economy, without inhibiting long-term economic growth. The Allocation Program is also designed to keep real hardship to a minimum, guaranteeing adequate supplies needed for critical human services.

The keys to success in allocation are flexibility, and decentralization. Since December, we have increased our allocation staff to 1,280 people, almost a thousand of whom are in regional and state offices, and have reduced a backlog of 20,000 cases to a normal weekly caseload of 1,500.

Looking to the future, we face the tremendous challenge of translating present responses into new attitudes, values and patterns of action that will lead us to the capacity for energy self-sufficiency.

To attain self-sufficiency, we have set forth a five part approach to the development of sound energy policy:

First. We need a central energy organization in the government. Enactment of legislation to create a Federal Energy Agency will be an initial step in that direction. But eventually we must have a cabinet-level Department of Energy and Natural Resources.

Second. We must implement Project Independence to develop our vast untapped resources. Today, for example, we get as much energy from firewood as we do from nuclear fission. I say it is time to expand on the promise of nuclear power. With half the world's proven coal reserves, we have enough coal alone to supply all our energy needs for the next couple of centuries. And roughly 40 percent of our potential oil and natural gas reserves lie still untapped on the Outer Continental Shelf. The Alaskan pipeline, if it were in operation, would be pumping 2 million barrels a day. The oil shale in Colorado, Wyoming and Utah holds the equivalent of 1.8 trillion barrels of oil -- five times the amount of oil that's in the Persian Gulf. We must step up development of oil shale conversion, and the technologies for gasification and liquefaction of coal. We must push out to the frontiers of research in breeder reactors, nuclear fusion, geothermal and solar energy sources.

I say the time has come to bring all of these resources into the marketplace.

<u>Third</u>. We must develop a new relationship between government and industry. If we're going to manage the energy situation, we must have accurate, timely information. As I've said, we've already taken firm action, within our existing powers. And we've asked Congress for additional authority, to ensure that we get reliable, verifiable data.

<u>Fourth</u>. We must forge a new structure of international cooperation between oil producing and consuming nations. Talks last week with Canadian Energy Minister MacDonald were valuable and may point the way to closer energy ties between both countries. Next week, as you know, we will expand that dialogue in a meeting of consumer nations called by the President.

<u>Fifth</u>. We must develop a new "energy conservation ethic" in this country to dampen the runaway growth in demand. The emergency conservation measures we have taken in the last several months must be replaced by lifetime habits of energy common-sense.

We are running the American economy right now on an energy supply that's 14 percent below unconstrained demand. The fact that we can absorb that kind of deficit without serious erosion of the Nation's productive capacity tells me two things. It shows that the cooperation of the American people, and the response of business and industry, have been magnificent. It also tells me we've been living pretty high on the energy hog, and that we cut out that fat without touching the real muscle in the economy.

Some estimates, for example, indicate that we waste between 30 and 40 percent of the energy we produce. One analysis shows that 210 million Americans waste as much energy as 110 million Japanese consume.

Business and industry account for nearly 70 percent of our total energy consumption. That's why I said that you will have, must have, a major role to play in energy conservation.

We've sent out 43,000 letters to businessmen throughout the country. We've received 12,000 replies, with commitments to save energy, and the answers are still coming in. Industry initiatives to save energy are already yielding solid results.

Corporate executives have made themselves clear on one point. They insist that the Federal government should set only broad conservation guidelines. Individual companies will achieve those goals in ways which complement their unique corporate circumstances. I agree with this philosophy, and that is our approach to industry conservation.

To meet the energy realities of the future, all companies large and small, will be obliged to adopt energy management programs, to include:

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- top management commitment to energy conservation.
- an audit of all energy uses within the company.
- tough, measurable goals for energy savings, and,
- an information campaign for employees, suppliers, and customers as well, on the need for energy conservation.

Management control of energy use is taking on the same importance as other key functions, such as marketing, production, or finance.

Let's take a look at each of those four basics I mentioned a moment ago.

First, top management commitment. This requires a serious policy decision by senior management and the appointment of a corporate-level energy manager to develop and implement conservation programs down the line.

At Dupont, the Vice President of Engineering carries out the energy management job. PPG Industries has appointed a corporate energy manager to coordinate the effort through plant managers and their technical staffs.

Once top management has made this commitment and assigned responsibility, the next step is an energy audit.

A complete energy audit reviews all forms of energy used in your operation: electricity, natural gas, gasoline, coal and oil. Dow Chemical, for example, is using a four column energy balance sheet. It lists each processing step; it calculates the energy theoretically required for that process; it shows the actual energy used, and, in the last column, the variance between theoretical and actual use.

The goal of Dow's audit, of course, is to reduce that variance to a minimum.

When the energy audit has been made, you will know how much energy you are using and where. And you will probably be able to identify certain areas of waste.

Step 3, then, is to set conservation goals -- and to meet them. With the costs of all forms of energy rising, it makes good business sense to set tough, measurable goals.

Improving energy efficiency focuses on these areas: production and processing, heating and air-conditioning, lighting, construction and remodelling, and transportation.

Heating and cooling systems consume about one-fifth of the Nation's energy. In many cases, energy requirements for cooling and heating can be reduced by up to 30 percent with little sacrifice in comfort.

In commercial and industrial buildings as much as 30 cents out of every dollar spent for electricity goes for lighting. And savings of 15 percent can often be made by such simple steps as turning off lights when not needed, adjusting the light to the job requirements, or switching from incandescent to flourescent lamps.

New construction and remodelling hold even greater opportunities for energy savings. Better insulation in existing buildings, and in new construction, is a relatively inexpensive way to improve energy efficiency.

Motor fuel prices have been escalating rapidly. It is estimated that most firms, through continuous driver education and more efficient routing and scheduling, could save 15 to 20 percent of the fuel they now use.

The fourth basic step in energy management is to get the conservation message out to your employees and the community at large. If we are successful in getting the people of this country to change their spendthrift habits and become dedicated energy savers, it will probably be largely the result of thousands upon thousands of company information programs.

There are practical hard-headed business reasons for taking these four steps. Moreover, energy savings translate directly into dollar savings. In its Rochester plant, Eastman Kodak saved 1.6 million dollars in utility costs in 1972.

* In Kingsport, Tennessee, Kodak reduced its production energy consumption by 20 percent.

* AT&T is replacing all the vacuum tubes in its systems with solid state devices. The expected annual savings add up to 250 million kilowatt hours of electricity -- enough to light 30,000 homes for a year.

* Union Carbide saved $6 million last year with a 20 percent cut of production and processing energy requirements.

* And the Pepsi Cola distributors of Texas, by rerouting their trucks and persuading their customers to take larger deliveries, have reduced their motor fuel requirements by more than 40 percent.

If there is any single discipline in which the United States is indisputably without peer in the community of nations, it is management. Other nations, without exception, look with envy upon the abilities of the American manager. It is this management capability, to effectively apply a workforce and resources to achieve literally anything this country attempts, that will solve the energy crisis for us.

There are a lot of reasons for the superiority of American management -- the nature of our economy, our system of education, our advanced and sophisticated workforce, and old-fashioned "Yankee ingenuity." But I believe the primary reason for America's extraordinary and enduring management capability lies in the nature of our government. We are a free nation. And free people not only have lifelong opportunities to think for themselves, they have a lifelong obligation and need to think for themselves.

An Oriental sage once said "Pain makes man think. Thought makes man wise." Maybe the pain of the present moment will make us act with what I've called "uncharacteristic wisdom in our energy utilization."

The American people, and you, as leaders of American industry, will meet this challenge to reduce demand. Our role in government is to provide the leadership, to chart the course to self-sufficiency, to an energy supply that's absolutely invulnerable to adverse action by any other nation.

-FEO-

FEDERAL ENERGY OFFICE
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U.S. Post Office Building
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Telephone: 961-6161

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EMBARGOED FOR RELEASE UNTIL
11:00 A.M., EDST, FEBRUARY 14, 1974

OIL COMPANIES TO SUPPLY TRUCKERS

Deputy Administrator John C. Sawhill today announced that major producers of middle distillate and motor gasoline have been notified by the Federal Energy Office to immediately furnish additional fuel to truck stops so that they can meet the needs of truckers engaged in hauling cargo, freight and mail.

A telegram was sent to the major oil companies notifying them that truckers are to be assigned a base period of 100 percent of their current needs of diesel fuel and gasoline. The telegram also directs suppliers to make interim allocations to truck stops where necessary. The amendment has been submitted to the Federal Register for publication.

Attachment

-FEO-

E-74-68

TELEGRAPHIC MESSAGE:

TO: ALL MAJOR OIL COMPANIES

SUBJECT: ALLOCATION OF MIDDLE DISTILLATE AND MOTOR GASOLINE FOR TRUCKERS

THE MANDATORY ALLOCATION REGULATIONS HAVE BEEN AMENDED TO PROVIDE CARGO, FREIGHT AND MAIL HAULING USES WITH AN ALLOCATION LEVEL OF ONE HUNDRED PERCENT OF CURRENT REQUIREMENTS OF MIDDLE DISTILLATE. WITH RESPECT TO MOTOR GASOLINE, CARGO, FREIGHT AND MAIL HAULING USES BY TRUCK ARE ALSO PROVIDED WITH AN ALLOCATION LEVEL OF ONE HUNDRED PERCENT OF CURRENT REQUIREMENTS.

YOU SHOULD IMMEDIATELY PROCESS APPLICATIONS OF WHOLESALE PURCHASERS OR SUPPLIERS FOR ADJUSTMENT TO THEIR BASE PERIOD VOLUME TO COVER CERTIFIED INCREASES IN VOLUME OCCASIONED BY THESE AMENDMENTS IN ACCORDANCE WITH THE PROVISIONS OF 10 CFR 211.13(d) and 211.11. ALL WHOLESALE PURCHASERS OR SUPPLIERS OF TRUCKERS SHOULD IMMEDIATELY BE FURNISHED MIDDLE DISTILLATE AND MOTOR GASOLINE IN FULFILLMENT OF SUCH ADJUSTED BASE PERIOD VOLUMES.

JOHN W. WEBER

ASSISTANT ADMINISTRATOR

OPERATIONS AND COMPLIANCE

FEDERAL ENERGY OFFICE

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FEDERAL ENERGY OFFICE
Public Affairs
Benjamin Franklin Station
Washington, D. C.
Tel: 961-6161

FOR IMMEDIATE RELEASE FEBRUARY 15, 1974

FEO RULING CLARIFIES GAS NON-DISCRIMINATION POLICY

Service station owners who have made a practice of servicing commercial accounts, or bulk sales for commercial use, may continue to do so without violating Federal Energy Office non-discrimination policies, under a ruling issued Friday by William N. Walker, FEO General Counsel.

Walker said the practice could continue under arrangements where commercial customers purchase fuel from special pumps or during special hours.

The ruling also made clear that the odd-even license plate plan now in effect in many states does not conflict with FEO policy. It also affirms a supplier's obligation to meet all priority requirements under the mandatory petroleum allocation regulations.

The ruling came in response to questions regarding the policy banning discrimination in gasoline sales, which was announced earlier in the week.

"The purpose of the anti-discrimination ruling," Walker said, "is to emphasize the FEO policy of encouraging fair dealing and equitable treatment among gasoline and diesel fuel customers.

E-74-71 -more-

"We are continuing to rely on the goodwill and the common sense of service station owners and their customers," Walker said.

- FEO -

The ruling is attached.

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FEDERAL ENERGY OFFICE
RULING 1974 - 6

Discrimination Among Purchasers of
Allocated Products

FACTS:

Firm A is a retail marketer of motor gasoline and diesel fuel in a state or locality which has adopted a plan which establishes certain categories of purchasers and specifies the dates, times or conditions under which sales to such categories of purchaser can be made. The plan to which Firm A is subject permits the sale of gasoline to customers with vehicles with even numbered license plates only on even numbered dates, and the sale of gasoline to customers with vehicles with odd numbered license plates only on odd numbered dates. The plan also provides that certain categories of purchasers, such as those with emergency vehicles or with commercial vehicles, can purchase gasoline on any date.

Firm B is a retail marketer of motor gasoline and diesel fuel which is subject to mandatory allocation requirements under which it makes 100 percent of current needs for gasoline available to certain categories of purchaser. Firm B is also subject to an order under the State set-aside program to make available certain amounts of gasoline to a particular purchaser.

Firm C is a retail marketer of motor gasoline and diesel fuel which has a normal business practice, established before the mandatory allocation program became effective, of providing certain preferential treatment in connection with the sale of products to commercial accounts or in bulk to commerical users. Such practices include the sale to such purchasers from a separate pump or at times other than when sales are being made to the general public.

ISSUE #1:

May Firm A follow the state plan without violating 10 CFR 210.62, which requires that suppliers deal with purchasers according to normal business practices and that no supplier engage in any form of discrimination among purchasers?

ISSUE #2:

May Firm B follow the mandatory allocation requirements and the order under the State set-aside program, without violating 10 CFR 210.62?

ISSUE #3:

May Firm C continue its normal business practice of giving some form of preferential treatment to purchasers for commerical accounts or in bulk for commercial use, such as selling from a separate pump or making sales at a time other than when sales are being made to the general public without violating 10 CFR 210.62?

RULING:

Firm A may follow a state or local plan, whether mandatory or voluntary, which establishes certain categories of purchasers and certain conditions of sale as to such categories without violating

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10 CFR 210.62, provided that Firm A does not discriminate in its treatment of purchasers within the categories established by the plan. Firm A may not change its normal business practices except to the extent that it distinguishes among the categories of customer specified by the state. Such action by Firm A would not be regarded as "discriminatory" under 10 CFR 210.62(b), since it would not constitute "extending any preference or sales treatment which has the effect of frustrating or impairing the objectives, purposes and intent of this Chapter or of the Act." It should be noted, however, that compliance with any such state plan by Firm A must be uniform, and that application of such a plan to only some purchasers, (for example, purchasers who are not regarded by Firm A as regular customers), but to other purchasers, would constitute prohibited "discrimination" under 10 CFR 210.62(b).

Firm B may follow the mandatory allocation requirements and the order under the State set-aside program. 10 CFR 210.62 was adopted in order to further the goals of the over-all mandatory allocation program, and following the requirements of that program would not constitute prohibited "discriminatory" action under 10 CFR 210.62.

Firm C may continue to give some form of preferential treatment to purchasers for commercial accounts or in bulk for commercial use, provided the practice was established as a normal business practice, consistent with 10 CFR 210.62(a), and that it is not followed in such a manner as to circumvent the objectives of the mandatory allocation program.

February 14, 1974

William N. Walker
General Counsel
Federal Energy Office

FEDERAL ENERGY OFFICE
PUBLIC AFFAIRS
Ben Franklin Station
12th and Penn. Ave.
Washington, D. C. 20461
Phone: 961-6161

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EMBARGOED FOR RELEASE UNTIL
11:00 A.M. DST, SATURDAY, FEBRUARY 16, 1974

FEDERAL ENERGY OFFICE DEPUTY ADMINISTRATOR SAWHILL ANNOUNCES GASOLINE MARKUPS, ALLOCATIONS

Retail gasoline dealers whose allocated volume has been reduced by more than 15 percent will be allowed to increase their markup by one cent per gallon beginning in March, Federal Energy Office Deputy Administrator John C. Sawhill announced today.

This one cent increase maybe maintained each month providing the dealer's allocated volume remains more than 15 percent below their 1972 adjusted base period volume.

Sawhill also said he will announce new gasoline allocations for states with critical needs early next week. The FEO is dispatching teams to 20 states and the District of Columbia to verify supply figures and investigate distribution systems within the states.

"This penny increase for retail dealers is designed to offset increased dealer operating costs caused by reduced supplies," Sawhill said. "These operators have not only had to contend with reduced volumes, but also with corollary decreases in sales of non-petroleum products, such as tires, batteries and other items.

"People just don't buy those accessories after they've been waiting in line for 45 minutes or an hour. So the income of these dealers is declining, and their fixed costs are taking a larger bite of their reduced revenues.

E-74-73

-more-

Sawhill added that dealers who have been getting 85 percent or more of their base volumes have been able to withstand those increases because of a similar one cent hike in markups permitted in January.

"We made this decision after extensive study and consultation with the FEO's Retail Dealers Group," Sawhill said. "The dealers group discussed the situation at length in its meeting here Wednesday, and we telephoned them Friday for further consultations."

The Retail Dealers Group consists of 12 station operators and jobbers from all parts of the country. They will meet again in Washington on February 28.

The increase will be permitted to station operators who receive less than 85 percent of their adjusted 1972 base period allotment of gasoline. Gasoline is allocated to service stations based on adjusted 1972 sales volumes. Because of unusual demographic changes and varying marketing practices, the allocations have differed from state to state but have averaged about 85 percent nationwide.

FEO officials stressed that those dealers adding the one cent increase must make the adjustment at the same time they make their once a month adjustment to reflect increased product costs. FEO regulations permit only one price change a month.

Refiner-retailers who receive less than 85% of their adjusted base period allotment of gasoline will be allowed to increase their selling prices only if they can justify such increases through normal prenotification procedures.

# # #

E-74-73
Attachment

MEMBERS OF THE FEDERAL ENERGY OFFICE RETAIL DEALERS GROUP

RETAIL DEALERS

(1) John E. McCutchen
31 E.L. Morgan Drive
Jackson, Tenn. 38301
901-424-3545; home: 901-424-1814

(2) William S. Black
1636 W. Circle Ave.
South Bend, Ind. 46627
219-232-5819; home: 219-291-1094

(3) Rod G. Flannery
318 E. Main
Wessington Springs, So. Dak. 57382
605-539-7300; home: 605-539-2621

(4) Robt. M. Lentz
10201 New Hampshire Ave.
Silver Spring, Md.
434-2200; home: 434-2254

(5) Emmett E. Welch
7010 N.W. 16th St. Apt. 1110
Oklahoma City, Oklahoma 73112
405-524-6620; home: 405-787-9548

(6) Philip M. Hudson
1190 N. Chestnut Ave.
Fresno, Calif. 93727
209-251-8317; home: 209-251-3855

(7) Edward D. Haddad
211 Curry Hollow Rd.
Pittsburgh, Pa. 15236
412-892-2211; home: 412-655-2767

(8) Don Conrad
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606-291-2596; home: 606-341-3055

(9) James L. Miller
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813-238-7494; home: 813-920-5769

(10) Oran V. Jarrell
Interstate 95
Doswell, Va. 23047
804-876-3361; home: 804-448-3444

Alternates:

Robert Heath
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Yonkers, N.Y.
#914-969-9351;
home: 914-835-1511

Daniel Hanna
P.O. Box 3736
Portland, Oregon 97208
#503-659-0361
Home: 503-223-9122

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Embargoed until 4:00 PM Eastern DST
February 19, 1974

SIMON CALLS FOR ELIMINATION OF CRUDE OIL ALLOCATION PROGRAM IN THE EMERGENCY PETROLEUM ALLOCATION ACT

Federal Energy Office Administrator, William E. Simon, has called upon Congress for the deletion of the Crude Oil Allocation Program from the mandatory provisions of the Emergency Petroleum Allocation Act of 1973.

He has proposed an amendment to Congress that would delete the crude oil allocation program from the Act and plans to ask Congress for authority to develop a more flexible crude oil allocation program.

"I believe this action is necessary to provide flexibility in the administration of this program, as Congress originally intended, and to alleviate some of the inequities presently existing in the program," Simon said.

"The present rigid provisions of the crude oil allocation program are creating the very problems that we anticipated, and warned Congress of last summer, and serve to defeat the very purposes of the program," Simon added.

E 74-75

(more)

The provisions of the Act are such that it forces a redistribution of crude on a scale that creates serious shortages and forces large refiners that make jet fuel and gasoline to supply crude to refiners that have less capability to make these fuels. This is adding to the current jet and gasoline fuel shortage problems.

Many historical importers of crude are reluctant to import additional crude because they may now buy from or must sell to the other refiners as a result of the buy-sell provisions of the Act.

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EMBARGOED FOR RELEASE UNTIL
4:00 p.m. EASTERN DST
Feb. 19, 1974

FEBRUARY 19, 1974

FEO CARRYING OUT MANDATE OF CONGRESS IN BAN AGAINST GASOLINE DISCRIMINATION

The Federal Energy Office must carry out the mandate of Congress as specified in the Emergency Petroleum Allocation Act of 1973 in prohibiting discrimination in the sale of allocated products, FEO Administrator, William E. Simon, said today.

"We realize that this ban makes it difficult for many service station operators to continue serving their regular customers," Simon said. "However, service station operators who have served commercial accounts from special pumps or during special hours may continue to do so without violating the ban. We also are aware that it has caused a loss in volume for many dealers who would like to fill their customer's gasoline tanks while their cars are in for servicing, and we did not preclude dealers from providing gasoline for cars left at the station for repairs or other services. Also, the odd-even rationing plans now in effect in several states are not in violation of the anti-discrimination regulation."

"However, we must abide by the provisions of the Emergency Petroleum Allocation Act, which was enacted by Congress to assure that everyone gets an equitable and fair share of allocated products," Simon said. "Therefore, in enforcing the law we are abiding by Congressional mandate, which recognizes that special treatment for some means unfair hardship for others. We believe that fairness requires that all customers should receive the same treatment.

-FEO-

E-74-76

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FEDERAL ENERGY OFFICE

FACT SHEET

NON-PREFERENTIAL TREATMENT FOR GASOLINE CUSTOMERS

One of the major complaints being heard from retail gas station operators is that FEO regulations prevent them from properly serving their regular customers. FEO realizes, probably better than most, how seriously the dealers have been hurt by the current gasoline shortage. We are well aware that the dealer has been caught in the middle, with less gas, reduced sales of tires, batteries and accessories, fewer repairs and service jobs and diminishing profit margins. The station operator is bearing the brunt of customer frustration with the gasoline shortage and the long lines, and, under these circumstances, we can well understand his justifiable concern for his regular customers. These customers have loyally purchased not only gasoline, but tires, batteries, accessories and repairs from the dealer for years, and he quite understandably wants to preserve their goodwill and retain their business through the present crisis.

While we are deeply concerned and sympathetic to the sincere desire of the dealer to be allowed some way of favoring his regular customers so as to insure himself of their continued patronage, we must also take a broader view of the interests of all our citizens. When we do so, we are forced to conclude that both the Congressional mandate and the public interest require adherence to the principle of nondiscrimination. Regulations prohibiting discrimination in the sale of gasoline are contained in legislation passed by the Congress last November. Therefore, in enforcing the law we are abiding by Congressional mandate. To us, the logic is inescapable that special treatment for some means unfair hardship for others, and we believe that fairness requires that all customers should receive equitable treatment.

FEO is required by statute to ensure that the limited amount of gasoline available is distributed fairly among all customers. Section 4(b)(1) of the Emergency Petroleum Allocation Act of 1973 requires that FEO regulations "to the maximum extent practicable, shall provide for ...equitable distribution (of gasoline) among all users." Furthermore, we are convinced as a matter of sound policy that every citizen desiring to buy gasoline, regardless of his place of residence, wealth, or past purchasing habits, should have an equal chance to obtain his share of the limited supply of gasoline available. To achieve that objective, and in response to numerous inquiries and complaints, FEO has amended its regulations and issued an interpretive ruling designed to prohibit unfair discrimination among members of the same class of potential customers.

It is important to understand just what that ruling said, and what it didn't say. We did not say to the dealers that

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they could not continue to serve their regular customers. We did not tell the dealers that they could not set aside a special time or make special arrangements to serve their commercial accounts, if that had been their normal practice. We did not forbid dealers from cooperating with a mandatory or voluntary state plan which establishes certain categories of priority customers. We did not preclude dealers from providing gas for cars left at the station for repairs or other services. The FEO ruling simply provides that so long as a station is selling gasoline to non-priority customers it must give all such customers equal treatment.

To permit an individual operator to restrict his sales, directly or indirectly, to those customers he identifies as his "regular customers" would in our view be so clearly inequitable to those purchasers who for one reason or another could not qualify as the "regular customer" of any dealer, as to violate both the statute and basic principles of fairness. If each dealer, for example, could arbitrarily designate his "regular customers" and through one procedure or another sell only to these individuals, what would become of the transient, the new family in town, the out-of-state visitor, the new car owner, the "regular customer" of one of the thousands of stations which have unfortunately been forced out of business by the current crisis, or the lower income family whose purchases had never been sufficent to justify "regular customer" status in the eyes of any operator?

We cannot reverse our position regarding this matter, but we recognize the many hardships being borne by the retail dealers at this time, and we assure them that we are doing and will continue to do everything in our power to reduce their burdens, and assist them in giving all of their customers the best service possible under the circumstances.

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FOR RELEASE 10:00 A.M.
WEDNESDAY, FEBRUARY 20,1974

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
BEFORE
THE HOUSE APPROPRIATIONS COMMITTEE
WEDNESDAY, FEBRUARY 20, 1974
AT 10:00 A.M.

Mr. Chairman and Members of this Committee, I am pleased to be with you this morning to discuss the budgetary outlook for the coming fiscal year.

The revenue estimates included in the budget are for total receipts of $270 billion in fiscal year 1974 and $295 billion in fiscal year 1975. Because of the difficulties of estimating revenues -- difficulties that are compounded this year by the uncertainties of the energy situation -- our receipts estimates are presented in round numbers. Indeed, these figures should be thought of as indicative of a range of estimates extending a minimum of one percent on either side.

Outlays, over which we have greater control, are projected at $274.7 billion in fiscal year 1974 and $304.4 billion in fiscal year 1975. The result is moderate budget deficits in both years -- $4.7 billion in 1974 and $9.4 billion in 1975.

Tables attached to this statement provide details of the receipts estimates in the budget. Receipts are expected to rise by about $38 billion, or 16 percent, in fiscal year 1974 and $25 billion, or 9 percent, in 1975. Economic expansion lies behind most of the rise in receipts, although recently-legislated changes in social security taxes are important and account for about $8-1/2 billion of receipts in 1974 and an additional $5-1/2 billion in 1975. The proposed windfall profits tax on crude oil would raise an estimated $1 billion net in fiscal 1974 and an additional $2 billion net (for a total of $3 billion) in fiscal 1975. Following the usual practice, these receipts from proposed legislation are included in the budget.

This budget, from the standpoint of fiscal policy, continues about the same posture as in the past two years. In present circumstances, with the economy experiencing some shortages and an unacceptable rate of inflation, on the one hand, and some slowing of economic growth on the other hand, this appears to be the prudent course for policy to take.

The economic forecast for this calendar year calls for a slowdown in the first half of the year followed by a fairly strong recovery in the second half. Given the present uncertainties, however, economic policy must be especially flexible and ready to adapt promptly to changing circumstances. We stand ready to cooperate with your Committee and with the Congress generally to achieve the fiscal flexibility that our economic situation may prove to require.

Our first line of defense, should the economy slow down more than expected, is our system of automatic economic stabilizers such as unemployment insurance. I want to stress the need for prompt Congressional action on our proposal in this area, both the underlying reform first sent to Congress by the President last spring and the new measures designed to deal with the special needs of some labor market areas. Beyond this, however, I believe we should be cautious in applying stimulative policy. Since it is generally easier to expand than to contract the budget, a shift to budget ease -- should it turn out to be premature -- would be very unfortunate at a time like the present, when inflationary pressures are so strong. Unless and until the economic outlook departs significantly from current expectations, I believe we should maintain the present budget stance.

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It is encouraging that the Congress is moving to develop its own mechanisms to coordinate individual spending decisions within the total budget framework. Your Committee has played an important role through the years in the search for better control over the Federal budget. The Administration supports the efforts of your Committee and others in the Congress to improve the budget process and to make it a more effective instrument of economic policy.

Attachments

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Budget Receipts

Under Legislation Proposed in Fiscal 1975 Budget Document

(Billions of Dollars)

	1973 actual	1974 estimate	1975 estimate
Individual income taxes	103.2	118.0	129.0
Corporation income taxes	36.2	43.0	48.0
Social insurance taxes and contributions:			
Employment taxes and contributions	54.9	67.7	75.3
Unemployment insurance	6.1	6.2	6.0
Contributions for other insurance and retirement	3.6	4.0	4.3
Excise taxes	16.3	17.1	17.4
Estate and gift taxes	4.9	5.4	6.0
Customs duties	3.2	3.5	3.8
Miscellaneous receipts	3.9	5.0	5.2
Unified budget receipts	232.2	270.0	295.0
Deduct:			
Trust fund receipts	92.2	105.5	115.8
Interfund transactions	-21.3	-21.1	-23.6
Federal Funds receipts	161.4	185.6	202.8

Underlying Economic Assumptions

	Calendar years 1972 actual	1973 estimate	1974 estimate
Gross national product	1155	1288	1390
Personal income	939	1035	1135
Corporate profits before tax	98	126	124

Office of the Secretary of the Treasury
Office of Tax Analysis

February 14, 1974

Projected Changes in Budget Receipts

Fiscal Years 1974 and 1975

($ billions)

	Fiscal 1974 from Fiscal 1973	Fiscal 1975 from Fiscal 1974
Revenue changes traceable to:		
Economic growth	+28.4	+19.8
Windfall profits tax	+1.0	+2.0
Tax reform and simplification	--	-1.9
Social security changes	+8.4	+5.5
Other changes	--	-0.4
Total	+37.8	+25.0

Office of the Secretary of the Treasury
Office of Tax Analysis

January 24, 1974

Department of the TREASURY NEWS

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FOR IMMEDIATE RELEASE

STATEMENT BY EDWARD M. ROOB
SPECIAL ASSISTANT TO THE SECRETARY (DEBT MANAGEMENT)
BEFORE THE
1974 BANK INVESTMENTS CONFERENCE OF THE
AMERICAN BANKERS ASSOCIATION
AT THE FAIRMONT ROOSEVELT HOTEL
NEW ORLEANS, LOUISIANA
TUESDAY, FEBRUARY 19, 1974

FEDERAL FINANCING BANK

The Federal Financing Bank was established to deal with the problems created by a proliferation of financing instruments in the market bearing different names but relying ultimately on the Federal credit for their security. The Administration-sponsored Financing Bank, enacted into law late in 1973, will, under the direction of the Secretary of the Treasury, consolidate the financing of a variety of Federal agencies and of other borrowers whose obligations are guaranteed by the Federal Government. The improved marketing techniques made possible by the Financing Bank and the status of the Bank's obligations, as obligations of the United States, will reduce the costs to the U. S.

Government of borrowing in the capital markets, in some cases substantially, and will contribute to a more orderly approach to the securities market. Thus, this will reverse the trend wherein some type of Federally sponsored financing was coming to market every three of five business days.

The Financing Bank is expected to begin operations in the near future. The President has yet to appoint the four additional Members of the Board of Directors who will serve, along with the Secretary of the Treasury, who is, by law, Chairman of the Board. We expect that the Financing Bank will be in a position to meet many financing needs and have its first market borrowing before the end of this fiscal year.

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Summary

Federal Financing Bank financing is permitted under the Act for all Federal agencies and for all issuers of obligations guaranteed by a Federal agency as defined by the Act. The focus of the Bank's operations, however, will be on issues that would go to securities markets.

The Federal Financing Bank Act defines a Federal agency as:

> an executive department, an independent Federal establishment, or a corporation or other entity established by the Congress which is owned in whole or in part by the United States.

The Federal Financing Bank will:

-- allow user agencies to borrow at a lower net interest cost than otherwise available

-- allow user agencies to better tailor their cash and debt management activities to their needs for funds through the use of credit

-- minimize the number of trips which the Federal Government makes to the market each year

-- do away with a proliferation of issues which may be expensive to finance because they are excessively small or have unusual characteristics

The Federal Financing Bank will not be a new bureaucracy, but will be managed by Treasury staff under the direction of the Secretary of the Treasury and his debt management team.

The Federal Financing Bank will not create new debt; its obligations will merely replace other obligations now in the credit markets.

The Federal Financing Bank will not sponsor new programs; it is only a financing vehicle for programs already authorized.

Obligations of the Financing Bank

Federal Financing Bank obligations will be obligations of the United States just as Treasury obligations are obligations of the United States. The status of Financing Bank obligations is assured by two provisions of the Financing Bank Act.

(1) The Federal Financing Bank may require the Treasury to lend it up to $5 billion. This is at the discretion of the Federal Financing Bank.

(2) The Secretary of the Treasury is authorized to purchase any amount of additional obligations of the Bank. Since the Secretary of the Treasury is also Chairman of the Board of the Bank, this assures that Treasury's authority to borrow under the Second Liberty Bond Act is always available to assure timely payment of Financing Bank obligations.

Financing Bank obligations:

-- will be sold in the same way as Treasury obligations

-- pay interest for coupon instruments on a 365 (actual) day basis

-- will have coupons in multiples of 1/8 per cent.

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Federal Financing Bank obligations will also be like Treasury obligations in that they will be:

- -- available in "book entry," registered, and bearer form
- -- eligible for Federal Reserve wire transfer at all Federal Reserve Banks or Branches
- -- exempt from State and local taxation to the same extent as Treasury securities
- -- lawful investments and acceptable as security for all fiduciary, trust, and public funds (including Treasury Tax and Loan accounts), the investment or deposit of which is under the authority of any officer of the United States
- -- eligible as collateral for Federal Reserve Bank advances
- -- eligible for Federal Reserve open market purchases
- -- payable as to principal and coupon interest at Federal Reserve Banks or at the Treasury
- -- payable by Treasury check for interest on registered securities
- -- eligible for denominational exchanges, transfer, and inter-changes among bearer, registered, and book entry form at Federal Reserve Banks or at the Bureau of Public Debt of the Treasury
- -- eligible for relief in the event of loss, theft, or destruction in the same manner as Treasury securities
- -- eligible for purchase by national banks without restriction
- -- eligible for investment by Federal Credit Unions and small business investment companies
- -- countable as liquid assets by members of the Federal Home Loan Bank System

Which Agencies Will Participate?

The Financing Bank may purchase any obligations issued, sold, or guaranteed by any Federal agency. Moreover, most agencies will find it advantageous to use the Bank for their financing since the Bank will be able to borrow at lower cost than the individual agencies and will be able to assure availability of funds when financing might otherwise be more difficult. It is our plan to proceed systematically to expand operations of the Bank over the course of the next year rather than to assume all the agency financing burden at one time. We will be guided in this by the fact that it would not make a great deal of sense for a new agency to begin to develop an independent financial presence in the market with the Bank just around the corner. Also, it would be less urgent to assume the financing for an agency with a well defined place in the market until the Bank has become fully established.

The principal eligible agencies or programs are:

Farmers Home Administration

Export-Import Bank

Maritime Administration

Rural Electrification Administration

Public housing

Urban renewal

U. S. Postal Service

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Amtrak

Rural Telephone Bank

Small Business Administration

U.S. Railway Association

DOD military credit sales

General Services Administration

Tennessee Valley Authority

Environmental Financing Authority

Overseas Private Investment Corporation

HEW medical facilities

Student Loan Marketing Association

Washington Metropolitan Area Transit Authority

HUD new community debentures

Prospective scale

The total prospective new money needs over the next year of these agencies or programs will be approximately $10 billion, with another $10 billion of refunding of maturities. Many of these issues are short-term securities, such as public housing notes or Eximbank intermediate issues. In addition, Federal Financing Bank obligations will simply replace those obligations and not add to the total. Also, because of the provision in the Act requiring that, so far as feasible, the debt structure of the Bank be commensurate with its asset structure, there will also be a balancing of maturities. This means that the average maturity of Financing Bank obligations is likely to be somewhat greater than for Treasury obligations.

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FEDERAL ENERGY OFFICE
PUBLIC AFFAIRS
Ben Franklin Station
12th and Penn. Ave.
Washington, D. C. 20461
Phone: 961-6161

FOR IMMEDIATE RELEASE-Feb. 19, 1974

FURTHER AMPLICATION OF FEO PRESS RELEASE E-74-74: STATES TO RECEIVE ADDITIONAL GASOLINE ALLOCATION:

1. On February 9, 1974, William E. Simon, Administrator of the Federal Energy, Office, by telegram requested a redistribution of gasoline supplies of up to two percent for 12 states (Arkansas, Delaware, Kentucky, Maine, Mississippi, North Carolina, Texas, Tennessee, New Jersey, Virginia, Illinois, Maryland and the District of Columbia). This redistribution was to be made subject "to the extent practicable and considering limitation of their distribution systems... not (to) exceed an amount that would change your company's allocation fraction by more than two percent."

2. Ten States (Iowa, Kansas, Minnesota, New Mexico, North Dakota, Ohio, Oklahoma, South Dakota, Wisconsin and Wyoming) were listed as losing up to two percent gasoline supplies, which would be shifted where possible to the 12 states listed to receive the additional supplies.

3. The February 19 press release assured that the 20 States listed in that release would receive additional gasoline supplies of from two to five percent. This gasoline will be drawn down from inventories and given to the States for use by Governors in critical areas. Those States that have already received gasoline as a result of the February 9 request and are now listed on the February 19 list will get an additional supply to bring them up to the amount listed in the February 19 directive. They will not get both the amount listed on February 9 and the amount listed on February 19. To the extent they have received supply under the February 9 request, that amount will be deducted from the amount to be received under terms of the February 19 directive.

4. Those States that were on the February 9 list but not on the February 19 list will receive up to two percent of additional gasoline supply where it is possible for the supplier to provide it.

5. Those States that were scheduled to lose gasoline of up to two percent on February 9 will not be required to give up to any more gasoline than has already been requested under the terms of the February 9 request.

-FEO-

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FEDERAL ENERGY OFFICE
Public Affairs
Benjamin Franklin Station
Washington, D.C.
Tel: 961-6161

EMBARGOED FOR RELEASE UNTIL
4:00 p.m. EASTERN DST,
FEB. 19, 1974

FEBRUARY 19, 1974

FEO ADMINISTRATOR SIMON ANNOUNCES PLAN TO AID GASOLINE SHORT AREAS

FEO Administrator William E. Simon today announced emergency action to increase gasoline supplies in areas of the country which have critical needs and are experiencing shortages.

Under the plan, ten states will receive an increase of five percent of available supplies of gasoline as reported by suppliers, for the month of February and ten states will receive additional gasoline supplies equal to 2 percent for the month of February. These supplies will be provided to the Governors in addition to the 3 percent state set-aside for distribution to areas within each state experiencing the greatest shortages.

"Today's action," Simon said, "is an additional step that we are taking to help equalize the distribution problems in gasoline that exist among the various states. This is part of a continuing program that the FEO is launching to share the shortage equitably across the country.

Simon initiated this program following a directive from the President to help alleviate long lines at retail service stations. The plan resulted from FEO discussions with state leaders, reports by FEO special action teams, and updated industry supply data.

Today's action is an emergency action to alleviate local hardships, Simon said. It does not signal a departure from using 1972 as a base period to determine allocation fractions for 1974.

Gasoline will be moved to designated areas from the nation's major terminals, refineries, and import centers, through normal distribution channels. The gasoline will be drawn from existing inventories.

Simon said he will step up action to help oil companies increase gasoline supplies to rapid growth areas through regular allocation channels. He said that provisions of the FEO regulations issued January 15th allow suppliers to allocate more gasoline to dealers experiencing growth in excess of 10 percent. Gasoline retailers whose growth is at least 20 percent over the 1972 base period must apply to FEO regional offices for additional supplies.

FEO's Office of Operations and Compliance and ten Regional Administrators are working with suppliers and dealers to expedite the processing of forms, which will adjust the 1972 base period volume for growth.

Simon also announced he is calling a meeting of senior oil company executives in Washington next week to discuss alleviating problems caused by gasoline shortages.

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Simon said action teams would continue to survey state gasoline supply patterns. He further urged states with shortages to adopt plans for odd-even gas sales; staggered hours for gasoline station operations; minimum sales at the pump; and special buying provisions for emergency vehicles and users authorized to receive 100% of current needs.

"I hope these actions will stop panic buying at the gas pump, and give our allocation program a fair chance to work," Simon said. "Panic buying, shutdowns, and strikes make it impossible to gauge the full extent of the gasoline shortage and the fairness and effectiveness of our allocation program."

The FEO Administrator concluded ... "We must all remember that the best allocation program in the world will not produce a single gallon of gasoline. However, with the conservation measures we have imposed and suggested, we are hopeful we can get through this crisis without the bureaucratic nightmare of gasoline rationing..."

-FEO_

STATE	February 74 Available Supply (Millions of Gallons)	Addition to Set-Aside (%)	Addition to Set-Aside (Millions of Gallons)
Alabama	104.7	5	5.24
Arizona	73.1	5	3.66
Georgia	174.9	5	8.75
Nevada	19.2	5	.96
New Hampshire	19.6	5	.98
New Jersey	212.4	5	10.62
Oregon	67.7	5	3.39
Vermont	13.5	5	.68
Virginia	146.8	5	7.34
West Virginia	39.3	5	1.97
Connecticut	87.7	2	1.75
Florida	293.2	2	5.86
Illinois	313.6	2	6.27
Indiana	166.4	2	3.33
Maryland	110.1	2	2.20
Massachusetts	162.2	2	3.24
Missouri	155.2	2	3.10
New York	402.0	2	8.00
Pennsylvania	305.3	2	6.11
Rhode Island	29.3	2	.59
			84.04

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE February 20, 1974

SALE OF ADDITIONAL $1.5 BILLION APRIL TAX ANTICIPATION BILLS

The Treasury Department is selling an additional $1.5 billion of tax anticipation bills which will mature in April 1974.

The bills will be auctioned on Tuesday, February 26, for payment on Monday, March 4. Commercial banks may make payment for their own and their customers' accepted tenders by crediting Treasury tax and loan accounts.

The bills will mature on April 19, 1974, but may be used at face value in payment of Federal income taxes due April 15, 1974.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE February 20, 1974

TREASURY OFFERS ADDITIONAL $1.5 BILLION IN APRIL TAX ANTICIPATION BILLS

The Treasury Department, by this public notice, invites tenders for $1,500,000,000, or thereabouts, of 46-day Treasury bills (to maturity date), to be issued on March 4, 1974, on a discount basis under competitive and noncompetitive bidding as hereinafter provided. These bills will represent an additional amount of bills dated November 1, 1973, to mature April 19, 1974 (CUSIP No. 912793 UC8) originally issued in the amount of $2,007,185,000 (an additional $1,001,915,000 was issued November 30, 1973). The additional and original bills will be freely interchangeable. They will be accepted at face value in payment of income taxes due on April 15, 1974, and to the extent they are not presented for this purpose the face amount of these bills will be payable without interest at maturity. Taxpayers desiring to apply these bills in payment of April 15, 1974, income taxes may submit the bills to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, not more than fifteen days before that date. In the case of bills submitted in payment of income taxes of a corporation they shall be accompanied by a duly completed Form 503 and the office receiving these items will effect the deposit on April 15, 1974. In the case of bills submitted in payment of income taxes of all other taxpayers, the office receiving the bills will issue receipts therefor, the original of which the taxpayer shall submit on or before April 15, 1974, to the Internal Revenue Service Center Director for the District in which such taxes are payable. The bills will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Tuesday, February 26, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills bid for under this offering at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Tuesday, February 26, 1974.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $300,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on March 4, 1974. Any qualified depositary will be permitted to make settlement by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
NEWS
TELEPHONE 634-5248

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FOR IMMEDIATE RELEASE
FEBRUARY 22, 1974, E.D.T., A.M.

FY '75 REVENUE SHARING DATA REVIEW BEGINS TODAY

To assure the best, most accurate allocations of fiscal year 1975 general revenue sharing money, more than 38,000 units of local government are being asked by the Office of Revenue Sharing today to review their revenue sharing-related data.

The Treasury Department's Office of Revenue Sharing is mailing to each general-purpose local government a report of the data to be used to calculate its 1975 payments. These data pertain to 1970 population, 1969 per capita income, fiscal year 1973 adjusted taxes and fiscal year 1973 intergovernmental transfers. The figures were compiled by the U. S. Bureau of the Census using information from the 1970 Census and figures supplied by the local governments themselves.

Local governments are being asked to review the data and, if improvements are needed, to return the data with documentation to support the proposed changes to the Office of Revenue Sharing by March 22, 1974.

Fiscal year 1975 allocations of approximately $6 billion will be calculated and announced to recipient units of government in April.

"We are asking local governments to review and improve their own data well before we have to use these figures to allocate the money," Graham W. Watt, Director of the Office of Revenue Sharing, said in announcing the data improvement program. "In this way," he said, "we are confident that our estimates of fiscal year 1975 allocations will be as accurate as possible. We anticipate that any adjustments in amounts that are required to be made subsequently will be very small, indeed," Watt added.

Although the estimates of fiscal year 1975 revenue sharing allocations will be calculated and announced in April, the money involved will be paid out in quarterly installments in October 1974, January 1975, April 1975 and July 1975.

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The most advanced computer techniques are used to calculate the amount of shared revenues that each unit of state and local government receives. Data for each of nearly 38,000 states, counties, cities, towns, townships, Indian tribes and Alaskan native villages are fed into a computer which then allocates available funds according to a formula contained in the State and Local Fiscal Assistance Act of 1972 (P.L. 92-512).

The State and Local Fiscal Assistance Act, signed by President Nixon in October 1972, authorizes Secretary of the Treasury George P. Shultz to distribute $30.2 billion in shared revenues over the five-year period from January 1972 through December 1976.

Secretary Shultz established the Office of Revenue Sharing to administer the general revenue sharing program. In February 1973, Graham W. Watt, former Deputy Mayor of the District of Columbia, was named to head the operation.

Thus far, approximately $11.2 billion in shared revenues have been distributed.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

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FEB 20 1974

Dear Mr. President:

There is transmitted herewith a draft bill, "To authorize the Secretary of the Treasury to prescribe regulations to govern the arrival, entry, clearance, and related movements of vessels and vehicles, and for other purposes."

The proposed bill would amend or repeal certain of the navigation laws dating from the earliest times and certain administrative provisions of the Tariff Act of 1930, as amended, relating to the entry, clearance, and related movements of vessels and vehicles, and would authorize the Secretary of the Treasury to prescribe regulations for the government of these matters, consistent with standards set forth in the bill.

The need for the legislation results from rapid technological advances in land and water transportation which require a greater degree of flexibility in the regulation of these matters than is afforded by existing law, so that a proper balance may be achieved between the application of necessary regulatory procedures and the facilitation of the commerce of the United States.

The proposed bill in effect would extend to vessels and vehicles a degree of flexibility of regulation similar to that now provided in respect to civil aircraft under the provisions of section 1109(c) of the Federal Aviation Act of 1958 (49 U.S.C. 1509(c)), which authorizes the Secretary of the Treasury to provide by regulation for the application to civil aircraft of the laws and regulations relating to the entry and clearance of vessels.

There are enclosed an analysis explaining the provisions of the draft bill and a comparative type showing the changes that would be made in existing law.

It will be appreciated if you will lay the enclosed draft bill before the Senate. A similar proposal has been transmitted to the House of Representatives.

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The Department has been advised by the Office of Management and Budget that there is no objection from the standpoint of the Administration's program to the submission of this proposed legislation to the Congress.

Sincerely yours,

George P. Shultz

George P. Shultz

The Honorable
Gerald R. Ford
President of the Senate
Washington, D.C. 20510

Enclosures 3

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COMPARATIVE TYPE SHOWING CHANGES IN EXISTING LAW
MADE BY PROPOSED BILL

Changes in existing law made by the proposed bill are shown as follows (existing law proposed to be omitted is enclosed in brackets; new matter is underscored):

A. Statutes amended by the bill:

THE TARIFF ACT OF 1930, AS AMENDED

* * *

SUBTITLE III - ADMINISTRATIVE PROVISIONS

* * *

SEC. 431. MANIFEST - REQUIREMENT, FORM, AND CONTENTS.

[(a) The master of every vessel arriving in the United States and required to make entry shall have on board his vessel a manifest in a form to be prescribed by the Secretary of the Treasury and signed by such master under oath as to the truth of the statements therein contained. Such manifest shall contain:

First. The names of the ports or places at which the merchandise was taken on board and the ports of entry of the United States for which the same is destined, particularly describing the merchandise destined to each such port: Provided, That the master of any vessel laden exclusively with coal, sugar, salt, nitrates, hides, dyewoods, wool, or other merchandise in bulk consigned to one owner and arriving at a port for orders, may destine such cargo "for orders," and within fifteen days thereafter, but before the unlading of any part of the cargo such manifest may be amended by the master by designating the port or ports of discharge of such cargo, and in the event of failure to amend the manifest within the time permitted such cargo must be discharged at the port at which the vessel arrived and entered.

Second. The name, description, and build of the vessel, the true measure or tonnage thereof, the port to which such vessel belongs, and the name of the master of such vessel.

Third. A detailed account of all merchandise on board such vessel, with the marks and numbers of each package, and the number and description of the packages according to their usual name or denomination, such as barrel, keg, hogshead, case, or bag.

Fourth. The names of the persons to whom such packages are respectively consigned in accordance with the bills of lading issued therefor, except that when such merchandise is consigned to order the manifest shall so state.

Fifth. The names of the several passengers aboard the vessel, stating whether cabin or steerage passengers, with their baggage, specifying the number and description of the pieces of baggage belonging to each, and a list of all baggage not accompanied by passengers.

Sixth. An account of the sea stores and ship's stores on board of the vessel.]

[(b)] Whenever a manifest of articles or persons on board an aircraft is required for customs purposes to be signed, or produced or delivered to a customs officer, the manifest may be signed, produced or delivered by the pilot or person in charge of the aircraft, or by any other authorized agent of the owner or operator of the aircraft, subject to such regulations as the Secretary of the Treasury may prescribe. If any irregularity of omission or commission occurs in any way in respect of any such manifest, the owner or operator of the aircraft shall be liable for any fine or penalty prescribed by law in respect of such irregularity.

* * *

SEC. 438. UNLAWFUL RETURN OF FOREIGN VESSEL'S PAPERS.

It shall not be lawful for any foreign consul to deliver to the master of any foreign vessel the register, or document in lieu thereof, deposited with him in accordance with the provisions of [section 435 of this Act] <u>any regulation prescribed by the Secretary of the Treasury pursuant to law</u> until such master shall produce to him a clearance in due form from the appropriate customs officer of the port where such vessel has been entered. Any consul offending against the provisions of this section shall be liable to a fine of not more than $5,000.

* * *

SEC. 441. VESSELS NOT REQUIRED TO ENTER.

The following vessels shall not be required to make entry [at the customhouse]:

(1) Vessels of war and public vessels employed for the conveyance of letters and dispatches and not permitted by the laws of the nations to which they belong to be employed in the transportation of passengers or merchandise in trade;

(2) Passenger vessels making three trips or oftener a week between a port of the United States and a foreign port, or vessels used exclusively as ferryboats, carrying passengers, baggage, or merchandise: Provided, That the master of any such vessel shall be required to report such baggage and merchandise to the appropriate customs officer within twenty-four hours after arrival;

(3) Licensed yachts or undocumented American pleasure vessels not engaged in trade nor in any way violating the customs or navigation laws of the United States and not having visited any hovering vessel: Provided, That the master of any such vessel which has on board any article required by law to be entered shall be required to report such article to the appropriate customs officer within twenty-four hours after arrival.

(4) Vessels arriving in distress or for the purpose of taking on bunker coal, bunker oil, sea stores, or ship's stores and which shall depart within twenty-four hours after arrival without having landed or taken on board any passengers, or any merchandise other than bunker coal, bunker oil, sea stores, or ship's stores: Provided, That the master, owner, or agent of such vessel shall report under oath to the appropriate customs officer the hour and date of arrival and departure and the quantity of bunker coal, bunker oil, sea stores, or ship's stores taken on board; and

(5) Tugs enrolled and licensed to engage in the foreign and coasting trade in the northern, northeastern, and northwestern frontiers when towing vessels which are required by law to enter and clear.

SEC. 442. RESIDUE CARGO.

Any vessel having on board merchandise shown by the document prescribed by the Secretary of the Treasury for use as a manifest to be destined to a foreign port or place may, after the report and entry of such vessel under the provisions of [this Act] any regulation prescribed by the Secretary of the Treasury pursuant to law, proceed to such foreign port of destination with the cargo so destined therefor, without unlading the same and without the payment of duty thereon. Any vessel arriving from a foreign port or place having on board merchandise shown by the document prescribed by the Secretary of the Treasury for use as a manifest to be destined to a port or ports in the United States other than the port of entry at which such vessel first arrived and made entry may proceed with such merchandise from port to port or from district to district for the unlading thereof.

* * *

SEC. 448. UNLADING.

(a) PERMITS AND [PRELIMINARY] ENTRIES.--Except as provided in section 441 of this Act (relating to vessels not required to enter), no merchandise, passengers, or baggage shall be unladen from any vessel or vehicle arriving from a foreign port or place until entry of such vessel or report of the arrival of such vehicle has been made under regulations prescribed by the Secretary of the Treasury pursuant to law, and a permit for the unlading of the same issued by the appropriate customs officer[:].

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[Provided, That the master may make a preliminary entry of a vessel by making oath or affirmation to the truth of the statements contained in the vessel's manifest and delivering the manifest to the customs officer who boards such vessel, but the making of such preliminary entry shall not excuse the master from making formal entry of his vessel at the customhouse, as provided by this Act.] After the entry [, preliminary or otherwise,] of any vessel or report of the arrival of any vehicle, such customs officer may issue a permit to the master of the vessel, or to the person in charge of the vehicle, to unlade merchandise or baggage, but except as provided in subdivision (b) of this section merchandise or baggage so unladen shall be retained at the place of unlading until entry therefor is made and a permit for its delivery granted, and the owners of the vessel or vehicle from which any imported merchandise is unladen prior to entry of such merchandise shall be liable for the payment of the duties accruing on any part thereof that may be removed from the place of unlading without a permit therefor having been issued. Any merchandise or baggage so unladen from any vessel or vehicle for which entry is not made within forty-eight hours exclusive of Sunday and holidays from the time of the entry of the vessel or report of the vehicle, unless a longer time is granted by such customs officer, as provided in section 484, shall be sent to a bonded warehouse or the public stores and held as unclaimed at the risk and expense of the consignee in the case of merchandise and of the owner in the case of baggage, until entry thereof is made. * * *

* * *

SEC. 459. CONTIGUOUS COUNTRIES - REPORT AND MANIFEST.

[The master of any vessel of less than five net tons carrying merchandise and the person in charge of any vehicle arriving in the United States from contiguous country, shall immediately report his arrival to the customs officer at the port of entry or customhouse which shall be nearest to the place at which such vessel or vehicle shall cross the boundary line or shall enter the territorial waters of the United States, and if such vessel or vehicle have on board any merchandise, shall produce to such customs officer a manifest as required by law, and no such vessel or vehicle shall proceed farther inland nor shall discharge or land any merchandise, passengers, or baggage without receiving a permit therefor from such customs officer.]

Any person importing or bringing merchandise into the United States from a contiguous country otherwise than in a vessel or vehicle shall immediately report his arrival to the customs officer at the port of entry or customhouse which shall be nearest to the place at which he shall cross the boundary line and shall present such merchandise to such customs officer for inspection.

SEC. 460. SAME - PENALTIES FOR FAILURE TO REPORT OR FILE MANIFEST.

[The master of any vessel or the person in charge of any vehicle who fails to report arrival in the United States as required by the preceding section, or if so reporting proceeds further inland without a permit from the proper customs officer, shall be subject to a penalty of $100 for each offense.] If any merchandise is imported or brought into the United States [in any vessel or vehicle, or] by any person otherwise than in a vess or vehicle, from a contiguous country, which [vessel, vehicle, or] merchandise is not so [reported] presented to the proper customs officers, [; or if the master of such vessel or the person in charge of such vehicle fails to file a manifest for the merchandise carried therein, or discharges or lands such merchandise without a permit;] such merchandise [and the vessel or vehicle, if any, in which it was imported or brought into the United States] shall be subject to forfeiture; and [the master of such vessel or the person in charge of such vehicle, or] the person importing or bringing in merchandise otherwise than in a vessel or vehicle, shall, in addition to any other penalty, be liable to a penalty equal to the value of the merchandise which was not [reported, or not included in the manifest or which was discharged or landed without a permit] so presented. * * *

SEC. 553. ENTRY FOR TRANSPORTATION AND EXPORTATION.

Any merchandise, other than explosives and merchandise the importation of which is prohibited, shown by the document prescribed by the Secretary of the Treasury for use as a manifest, bill of lading, shipping receipt, or other document to be destined to a foreign country, may be entered for transportation in bond through the United States by a bonded carrier without appraisement or the payment of duties and exported under such regulations as the Secretary of the Treasury shall prescribe, and any baggage or personal effects not containing merchandise the importation of which is prohibited arriving in the United States destined to a foreign country may, upon the request of the owner or carrier having the same in possession for transportation, be entered for transportation in bond through the United States by a bonded carrier without appraisement or the payment of duty, under such regulations as the Secretary of the Treasury may prescribe. * * *

* * *

SEC. 581. BOARDING VESSELS.

(a) Any officer of the customs may at any time go on board of any vessel or vehicle at any place in the United States or within the customs waters or, as he may be authorized, within a customs-enforcement area established under the Anti-Smuggling Act, or at any other authorized place, without as well as within his district, and examine the <u>document prescribed by the Secretary of the Treasury for use as a</u> manifest and other documents and papers and examine, inspect, and search the vessel or vehicle and every part thereof and any person, trunk, package, or cargo on board, and to this end may hail and stop such vessel or vehicle, and use all necessary force to compel compliance.

(b) Officers of the Department of the Treasury and other persons authorized by such department may go on board of any vessel at any place in the United States or within the customs waters and hail, stop, and board such vessel in the enforcement of the navigation laws and arrest or, in case of escape or attempted escape, pursue and arrest any person engaged in the breach or violation of the navigation laws.

(c) Any master of a vessel being examined as herein provided, who presents any forged, altered, or false document or paper to the examining officer, knowing the same to be forged, altered, or false and without revealing the fact shall, in addition to any forfeiture to which in consequence the vessel may be subject, be liable to a fine of not more than [$5,000 nor less than $500] $10,000, or imprisonment for not more than five years, or both.

(d) Any vessel or vehicle which, at any authorized place, is directed to come to a stop by any officer of the customs, or is directed to come to a stop by signal made by any vessel employed in the service of the customs, and displaying proper insignia, shall come to a stop, and upon failure to comply, a vessel or vehicle so directed to come to a stop shall become subject to pursuit and the master, owner, operator, or person in charge thereof shall be liable to a penalty [of not more than $5,000 nor less than $1,000] in an amount to be determined by the Secretary of the Treasury, but in no case to exceed $5,000 for each offense, or if the failure to comply be willful or made with intent to defraud, to a fine of not more than $10,000, or imprisonment for not more than five years, or both. * * *

* * *

SEC. 584. FALSITY OR LACK OF MANIFEST - PENALTIES.

[Any master of any vessel and any person in charge of any vehicle bound to the United States who does not produce the manifest

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to the officer demanding the same shall be liable to a penalty of $500, and if any merchandise, including sea stores, is found on board of or after having been unladen from such vessel or vehicle which is not included or described in said manifest or does not agree therewith, the master of such vessel or the person in charge of such vehicle or the owner of such vessel or vehicle shall be liable to a penalty equal to the value of the merchandise so found or unladen, and any such merchandise belonging or consigned to the master or other officer or to any of the crew of such vessel, or to the owner or person in charge of such vehicle, shall be subject to forfeiture, and if any merchandise described in such manifest is not found on board the vessel or vehicle the master or other person in charge or the owner of such vessel or vehicle shall be subject to a penalty of $500: Provided, That if the appropriate customs officer shall be satisfied that the manifest was lost or mislaid without intentional fraud, or was defaced by accident, or is incorrect by reason of clerical error or other mistake and that no part of the merchandise not found on board was unshipped or discharged except as specified in the report of the master, said penalties shall not be incurred.] In addition to any other penalty imposed by law, if any merchandise, including sea stores, is found on board of or after having been unladen from any vessel or any vehicle bound to the United States which is not included or described in the document prescribed by the Secretary of the Treasury for use as a manifest or does not agree therewith, the master of such vessel or the person in charge of such vehicle, or the owner of such vessel or vehicle, shall be liable to a penalty equal to the value of the merchandise so found or unladen: Provided, That if the appropriate customs officer shall be satisfied that the said document was lost or mislaid without intentional fraud, or was defaced by accident, or is incorrect by reason of clerical error or other mistake and that no part of merchandise not found on board was unshipped or discharged except as specified in the report of the master or person in charge, such penalty shall not be incurred.

If any of such merchandise so found consists of heroin, morphine, or cocaine, isonipecaine, or opiate, the master of such vessel or person in charge of such vehicle or the owner of such vessel or vehicle shall be liable to the penalty of $50 for each ounce thereof so found. If any of such merchandise so found consists of smoking opium or opium prepared for smoking, or marihuana, the master of such vessel or person in charge of such vehicle or the owner of such vessel or vehicle shall be liable to a penalty of $25 for each ounce thereof so found. If any of such merchandise so found consists of crude opium, the master of such vessel or person in charge of such vehicle or the owner of such vessel or vehicle shall be liable to the penalty of $10 for each ounce thereof so found. Such penalties shall, notwithstanding the proviso in section 594 of this Act (relating to the immunity of vessels or vehicles used as common carriers), constitute a lien upon such vessel which may be enforced by [a libel] an appropriate civil proceeding in rem; except that the master or owne of a vessel used by any person as a common carrier in the transaction of business as such common carrier shall not be liable to such penalties and the vessel shall not be held subject to the lien, if it appears to the satisfaction of the court that neither the master nor any of the officers (including licensed and unlicensed officers and petty officers) nor the owner of the vessel knew, and could not, by the exercise of the highest degree of care and diligence, have known, that such narcotic drugs were on board. Clearance of any such vessel may be withheld until such penalties are paid or until a bond, satisfactory to the appropriate customs officer is given for the payment thereof. The provisions of this paragraph shall not prevent the forfeiture of any such vessel or vehicle under any other provision of law. As used in this paragraph the terms "opiate" and "marihuana" shall have the same meaning given those terms by section 102(17) and 102(15), respectively, of the Controlled Substance Act.

If any of such merchandise (sea stores excepted), the importation of which into the United States is prohibited, or which consists of any spirits, wines, or other alcoholic liquors for the importation of which into the United States a certificate is required under section 7 of the Anti-Smuggling Act and the required certificate be not shown, be so found upon any vessel not exceeding five hundred net tons, the vessel shall, in addition to any other penalties herein or by law provided, be seized and forfeited, and if any [manifested] merchandise (sea stores excepted), <u>included or described in the document prescribed</u>

by the Secretary of the Treasury for use as a manifest, consisting of any such spirits, wines, or other alcoholic liquors be found upon any such vessel and the required certificate be not shown, the master of the vessel shall be liable to the penalty herein provided in the case of merchandise not duly [manifested] documented: Provided, That if the appropriate customs officer shall be satisfied that the certificate required for the importation of any spirits, wines, or other alcoholic liquors was issued and was lost or mislaid without intentional fraud, or was defaced by accident, or is incorrect by reason of clerical error or other mistake, said penalties shall not be incurred.

SECTION 2792 OF THE REVISED STATUTES, AS AMENDED

(19 U.S.C. 289; 46 U.S.C. 110)

SEC. 2792. [Vessels used exclusively as ferry boats carrying passengers, baggage, and merchandise, shall not be required to enter and clear, nor shall the masters of such vessels be required to present manifests, or to pay entrance or clearance fees, or fees for receiving or certifying manifests, but they shall, upon arrival in the United States, be required to report such baggage and merchandise to the proper officer of the customs according to law.] The masters of vessels used exclusively as ferryboats carrying passengers, baggage, and merchandise shall not be required to pay entrance and clearance fees or fees for receiving or certifying the document prescribed by the Secretary of the Treasury for use as a manifest, but they shall, upon arrival in the United States, be required to report such baggage and merchandise to the appropriate customs officer, according to law.

Any passenger vessel engaged triweekly or oftener in trade between ports of the United States and foreign ports shall be exempt from entrance and clearance fees and tonnage taxes while such service triweekly or oftener is maintained.

SECTION 2793 OF THE REVISED STATUTES, AS AMENDED

(19 U.S.C. 288; 46 U.S.C. 111)

SEC. 2793. Enrolled or licensed vessels engaged in the foreign and coasting trade on the northern, northeastern, and northwestern frontiers of the United States, departing from or arriving at a port in one district to or from a port in another district, and also touching at intermediate foreign ports, shall not thereby become liable to the payment of entry and clearance fees or tonnage tax, as if from or to foreign ports; but such vessel shall, notwithstanding, be required to enter and clear[;]. [except that when such vessels are on such voyages on the Great Lakes and touch at foreign ports for the purpose of taking on bunker fuel only, they may be exempted from entering and clearing under such rules and regulations as the Secretary of the Treasury may prescribe, notwithstanding any other provisions of law: Provided, That this exception shall not apply to such vessels if, while at such foreign port, they land or take on board any passengers, or any merchandise other than bunker fuel, receive orders, discharge any seamen by mutual consent, or engage any seamen to replace those discharged by mutual consent, or transact any other business save that of taking on bunker fuel.]

SECTION 3126 OF THE REVISED STATUTES, AS AMENDED

(19 U.S.C. 293)

SEC. 3126. Any vessel, on being duly registered in pursuance of the laws of the United States, may engage in trade between one port in the United States and one or more ports within the same, with the privilege of touching at one or more foreign ports during the voyage, and land and take in thereat merchandise, passengers and their baggage, and letters, and mails. [All such vessels shall be furnished by the appropriate customs officers of the ports at which they shall take in their cargoes in the United States, with certified manifests, setting forth the particulars of the cargoes, the marks, number of packages, by whom shipped, to whom consigned, at what port to be delivered; designating such merchandise as is entitled to drawback, or to the privilege of being placed in warehouse; and the masters of all such vessels shall, on their arrival at any port of the United States from any foreign port at which such vessel may have touched, as herein provided, conform to the laws providing for the delivery of manifests of cargo and passengers taken on board at such foreign port, and all other laws regulating the report and entry of vessels from foreign ports, and be subject to all the penalties therein prescribed.]

SECTION 4208 OF THE REVISED STATUTES

(46 U.S.C. 102)

SEC. 4208. The master or person having charge or command of any steamboat on Lake Champlain, when going from the United States into the province of Quebec, may deliver a document prescribed by the Secretary of the Treasury for use as a manifest of the cargo on board, and take a clearance from the [collector] appropriate customs officer of the district through which any such boat shall last pass, when leaving the United States, without regard to the place from which any such boat shall have commenced her voyage, or where her cargo shall have been taken on board.

SECTION 4381 OF THE REVISED STATUTES, AS AMENDED

(46 U.S.C. 329)

SEC. 4381. The following fees shall be levied and collected from the owners and masters of all vessels except those navigating the waters of the northern, northeastern, and northwestern frontiers, otherwise than by sea:

For granting a permit for a vessel not belonging to a citizen or citizens of the United States, to proceed from district to district, and receiving the document prescribed by the Secretary of the Treasury for use as a manifest, two dollars.

For receiving a document prescribed by the Secretary of the Treasury for use as a manifest, and granting a permit, to unload, for such last-mentioned vessel, on her arrival in one district from another district, two dollars.

SECTION 4382 OF THE REVISED STATUTES, AS AMENDED ~~543~~ 537

(46 U.S.C. 330)

SEC. 4382. The following fees shall be levied and collected from the owners and masters of vessels navigating the waters of the northern, northeastern, and northwestern frontiers of the United States, otherwise than by sea: For certifying the document prescribed by the Secretary of the Treasury for use as a manifest, including master's oath, and granting permit for vessel to go from district to district, ten cents.

For receiving the document prescribed by the Secretary of the Treasury for use as a manifest, including master's oath, on arrival of a vessel from one collection district to another, whether touching at foreign intermediate ports or not, ten cents.

For a [port] post entry of such vessel, two dollars.

SECTION 201 OF THE ACT OF AUGUST 5, 1935

(49 STAT. 521; 19 U.S.C. 1432a)

* * *

For the purposes of sections [432, 433, 434,] 448 [585,] and 586 of this Act, any vessel which has visited any hovering vessel shall be deemed to arrive or have arrived, as the case may be, from a foreign port or place.

SECTION 9 OF THE ACT OF AUGUST 2, 1882

(22 STAT. 189, AS AMENDED; 46 U.S.C. 158)

SEC. 9. That it shall not be lawful for the master of any such steamship or other vessel, not in distress, after the arrival of the vessel within any collection district of the United States, to allow any person or persons, except a pilot, officer of the customs, or health officer, agents of the vessel, and consuls, to come on board of the vessel, or to leave the vessel, until the vessel has been taken in charge by an officer of the customs, nor, after charge so taken, without leave of such officer, until all the passengers, with their baggage, have been duly landed from the vessel. On the arrival of any such steamship or other vessel within any collection district of the United States, the master shall submit for inspection to the officer of customs who first makes demand therefor, and shall subsequently deliver [with his] a document prescribed by the Secretary of the Treasury for use as a manifest of cargo on entry, and a correct list, signed and verified on oath by the master, of all passengers taken on board the vessel at any foreign port or place, specifying, in the manner to be prescribed from time to time by the Secretary of the Treasury, the name of each passenger, age (if a child of eight years or under), sex, married or single, location of compartment or space occupied during the voyage (if the passenger be other than a cabin passenger), whether a citizen of the United States, number of pieces of baggage, and if any passenger die on the voyage the list shall specify the name, age, and cause of death of each deceased passenger. For a violation of either of the provisions of this section, or for permitting or neglecting to prevent a violation thereof, the master of the vessel shall be liable to a fine not exceeding one thousand dollars.

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SECTION 1 OF THE ACT OF JUNE 19, 1886

(24 STAT. 79, AS AMENDED; 46 U.S.C. 331)

[That on and after July first, eighteen hundred and eighty-six, no] No fees shall be charged or collected by [collectors or other] officers of customs, or by Coast Guard officials, for the following services to vessels of the United States, to wit: Measurement of tonnage and certifying the same; except that the compensation and necessary travel and subsistence expenses of the officers so measuring or certifying such vessels at the request of the owners thereof at a place other than a port of entry or a customs station shall be paid by such owners; issuing of license or granting of certificate of registry, record, or enrollment, including all indorsements on the same and bond and oath; endorsement of change of master; certifying and receiving the document prescribed by the Secretary of the Treasury for use as a manifest, including master's oath, and permit; [granting permit to vessels licensed for the fisheries to touch and trade;] granting certificate of payment of tonnage dues; recording bill of sale, mortgage, hypothecation, or conveyance, or the discharge of such mortgage or hypothecation; furnishing certificate of title; furnishing the crew list; certificate of protection to seamen; bill of health; shipping or discharging of seamen, as provided by title fifty-three of the Revised Statutes and section two of this act; apprenticing boys to the merchant service; inspecting, examining, and licensing steam vessels, including inspection-certificate and copies thereof; and licensing of master, engineer, pilot, or mate of a vessel.

SECTION 2 OF THE ACT OF NOVEMBER 6, 1966

(80 STAT. 1357; 46 U.S.C. 817)

* * *

(e) The [collector of customs] appropriate customs officer at the port or place of departure from the United States of any vessel described in subsection (a) of this section shall refuse the clearance required by [section 4197 of the Revised Statutes (46 U.S.C. 91)] any regulation prescribed by the Secretary of the Treasury pursuant to law to any such vessel which does not have evidence furnished by the Federal Maritime Commission that the provisions of this section have been complied with.

SECTION 3 OF THE ACT OF NOVEMBER 6, 1966

(80 STAT. 1358; 46 U.S.C. 817)

* * *

(e) The [collector of customs] appropriate customs officer at the port or place of departure from the United States of any vessel described in subsection (a) of this section shall refuse the clearance required by [section 4197 of the Revised Statutes (46 U.S.C. 91)] any regulation prescribed by the Secretary of the Treasury pursuant to law to any such vessel which does not have evidence furnished by the Federal Maritime Commission that the provisions of this section have been complied with.

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B. Statutes repealed by the bill:

SECTION 3111 OF THE REVISED STATUTES, AS AMENDED

(19 U.S.C. 282)

[SEC. 3111. If any vessel enrolled or licensed to engage in the foreign and coasting trade on the northern, northeastern, and northwestern frontiers of the United States shall touch at any port in the adjacent British provinces, and the master of such vessel shall purchase any merchandise for the use of the vessel, the master of the vessel shall report the same, with cost and quantity thereof, to an officer of the customs at the first port in the United States at which he shall next arrive, designating them as "sea-stores;" and in the oath to be taken by each master of such vessel, on making such report, he shall declare that the articles so specified or designated "sea-stores" are only intended for the use exclusively of the vessel, and are not intended for sale, transfer, or private use. If any other or greater quantity of dutiable articles shall be found on board such vessel than are specified in such report or entry of such articles, or any part thereof shall be landed without a permit from an officer of the customs, such articles, together with the vessel, her apparel, tackle, and furniture, shall be forfeited.]

SECTION 3118 OF THE REVISED STATUTES

(19 U.S.C. 286)

[SEC. 3118. The master of any vessel so enrolled or licensed shall, before departing from a port in one collection-district to a place in another collection-district, where there is no custom-house, file his manifest, and obtain a clearance in the same manner, and make oath to the manifest, which manifest and clearance shall be delivered to the proper officer of customs at the port at which the vessel next arrives after leaving the place of destination specified in the clearance.]

SECTION 3119 OF THE REVISED STATUTES

(19 U.S.C. 287)

[SEC. 3119. Nothing contained in the three preceding sections shall exempt masters of vessels from reporting, as now required by law, any merchandise destined for any foreign port. No permit shall be required for the unlading of cargo brought from an American port.]

SECTION 3122 OF THE REVISED STATUTES

(19 U.S.C. 290)

[SEC. 3122. The master of any vessel so enrolled or licensed, destined with a cargo from a place in the United States, at which there may be no custom-house, to a port where there may be a custom-house, shall, within twenty-four hours after arrival at the port of destination, deliver to the proper officer of the customs a manifest, subscribed by him, setting forth the cargo laden at the place of departure, or laden or unladen at any intermediate port, or place, to the truth of which manifest he shall make oath before such officer. If the vessel, however, have no cargo, the master shall not be required to deliver such manifest.]

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SECTION 3124 OF THE REVISED STATUTES, AS AMENDED

(19 U.S.C. 291)

[SEC. 3124. The manifests, certificates of clearance, and oaths, provided for by the eight preceding sections, shall be in such form, and prepared, filled up, and executed in such manner as the Secretary of the Treasury may from time to time prescribe.]

SECTION 3125 OF THE REVISED STATUTES

(19 U.S.C. 292)

[SEC. 3125. If the master of any enrolled or licensed vessel shall neglect or fail to comply with any of the provisions or requirements of the nine preceding sections, such master shall forfeit and pay to the United States the sum of twenty dollars for each and every failure or neglect, and for which sum the vessel shall be liable, and may be summarily proceeded against, by way of libel, in any district court of the United States.]

SECTION 4197 OF THE REVISED STATUTES, AS AMENDED

(46 U.S.C. 91)

[SEC. 4197. The master or person having the charge or command of any vessel bound to a foreign port shall deliver to the collector of the district from which such vessel is about to depart a manifest of all the cargo on board the same, and the value thereof, by him subscribed, and shall swear to the truth thereof; whereupon the collector shall grant a clearance for such vessel and her cargo, but without specifying the particulars thereof in the clearance, unless required by the master or other person having the charge or command of such vessel so to do. If any vessel bound to a foreign port (other than a licensed yacht or an undocumented American pleasure vessel not engaged in any trade nor in any way violating the customs or navigation laws of the United States) departs from any port or place in the United States without a clearance, or if the master delivers a false manifest, or does not answer truly the questions demanded of him, or, having received a clearance adds to the cargo of such vessel without having mentioned in the report outwards the intention to do so, or if the departure of the vessel is delayed beyond the second day after obtaining clearance without reporting the delay to the collector, the master or other person having the charge or command of such vessel shall be liable to a penalty of not more than $1,000 nor less than $500, or if the cargo consists in any part of narcotic drugs, or any spirits, wines, or other alcoholic liquors (sea stores excepted), a penalty of not more than $5,000 nor less than $1,000 for each offense, and the vessel shall be detained in any port of the United States until the said penalty is paid or secured: Provided, That in order that the commerce of the United States may move with expedition and without undue delay, the Secretary of the Treasury is hereby authorized to make regulations permitting the master of any vessel taking on cargo for a foreign port or for a port in noncontiguous territory belonging to the United States to file a manifest as hereinbefore provided, and if the manifest be not a complete manifest and it so appears upon such manifest, the collector of customs may grant clearance to the vessel in the case of an incomplete manifest, taking from the owner of the vessel, who may act in the premises by a duly authorized attorney in fact, a bond with security approved by the collector of customs in the penal sum of $1,000, conditioned that the master or someone for him will file a completed outward manifest not later than the fourth business day after the clearance of the vessel. In the event that the said complete outward manifest be not filed as required by the provisions of this section and the regulations made by the Secretary of the Treasury in pursuance hereof, then a penalty of $50 for each day's delinquency beyond the allowed period of four days for filing the completed manifest shall be exacted, and if the completed manifest be not filed within the three days following the four-day period, then for each succeeding day of delinquency a penalty of $100 shall be exacted. Suit may be instituted in the name of the United States against the principal and surety on the bond for the recovery of any penalties that may accrue and be exacted in accordance with the terms of the bond.]

SECTION 4198 OF THE REVISED STATUTES

(46 U.S.C. 94)

[SEC. 4198. The oath to be taken by the master or commander of the vessel shall be as follows:

District of

I, (insert the name), master, or commander of the (insert the denomination, and name of the vessel), bound from the port of (insert the name of the port or place sailing from) to (insert the name of the port or place bound to), do solemnly, sincerely, and truly swear (or affirm, as the case may be) that the manifest of the cargo on board the said (insert denomination and name of the vessel), now delivered by me to the collector of this district, and subscribed with my name, contains, according to the best of my knowledge and belief, a full, just, and true account of all the goods, wares, and merchandise now actually laden on board the said vessel, and of the value thereof; and if any other goods, wares, or merchandise shall be laden or put on board the said (insert denomination and name of vessel) previous to her sailing from this port, I will immediately report the same to the said collector. I do also swear (or affirm) that I verily believe the duties on all the foreign merchandise therein specified have been paid or secured, according to law, and that no part thereof is intended to be relanded within the United States, and that if by distress or other unavoidable accident it shall become necessary to reland the same, I will forthwith make a just and true report thereof to the collector of the customs of the district wherein such distress or accident may happen. So help me God.]

SECTION 4199 OF THE REVISED STATUTES

(46 U.S.C. 93)

[SEC. 4199. The form of the report and manifest to be delivered to the collector shall be as follows:

Report and manifest of the cargo laden at the port of
on board the , master, bound for port

Marks.	Numbers.	Packages or articles in bulk.	Contents or quantities.	Value at the port of exportation.

SECTION 4201 OF THE REVISED STATUTES

(46 U.S.C. 96)

[SEC. 4201. The form of a clearance, to be granted to a ship or vessel on her departure to a foreign port or place, shall be as follows:

District of ,ss,
Port of :

These are to certify all whom it doth concern, that , master or commander of the , burden tons, or thereabouts, mounted with guns, navigated with men, built, and bound for , having on board , hath here entered and cleared his said vessel according to law. Given under our hands and seals, at the custom-house of , this day of , one thousand , and in the year of the Independence of the United States of America.]

SECTION 4207 OF THE REVISED STATUTES

[SEC. 4207. Whenever any clearance is granted to any vessel of the United States, duly registered as such, and bound on any foreign voyage, the collector of the district shall annex thereto, in every case, a copy of the rates or tariffs of fees which diplomatic and consular officers are entitled, by the regulations prescribed by the President, to receive for their services.]

SECTION 4213 OF THE REVISED STATUTES, AS AMENDED

(46 U.S.C. 101)

[SEC. 4213. It shall be the duty of all masters of vessels for whom any official services shall be performed by any consular officer, without the payment of a fee, to require a written statement of such services from such consular officer, and, after certifying as to whether such statement is correct, to furnish it to the collector of the district in which such vessels shall first arrive on their return to the United States; and if any such master of a vessel shall fail to furnish such statement, he shall be liable to a fine of not exceeding fifty dollars, unless such master shall state under oath that no such statement was furnished him by said consular officer. And it shall be the duty of every collector to forward to the Secretary of the Treasury all such statements as shall have been furnished to him, and also a statement of all certified invoices which shall have come to his office, giving the dates of the certificates, and the names of the persons for whom and of the consular officer by whom the same were certified.]

SECTION 4332 OF THE REVISED STATUTES, AS AMENDED

(46 U.S.C. 274)

[SEC. 4332. Every surveyor who certifies a manifest, or grants any permit, or who receives any certified manifest, or any permit, as is provided for in this Title, shall make return thereof monthly, or sooner, if it can conveniently be made, to the collector of the district where such surveyor resides.]

SECTION 4348 OF THE REVISED STATUTES, AS AMENDED

(46 U.S.C. 293)

[SEC. 4348. The seacoasts and navigable rivers of the United States and Puerto Rico shall be divided into five great districts: The first to include all the collection districts on the seacoasts and navigable rivers between the northern boundary of the State of Maine and the southern boundary of the State of Texas; the second to consist of the island of Puerto Rico; the third to include the collection districts on the seacoasts and navigable rivers between the southern boundary of the State of California and the northern boundary of the State of Washington; the fourth to consist of the Territory of Alaska; the fifth to consist of the Territory of Hawaii.]

SECTION 4358 OF THE REVISED STATUTES, AS AMENDED

(46 U.S.C. 306)

[SEC. 4358. The coasting trade between the Territory of Alaska and any other portion of the United States shall be regulated in accordance with the provisions of law applicable to such trade between any two great districts.]

SECTION 4364 OF THE REVISED STATUTES

(46 U.S.C. 310)

[SEC. 4364. Whenever any vessel, licensed for carrying on the fishery, is intended to touch and trade at any foreign port, it shall be the duty of the master or owner to obtain permission for that purpose from the collector of the district where such vessel may be, previous to her departure and the master of every such vessel shall deliver like manifests, and make like entries, both of the vessel and of the merchandise on board, within the same time, and under the same penalty, as are by law provided for vessels of the United States arriving from a foreign port.]

SECTION 4365 OF THE REVISED STATUTES

(46 U.S.C. 311)

[SEC. 4365. Whenever a vessel, licensed for carrying on the fisheries, is found within three leagues of the coast, with merchandise of foreign growth or manufacture, exceeding the value of five hundred dollars, without having such persmission as is directed by the preceding section, such vessel, together with the merchandise of foreign growth or manufacture imported therein, shall be subject to seizure and forfeiture.]

SECTION 4366 OF THE REVISED STATUTES

(46 U.S.C. 312)

[SEC. 4366. The master of every vessel employed in the transportation of merchandise from district to district, that shall put into a port other than the one to which she was bound, shall, within twenty-four hours of his arrival, if there be an officer residing at such port, and she continue there so long, make report of his arrival to such officer, with the name of the place he came from, and to which he is bound, with an account of his lading; and every master who neglects or refuses so to do shall be liable to a penalty of twenty dollars.]

SECTION 4367 OF THE REVISED STATUTES

(46 U.S.C. 313)

[SEC. 4367. The master of every foreign vessel bound from a district in the United States to any other district within the same, shall, in all cases, previous to her departure from such district, deliver to the collector of such district duplicate manifests of the lading on board such vessel, if there be any, or, if there be none, he shall declare that such is the case; and to the truth of such manifest or declaration he shall swear, and also obtain a permit from the collector, authorizing him to proceed to the place of his destination.]

SECTION 4368 OF THE REVISED STATUTES

(46 U.S.C. 314)

[SEC. 4368. The master of every foreign vessel, on his arrival within any district from any other district, shall, in all cases, within forty-eight hours after his arrival, and previous to the unlading of any goods from on board such vessel, deliver to the collector of the district where he may have arrived, a manifest of the goods laden on board such vessel, if any there be; or if in ballast only, he shall so declare; he shall swear to the truth of such manifest or declaration, and shall also swear that such manifest contains an account of all the merchandise which was on board such vessel at the time, or has been since her departure from the place from whence she shall be reported last to have sailed; and he shall also deliver to such collector the permit which was given him from the collector of the district from whence he sailed.]

SECTION 4369 OF THE REVISED STATUTES

(46 U.S.C. 315)

[SEC. 4369. Every master of any foreign vessel who neglects or refuses to comply with any of the requirements of the two preceding sections, shall be liable to a penalty of one hundred dollars. Nothing therein contained shall, however, be construed as affecting the payment of tonnage, or any other requirements to which such vessels are subject by law.]

SECTION 4573 OF THE REVISED STATUTES

(46 U.S.C. 674)

[SEC. 4573. Before a clearance is granted to any vessel bound on a foreign voyage or engaged in the whale-fishery, the master thereof shall deliver to the collector of the customs a list containing the names, places of birth and residence, and description of the persons who compose his ship's company; to which list the oath of the captain shall be annexed, that the list contains the names of his crew, together with the places of their birth and residence, as far as he can ascertain them; and the collector shall deliver him a certified copy thereof, for which the collector shall be entitled to receive the sum of twenty-five cents.]

SECTION 4574 OF THE REVISED STATUTES

(46 U.S.C. 675)

[SEC. 4574. In all cases of private vessels of the United States sailing from a port in the United States to a foreign port, the list of the crew shall be examined by the collector for the district from which the vessel shall clear, and, if approved of by him, shall be certified accordingly. No person shall be admitted or employed on board of any such vessel unless his name shall have been entered in the list of the crew, approved and certified by the collector for the district from which the vessel shall clear. The collector, before he delivers the list of the crew, approved and certified, to the master or proper officer of the vessel to which the same belongs, shall cause the same to be recorded in a book by him for that purpose to be provided, and the record shall be open for the inspection of all persons, and a certified copy thereof shall be admitted in evidence in any court in which any question may arise under any of the provisions of this Title.]

SECTION 4575 OF THE REVISED STATUTES, AS AMENDED

(46 U.S.C. 676)

[SEC. 4575. The following rules shall be observed with reference to vessels bound on any foreign voyage:

First. The duplicate list of the ship's company, required to be made out by the master and delivered to the collector of the customs, under section forty-five hundred and seventy-three, shall be a fair copy in one uniform handwriting, without erasure or interlineation.

Second. It shall be the duty of the owners of every such vessel to obtain from the collector of the customs of the district from which the clearance is made, a true and certified copy of the shipping articles, containing the names of the crew, which shall be written in a uniform hand, without erasures or interlineations.

Third. These documents, which shall be deemed to contain all the conditions of contract with the crew as to their service, pay, voyage and all other things, shall be produced by the master, and laid before any consul of the United States, whenever he may deem their contents necessary to enable him to discharge the duties imposed upon him by law toward any mariner applying to him for his aid or assistance.

Fourth. All interlineations, erasures, or writing in a hand different from that in which such duplicates were originally made, shall be deemed fraudulent alterations, working no change in such papers, unless satisfactorily explained in a manner consistent with innocent purposes and the provisions of law which guard the rights of mariners.

Fifth. If any master of a vessel shall proceed on a foreign voyage without the documents herein required, or refuse to produce them when required, or to perform the duties imposed by this section, or shall violate the provisions thereof, he shall be liable to each and every individual injured thereby in damages, to be recovered in any court of the United States in the district where such delinquent may reside or be found, and in addition thereto be punishable by a fine of one hundred dollars for each offense.

Sixth. It shall be the duty of the boarding officer to report all violations of this section to the collector of the port where any vessel may arrive, and the collector shall report the same to the Commandant of the Coast Guard and to the United States attorney in his district.]

SECTION 4576 OF THE REVISED STATUTES, AS AMENDED

(46 U.S.C. 677)

[SEC. 4576. The master of every vessel bound on a foreign voyage or engaged in the whale fishery shall exhibit the certified copy of the list of the crew to the first boarding officer at the first port in the United States at which he shall arrive on his return, and also produce the persons named therein to the boarding officer, whose duty it shall be to examine the men with such list and to report the same to the collector; and it shall be the duty of the collector at the port of arrival, where the same is different from the port from which the vessel originally sailed, to transmit a copy of the list so reported to him to the collector of the port from which such vessel originally sailed. For each failure to produce any person on the certified copy of the list of the crew the master and owner shall be severally liable to a penalty of four hundred dollars, to be sued for, prosecuted, and disposed of in such manner as penalties and forfeitures which may be incurred for offenses against the laws relating to the collection of duties; but such penalties shall not be incurred on account of the master not producing to the first boarding officer any of the persons contained in the list who may have been discharged in a foreign country with the consent of the consul, or vice-consul there residing, certified in writing, under his hand and official seal, to be produced to the collector with the other persons composing the crew, nor on account of any such person dying or absconding or being forcibly impressed into other service of which satisfactory proof shall also be exhibited to the collector.]

THE TARIFF ACT OF 1930, AS AMENDED

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[SEC. 432. MANIFEST TO SPECIFY SEA AND SHIP'S STORES.

The manifest of any vessel arriving from a foreign port or place shall separately specify the articles to be retained on board of such vessel as sea stores, ship's stores, or bunker coal, or bunker oil, and if any other or greater quantity of sea stores, ship's stores, bunker coal, or bunker oil is found on board of any such vessel than is specified in the manifest, or if any such articles, whether shown on the manifest or not, are landed without a permit therefor issued by the appropriate customs officer all such articles omitted from the manifest or landed without a permit shall be subject to forfeiture, and the master shall be liable to a penalty equal to the value of the articles.]

[SEC. 433. REPORT OF ARRIVAL.

Within twenty-four hours after the arrival of any vessel from a foreign port or place, or of a foreign vessel from a domestic port, or of a vessel of the United States carrying bonded merchandise, or foreign merchandise for which entry has not been made, at any port or place within the United States at which such vessel shall come to, the master shall, unless otherwise provided by law, report the arrival of the vessel at the nearest customhouse, under such regulations as the Secretary of the Treasury may prescribe.]

[SEC. 434. ENTRY OF AMERICAN VESSELS.

Except as otherwise provided by law, and under such regulations as the Secretary of the Treasury may prescribe, the master of a vessel of the United States arriving in the United States from a foreign port or place shall, within forty-eight hours after its arrival within the limits of any customs collection district, make formal entry of the vessel at the customhouse by producing and depositing with the appropriate customs officer the vessel's crew list, its register, or document in lieu thereof, the clearance and bills of health issued to the vessel at the foreign port or ports from which it arrived, together with the original and one copy of the manifest, and shall make oath that the ownership of the vessel is as indicated in the register, or document in lieu thereof, and that the manifest was made out in accordance with section 431 of this Act.]

[SEC. 435. ENTRY OF FOREIGN VESSELS.

The master of any foreign vessel arriving within the limits of any customs collection district shall, within forty-eight hours thereafter, make entry at the customhouse in the same manner as is required for the entry of a vessel of the United States, except that a list of the crew need not be delivered, and that instead of depositing the

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register or document in lieu thereof such master may produce a certificate by the consul of the nation to which such vessel belongs that said documents have been deposited with him: Provided, That such exception shall not apply to the vessels of foreign nations in whose ports American consular officers are not permitted to have the custody and possession of the register and other papers of vessels entering the ports of such nations.]

[SEC. 436. FAILURE TO REPORT OR ENTER VESSEL.

Every master who fails to make the report or entry provided for in section 433, 434, or 435 of this Act shall, for each offense, be liable to a fine of not more than $1,000 and, if the vessel have, or be discovered to have had, on board any merchandise (sea stores excepted), the importation of which into the United States is prohibited, or any spirits, wines, or other alcoholic liquors, such master shall be subject to an additional fine of not more than $2,000 or to imprisonment for not more than one year, or to both such fine and imprisonment.

Every master who presents a forged, altered, or false document or paper on making entry of a vessel as required by section 434 or 435 of this Act, knowing the same to be forged, altered, or false and without revealing the fact, shall, in addition to any forfeiture to which in consequence the vessel may be subject, be liable to a fine of not more than $5,000 nor less than $50 or to imprisonment for not more than two years, or to both such fine and imprisonment.]

[SEC. 437. DOCUMENTS RETURNED AT CLEARANCE.

The register, or document in lieu thereof, deposited in accordance with section 434 or 435 of this Act shall be returned to the master or owner of the vessel upon its clearance.]

* * *

[SEC. 439. DELIVERY OF MANIFEST.

Immediately upon arrival and before entering his vessel, the master of a vessel from a foreign port or place required to make entry shall mail or deliver to such employee as the Secretary of the Treasury shall designate, a copy of the manifest, and shall on entering his vessel make affidavit that a true and correct copy was so mailed or delivered, and he shall also mail or deliver to such employee designated by the Secretary a true and correct copy of any correction of such manifest filed on entry of his vessel. Any master who fails so to mail or deliver such copy of the manifest or correction thereof shall be liable to a penalty of not more than $500.]

[SEC. 440. CORRECTION OF MANIFEST.

If there is any merchandise or baggage on board such vessel which is not included in or which does not agree with the manifest the master of the vessel shall make a post entry thereof and mail or deliver a copy to such employee as the Secretary of the Treasury shall designate and for failure so to do shall be liable to a penalty of $500.]

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[SEC. 443. CARGO FOR DIFFERENT PORTS - MANIFEST AND PERMIT.

Merchandise arriving in any vessel for delivery in different districts or ports of entry shall be described in the manifest in the order of the districts or ports at or in which the same is to be unladen. Before any vessel arriving in the United States with any such merchandise shall depart from the port of first arrival, the master shall obtain from the appropriate customs officer a permit therefor with a certified copy of the vessel's manifest showing the quantities and particulars of the merchandise entered at such port of entry and of that remaining on board.]

[SEC. 444. ARRIVAL AT ANOTHER PORT.

Within twenty-four hours after the arrival of such vessel at another port of entry, the master shall report the arrival of his vessel to the appropriate customs officer at such port and shall produce the permit issued by the appropriate customs officer at the port of first arrival, together with the certified copy of his manifest.]

[SEC. 445. PENALTIES FOR FAILURE TO HAVE PERMIT AND CERTIFIED MANIFEST.

If the master of any such vessel shall proceed to another port or district without having obtained a permit therefor and a certified copy of his manifest, or if he shall fail to produce such permit and certified copy of his manifest to the appropriate customs officer at the port of destination, or if he shall proceed to any port not specified in the permit, he shall be liable to a penalty, for each offense, of not more than $500.]

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[SEC. 465. SAME - SUPPLIES.

The master of any vessel of the United States documented to engage in the foreign and coasting trade on the northern, northeastern, and northwestern frontiers shall, upon arrival from a foreign contiguous territory, file with the manifest of such vessel a detailed list of all supplies or other merchandise purchased in such foreign country for use or sale on such vessel, and also a statement of the cost of all repairs to and all equipment taken on board such vessel. The conductor or person in charge of any railway car arriving from a contiguous country shall file with the manifest of such car a detailed list of all supplies or other merchandise purchased in such foreign country for use in the United States. If any such supplies, merchandise, repairs, or equipment shall not be reported, the master, conductor, or other person having charge of such vessel or vehicle shall be liable to a fine of not less than $100 and nor more than $500, or to imprisonment for not more than two years, or both.]

* * *

[SEC. 583. CERTIFICATION OF MANIFEST.

The master of every vessel and the person in charge of every vehicle bound to a port or place in the United States shall deliver to the officer of the customs or Coast Guard who shall first demand it of him, the original and one copy of the manifest of such vessel or vehicle, and such officer shall certify on the original manifest to the inspection thereof and return the same to the master or other person in charge.]

* * *

[SEC. 585. DEPARTURE BEFORE REPORT OR ENTRY.

If any vessel or vehicle from a foreign port or place arrives within the limits of any collection district and departs or attempts to depart, except from stress of weather or other necessity, without making a report or entry under the provisions of this Act, or if any merchandise is unladen therefrom before such report or entry, the master of such vessel shall be liable to a penalty of $5,000, and the person in charge of such vehicle shall be liable to a penalty of $500, and any such vessel or vehicle shall be forfeited, and any officer of the customs may cause such vessel or vehicle to be arrested and brought back to the most convenient port of the United States.]

THE ACT OF MAY 4, 1934

(48 STAT. 663; 46 U.S.C. 91a)

[That whenever, under any provision or provisions of any statute of the United States, it is made the duty of the masters of vessels to make entry and clearance of same, it shall be lawful for such duties to be performed by any licensed deck officer or purser of such vessel; and when such duties are performed by a licensed deck officer or purser of such vessel, such acts shall have the same force and effect as if performed by masters of such vessels: Provided, That nothing herein contained shall relieve the master of any penalty or liability provided by any statute relating to the entry or clearance of vessels.]

SECTION 1 OF THE ACT OF JULY 3, 1926

(44 STAT. 832, AS AMENDED; 46 U.S.C. 293a)

[That there is hereby created, in addition to the five great districts provided by section 4348 of the Revised Statutes as amended by the Act of May 12, 1906, a sixth great district to include all the collection districts on the Great Lakes, their connecting and tributary waters, as far east as the Raquette River, New York.]

THE ACT OF JUNE 16, 1937

(50 STAT. 303, AS AMENDED; 19 U.S.C. 1435b)

[That in order to expedite the dispatch of vessels carrying passengers operating on regular schedules and arriving at night or on a Sunday or a holiday at a port in the United States at which such vessel is required by law to report arrival and make entry and from which it is required to obtain a clearance, the appropriate customs officer if the vessel departs during the same night, Sunday, or holiday on which it arrives may, under such regulations as may be prescribed by the Secretary of the Treasury, receive the report of arrival and entry of such vessel from and give clearance for such vessel to the master or other proper officer thereof on board such vessel: Provided, That bond, as prescribed in section 451 of the Tariff Act of 1930, is given to secure reimbursement to the

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Government for the compensation of, and expenses incurred by, such customs officers in performing such services, who shall be entitled to rates of compensation fixed on the same basis and payable in the same manner and upon the same terms and conditions as in the case of customs officers and employees assigned to lading or unlading at night or on Sunday or a holiday.]

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A BILL

To authorize the Secretary of the Treasury to prescribe regulations to govern the arrival, entry, clearance, and related movements of vessels and vehicles, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SEC. 1. DEFINITIONS.--When used in this Act-

(a) The word "vessel" includes every description of water craft or other contrivance used, or capable of being used, as a means of transportation in or on water, but does not include aircraft.

(b) The word "vehicle" includes every description of carriage or other contrivance used, or capable of being used, as a means of transportation on land, but does not include aircraft.

(c) The word "person" includes individuals, partnerships, associations, and corporations.

(d) The word "Secretary" means Secretary of the Treasury.

SEC. 2. DELEGATION OF AUTHORITY - REGULATIONS.--The Secretary, with due regard for the security of the United States, the facilitation of the commerce of the United States, the enforcement of the Tariff Act of 1930, as amended (19 U.S.C. ch. 4), the protection of the revenue, and the requirements of other departments or agencies of the United States relating to the enforcement of statutes within their jurisdiction, shall prescribe regulations to govern the arrival, entry, clearance, and related movements of vessels and vehicles.

SEC. 3. DOCUMENTS.--The Secretary shall prescribe the form and content of such documents as may be required in the administration of the regulations prescribed under section 2 of this Act and may provide for the verification by written declaration in lieu of oath or affirmation of any such document.

SEC. 4. CIVIL PENALTIES.--Any person who violates any regulation prescribed pursuant to section 2 of this Act, or who makes a false oath, affirmation, or declaration to any document prescribed pursuant to section 3 of this Act, shall be subject to a civil penalty, in an amount to be determined by the Secretary, but in no case to exceed $5,000 for each offense.

SEC. 5. CRIMINAL PENALTIES.--Any person who, willfully or with the intent to defraud, violates any regulation prescribed pursuant to section 2 of this Act, or who makes a false oath, affirmation, or declaration to any document prescribed pursuant to section 3 of this Act, shall be fined not more than $10,000, or imprisoned not more than five years, or both.

SEC. 6. SEIZURE AND FORFEITURE.--Except as provided in section 594 of the Tariff Act of 1930 (19 U.S.C. 1594), any vessel, including its tackle, apparel, appurtenances, cargo, and stores, or any vehicle, including its cargo, in any way involved in a violation of any regulation prescribed by the Secretary pursuant to section 2 of this Act, in addition to any other penalty imposed by law, shall be subject to seizure and forfeiture.

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SEC. 7. DEPARTURE BEFORE REPORT, ENTRY, OR CLEARANCE.--If any vessel or vehicle, except by reason of stress of weather or other necessity, shall depart, or attempt to depart, from the limits of any port or place without making the report or entry, or obtaining the clearance, required by the regulations prescribed under section 2 of this Act, or if any merchandise is unladen therefrom before the required report or entry, any officer of the customs may cause such vessel or vehicle to be arrested and, if necessary, brought back to the most convenient port or place in the United States.

SEC. 8. APPLICABILITY OF EXISTING PROCEDURE FOR SEIZURE AND FORFEITURE.--All provisions of law relating to the seizure, summary and judicial forfeiture, and condemnation of a vessel, including its tackle, apparel, furniture, appurtenances, cargo, and stores, or of a vehicle, including its cargo, for violation of the customs laws, and the disposition of such vessel, including its tackle, apparel, furniture, appurtenances, cargo, and stores, or such vehicle, including its cargo, shall apply to seizures and forfeitures incurred under section 6 of this Act, insofar as such provisions of law are applicable and not inconsistent with the provisions of this Act.

SEC. 9. REMISSION OR MITIGATION OF CIVIL PENALTIES.--Any civil penalty and any liability to seizure or forfeiture imposed by this Act may be remitted or mitigated by the Secretary in accordance with the provisions of section 618 of the Tariff Act of 1930, as amended (19 U.S.C. 1618).

SEC. 10. MISCELLANEOUS AMENDMENTS.--Simultaneously with the entry into effect of the regulations prescribed by the Secretary pursuant to section 2 of this Act, the following provisions of law are amended:

(a) Section 2792 of the Revised Statutes, as amended (19 U.S.C. 289; 46 U.S.C. 110), is further amended by striking the first sentence and inserting in lieu thereof the following: "The masters of vessels used exclusively as ferryboats carrying passengers, baggage, and merchandise shall not be required to pay entrance and clearance fees or fees for receiving or certifying the document prescribed by the Secretary of the Treasury for use as a manifest, but they shall, upon arrival in the United States, be required to report such baggage and merchandise to the appropriate customs officer, according to law."

(b) Section 2793 of the Revised Statutes, as amended (19 U.S.C. 288; 46 U.S.C. 111), is further amended by inserting a period in lieu of the semicolon after the word "clear" and striking the remainder.

(c) Section 3126 of the Revised Statutes, as amended (19 U.S.C. 293), is further amended by striking everything after the first sentence.

(d) Subsections (e) of sections 2 and 3 of the Act of November 6, 1966 (80 Stat. 1357, 1358; 46 U.S.C. 817d(e), 817e(e)), are amended to read as follows: "The appropriate customs officer at the port or place of departure from the United States of any vessel described in subsection (a) of this section shall refuse the clearance required by any regulation prescribed by the Secretary of the Treasury pursuant to law to any such vessel which does not have evidence furnished by the Federal Maritime Commission that the provisions of this section have been complied with."

(e) Section 431 of the Tariff Act of 1930, as amended (19 U.S.C. 1431), is further amended by striking paragraph (a) and the parenthetical "(b)" before the word "Whenever".

(f) Section 201 of the Act of August 5, 1935 (19 U.S.C. 1432a) is amended by striking "432, 433, 434," and "585,".

(g) Section 438 of the Tariff Act of 1930, as amended (19 U.S.C. 1438), is further amended by striking the words "section 435 of this Act" and inserting in lieu thereof "any regulation prescribed by the Secretary of the Treasury pursuant to law".

(h) Section 441 of the Tariff Act of 1930, as amended (19 U.S.C. 1441), is further amended by striking the words "at the customhouse".

(i) Section 442 of the Tariff Act of 1930 (19 U.S.C. 1442), is amended by striking the words "this Act" in the first sentence and inserting in lieu thereof "any regulation prescribed by the Secretary of the Treasury pursuant to law"; and by inserting the words "document prescribed by the Secretary of the Treasury for use as a" before the word "manifest" wherever that word appears therein.

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(j) Section 448 of the Tariff Act of 1930, as amended (19 U.S.C. 1448), is further amended by striking paragraph (a) and inserting in lieu thereof the following:

"(a) PERMITS AND ENTRIES.--Except as provided in section 441 of this Act (relating to vessels not required to enter), no merchandise, passengers, or baggage shall be unladen from any vessel or vehicle arriving from a foreign port or place until entry of such vessel or report of the arrival of such vehicle has been made under regulations prescribed by the Secretary of the Treasury pursuant to law and a permit for the unlading of the same issued by the appropriate customs officer. After the entry of any vessel or report of the arrival of any vehicle, such customs officer may issue a permit to the master of the vessel, or to the person in charge of the vehicle, to unlade merchandise or baggage, but except as provided in subdivision (b) of this section merchandise or baggage so unladen shall be retained at the place of unlading until entry therefor is made and a permit for its delivery granted, and the owners of the vessel or vehicle from which any imported merchandise is unladen prior to entry of such merchandise shall be liable for the payment of the duties accruing on an part thereof that may be removed from the place of unlading without a permit therefor having been issued. Any merchandise or baggage so unladen

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from any vessel or vehicle for which entry is not made within forty-eight hours exclusive of Sunday and holidays from the time of the entry of the vessel or report of the vehicle, unless a longer time is granted by such customs officer, as provided in section 484, shall be sent to a bonded warehouse or the public stores and held as unclaimed at the risk and expense of the consignee in the case of merchandise and of the owner in the case of baggage, until entry thereof is made."

(k) Section 459 of the Tariff Act of 1930, as amended (19 U.S.C. 1459), is further amended by striking the first sentence thereof.

(l) Section 460 of the Tariff Act of 1930, as amended (19 U.S.C. 1460), is further amended to read as follows: "If any merchandise is imported or brought into the United States by any person otherwise than in a vessel or vehicle, from a contiguous country, which merchandise is not so presented to the proper customs officers, such merchandise shall be subject to forfeiture; and the person importing or bringing in merchandise otherwise than in a vessel or vehicle, shall, in addition to any other penalty, be liable to a penalty equal to the value of the merchandise which was not so presented."

(m) Section 581 of the Tariff Act of 1930, as amended (19 U.S.C. 1581), is further amended by inserting the words "document prescribed by the Secretary of the Treasury for use as a" before the word "manifest" in subsection (a); by striking the words"$5,000 nor less than $500" in subsection (c) and inserting in lieu thereof "$10,000, or imprisonment for not more than five years, or both"; and by striking the words "of not more than $5,000 nor less than $1,000" in subsection (d) and inserting in lieu thereof "in an amount to be determined by the Secretary of the Treasury, but in no case to exceed $5,000 for each offense, or if the failure to comply be willful or made with intent to defraud, to a fine of not more than $10,000, or imprisonment for not more than five years, or both."

(n) Section 584 of the Tariff Act of 1930, as amended (19 U.S.C. 1584), is further amended by striking the first paragraph and inserting in lieu thereof, the following: "In addition to any other penalty imposed by law, if any merchandise, including sea stores, is found on board of or after having been unladen from any vessel or any vehicle bound to the United States which is not included or described in the document prescribed by the Secretary of the Treasury for use as a manifest or does not agree therewith, the master of such vessel or the person in charge of such vehicle, or the owner of such vessel or vehicle, shall be liable to a penalty equal to the value of the merchandise so found or unladen: Provided, That if the appropriate customs officer shall be satisfied that the said document was lost or mislaid without intentional fraud, or was defaced by accident, or is incorrect by reason of clerical error or other mistake and that no part of the merchandise not found on board was unshipped or discharged except as specified in the report of the master or person in charge, such penalty shall not be incurred."; by striking the words "a libel in rem" in the fourth sentence of the second paragraph and inserting in lieu thereof "an appropriate civil proceeding in rem"; and in the third paragraph, by striking the word "manifested" the first time it appears, by inserting the words "included or described in the document prescribed by the Secretary of the Treasury for use as a manifest," before the word "consisting", and by inserting the word "documented" in lieu of the word "manifested" where it last appears.

(o) Section 4381 of the Revised Statutes, as amended (46 U.S.C. 329), and section 553 of the Tariff Act of 1930, as amended (19 U.S.C. 1553), are further amended by inserting the words "document prescribed by the Secretary of the Treasury for use as a" before the word "manifest" wherever it appears therein.

(p) Section 9 of the Act of August 2, 1882, as amended (46 U.S.C. 158), is further amended by deleting the words "with his" following the word "deliver" and by inserting in lieu thereof the words "a document prescribed by the Secretary of the Treasury for use as a"; and by inserting the word "and" after the word "entry".

(q) Section 4382 of the Revised Statutes, as amended (46 U.S.C. 330), is further amended by inserting the words "the document prescribed by the Secretary of the Treasury for use as a" before the word "manifest" and by substituting the word "post" for the word "port".

(r) Section 1 of the Act of June 19, 1886, as amended (46 U.S.C. 331), is further amended by striking the words "That on and after July first, eighteen hundred and eighty-six,"; by substituting the word "No" for the word "no"; by striking the words "collectors or other" and "granting permit to vessels licensed for the fisheries to touch and trade;" and by inserting the words "the document prescribed by the Secretary of the Treasury for use as a" before the word "manifest".

(s) Section 4208 of the Revised Statutes (46 U.S.C. 102) is amended by inserting the words "document prescribed by the Secretary of the Treasury for use as a" before the word "manifest"; and by striking the word "collector" and inserting in lieu thereof the words "appropriate customs officer."

SEC. 11. REPEALS.--Simultaneously with the entry into effect of the regulations prescribed by the Secretary of the Treasury pursuant to this Act, the following provisions of law are repealed:

(a) Sections 3111, as amended, 3118, 3119, 3122, 3124, as amended, 3125, 4197, as amended, 4198, 4199, 4201, 4213, as amended, 4332, as amended, 4348, as amended, 4358, as amended, 4364, 4365, 4366, 4367, 4368, 4369, 4573, 4574, 4575, as amended, and 4576, as amended, of the Revised Statutes (19 U.S.C. 282, 286, 287, 290, 291, 292; 46 U.S.C. 91, 93, 94, 96, 101, 274, 293, 306, 310, 311, 312, 313, 314, 315, 674, 675, 676, 677);

(b) Section 4207 of the Revised Statutes;

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(c) Sections 432, as amended, 433, as amended, 434, as amended, 435, 436, as amended, 437, 439, as amended, 440, as amended, 443, as amended, 444, as amended, 445, as amended, 465, 583, as amended, and 585, as amended, of the Tariff Act of 1930 (19 U.S.C. 1432, 1433, 1434, 1435, 1436, 1437, 1439, 1440, 1443, 1444, 1445, 1465, 1583, 1585);

(d) The Act of May 4, 1934 (46 U.S.C. 91a);

(e) Section 1 of the Act of July 3, 1926, as amended (46 U.S.C. 293a); and

(f) The Act of June 16, 1937, as amended (19 U.S.C. 1435b).

SEC. 12. RIGHTS AND LIABILITIES ACCRUING PRIOR TO EFFECTIVE DATE OF ACT - NOT AFFECTED.--The repeal of existing law or modifications thereof embraced in this Act shall not affect any act done, or any right accruing or accrued, or any suit or proceeding had or commenced in any civil or criminal case prior to such repeal or modification, but all rights or liabilities under such laws shall continue and may be enforced in the same manner as if such repeal or modification had not been made.

SEC. 13. SEPARABILITY OF PROVISIONS.--If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the provisions of this Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 14. SHORT TITLE.--This Act may be cited as "The Customs Entry and Clearance Act of 1974."

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A BILL

To authorize the Secretary of the Treasury to prescribe regulations to govern the arrival, entry, clearance, and related movements of vessels and vehicles, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SEC. 1. DEFINITIONS.--When used in this Act-

(a) The word "vessel" includes every description of water craft or other contrivance used, or capable of being used, as a means of transportation in or on water, but does not include aircraft.

(b) The word "vehicle" includes every description of carriage or other contrivance used, or capable of being used, as a means of transportation on land, but does not include aircraft.

(c) The word "person" includes individuals, partnerships, associations, and corporations.

(d) The word "Secretary" means Secretary of the Treasury.

SEC. 2. DELEGATION OF AUTHORITY - REGULATIONS.--The Secretary, with due regard for the security of the United States, the facilitation of the commerce of the United States, the enforcement of the Tariff Act of 1930, as amended (19 U.S.C. ch. 4), the protection of the revenue, and the requirements of other departments or agencies of the United States relating to the enforcement of statutes within their jurisdiction, shall prescribe regulations to govern the arrival, entry, clearance, and related movements of vessels and vehicles.

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SEC. 3. DOCUMENTS.--The Secretary shall prescribe the form and content of such documents as may be required in the administration of the regulations prescribed under section 2 of this Act and may provide for the verification by written declaration in lieu of oath or affirmation of any such document.

SEC. 4. CIVIL PENALTIES.--Any person who violates any regulation prescribed pursuant to section 2 of this Act, or who makes a false oath, affirmation, or declaration to any document prescribed pursuant to section 3 of this Act, shall be subject to a civil penalty, in an amount to be determined by the Secretary, but in no case to exceed $5,000 for each offense.

SEC. 5. CRIMINAL PENALTIES.--Any person who, willfully or with the intent to defraud, violates any regulation prescribed pursuant to section 2 of this Act, or who makes a false oath, affirmation, or declaration to any document prescribed pursuant to section 3 of this Act, shall be fined not more than $10,000, or imprisoned not more than five years, or both.

SEC. 6. SEIZURE AND FORFEITURE.--Except as provided in section 594 of the Tariff Act of 1930 (19 U.S.C. 1594), any vessel, including its tackle, apparel, appurtenances, cargo, and stores, or any vehicle, including its cargo, in any way involved in a violation of any regulation prescribed by the Secretary pursuant to section 2 of this Act, in addition to any other penalty imposed by law, shall be subject to seizure and forfeiture.

SEC. 7. DEPARTURE BEFORE REPORT, ENTRY, OR CLEARANCE.--If any vessel or vehicle, except by reason of stress of weather or other necessity, shall depart, or attempt to depart, from the limits of any port or place without making the report or entry, or obtaining the clearance, required by the regulations prescribed under section 2 of this Act, or if any merchandise is unladen therefrom before the required report or entry, any officer of the customs may cause such vessel or vehicle to be arrested and, if necessary, brought back to the most convenient port or place in the United States.

SEC. 8. APPLICABILITY OF EXISTING PROCEDURE FOR SEIZURE AND FORFEITURE.--All provisions of law relating to the seizure, summary and judicial forfeiture, and condemnation of a vessel, including its tackle, apparel, furniture, appurtenances, cargo, and stores, or of a vehicle, including its cargo, for violation of the customs laws, and the disposition of such vessel, including its tackle, apparel, furniture, appurtenances, cargo, and stores, or such vehicle, including its cargo, shall apply to seizures and forfeitures incurred under section 6 of this Act, insofar as such provisions of law are applicable and not inconsistent with the provisions of this Act.

SEC. 9. REMISSION OR MITIGATION OF CIVIL PENALTIES.--Any civil penalty and any liability to seizure or forfeiture imposed by this Act may be remitted or mitigated by the Secretary in accordance with the provisions of section 618 of the Tariff Act of 1930, as amended (19 U.S.C. 1618).

SEC. 10. MISCELLANEOUS AMENDMENTS.--Simultaneously with the entry into effect of the regulations prescribed by the Secretary pursuant to section 2 of this Act, the following provisions of law are amended:

(a) Section 2792 of the Revised Statutes, as amended (19 U.S.C. 289; 46 U.S.C. 110), is further amended by striking the first sentence and inserting in lieu thereof the following: "The masters of vessels used exclusively as ferryboats carrying passengers, baggage, and merchandise shall not be required to pay entrance and clearance fees or fees for receiving or certifying the document prescribed by the Secretary of the Treasury for use as a manifest, but they shall, upon arrival in the United States, be required to report such baggage and merchandise to the appropriate customs officer, according to law."

(b) Section 2793 of the Revised Statutes, as amended (19 U.S.C. 288; 46 U.S.C. 111), is further amended by inserting a period in lieu of the semicolon after the word "clear" and striking the remainder.

(c) Section 3126 of the Revised Statutes, as amended (19 U.S.C. 293), is further amended by striking everything after the first sentence.

(d) Subsections (e) of sections 2 and 3 of the Act of November 6, 1966 (80 Stat. 1357, 1358; 46 U.S.C. 817d(e), 817e(e)), are amended to read as follows: "The appropriate customs officer at the port or place of departure from the United States of any vessel described in subsection (a) of this section shall refuse the clearance required by any regulation prescribed by the Secretary of the Treasury pursuant to law to any such vessel which does not have evidence furnished by the Federal Maritime Commission that the provisions of this section have been complied with."

(e) Section 431 of the Tariff Act of 1930, as amended (19 U.S.C. 1431), is further amended by striking paragraph (a) and the parenthetical "(b)" before the word "Whenever".

(f) Section 201 of the Act of August 5, 1935 (19 U.S.C. 1432a) is amended by striking "432, 433, 434," and "585,".

(g) Section 438 of the Tariff Act of 1930, as amended (19 U.S.C. 1438), is further amended by striking the words "section 435 of this Act" and inserting in lieu thereof "any regulation prescribed by the Secretary of the Treasury pursuant to law".

(h) Section 441 of the Tariff Act of 1930, as amended (19 U.S.C. 1441), is further amended by striking the words "at the customhouse".

(i) Section 442 of the Tariff Act of 1930 (19 U.S.C. 1442), is amended by striking the words "this Act" in the first sentence and inserting in lieu thereof "any regulation prescribed by the Secretary of the Treasury pursuant to law"; and by inserting the words "document prescribed by the Secretary of the Treasury for use as a" before the word "manifest" wherever that word appears therein.

(j) Section 448 of the Tariff Act of 1930, as amended (19 U.S.C. 1448), is further amended by striking paragraph (a) and inserting in lieu thereof the following:

"(a) PERMITS AND ENTRIES.--Except as provided in section 441 of this Act (relating to vessels not required to enter), no merchandise, passengers, or baggage shall be unladen from any vessel or vehicle arriving from a foreign port or place until entry of such vessel or report of the arrival of such vehicle has been made under regulations prescribed by the Secretary of the Treasury pursuant to law and a permit for the unlading of the same issued by the appropriate customs officer. After the entry of any vessel or report of the arrival of any vehicle, such customs officer may issue a permit to the master of the vessel, or to the person in charge of the vehicle, to unlade merchandise or baggage, but except as provided in subdivision (b) of this section merchandise or baggage so unladen shall be retained at the place of unlading until entry therefor is made and a permit for its delivery granted, and the owners of the vessel or vehicle from which any imported merchandise is unladen prior to entry of such merchandise shall be liable for the payment of the duties accruing on any part thereof that may be removed from the place of unlading without a permit therefor having been issued. Any merchandise or baggage so unladen from any vessel or vehicle for which entry is not made within forty-eight hours exclusive of Sunday and holidays from the time of the entry of the vessel or report of the vehicle, unless a longer time is granted by such customs officer, as provided in section 484, shall be sent to a bonded warehouse or the public stores and held as unclaimed at the risk and expense of the consignee in the case of merchandise and of the owner in the case of baggage, until entry thereof is made."

(k) Section 459 of the Tariff Act of 1930, as amended (19 U.S.C. 1459), is further amended by striking the first sentence thereof.

(l) Section 460 of the Tariff Act of 1930, as amended (19 U.S.C. 1460), is further amended to read as follows: "If any merchandise is imported or brought into the United States by any person otherwise than in a vessel or vehicle, from a contiguous country, which merchandise is not so presented to the proper customs officers, such merchandise shall be subject to forfeiture; and the person importing or bringing in merchandise otherwise than in a vessel or vehicle, shall, in addition to any other penalty, be liable to a penalty equal to the value of the merchandise which was not so presented."

(m) Section 581 of the Tariff Act of 1930, as amended (19 U.S.C. 1581), is further amended by inserting the words "document prescribed by the Secretary of the Treasury for use as a" before the word "manifest" in subsection (a); by striking the words"$5,000 nor less than $500" in subsection (c) and inserting in lieu thereof "$10,000, or imprisonment for not more than five years, or both"; and by striking the words "of not more than $5,000 nor less than $1,000" in subsection (d) and inserting in lieu thereof "in an amount to be determined by the Secretary of the Treasury, but in no case to exceed $5,000 for each offense, or if the failure to comply be willful or made with intent to defraud, to a fine of not more than $10,000, or imprisonment for not more than five years, or both."

(n) Section 584 of the Tariff Act of 1930, as amended (19 U.S.C. 1584), is further amended by striking the first paragraph and inserting in lieu thereof, the following: "In addition to any other penalty imposed by law, if any merchandise, including sea stores, is found on board of or after having been unladen from any vessel or any vehicle bound to the United States which is not included or described in the document prescribed by the Secretary of the Treasury for use as a manifest or does not agree therewith, the master of such vessel or the person in charge of such vehicle, or the owner of such vessel or vehicle, shall be liable to a penalty equal to the value of the merchandise so found or unladen: Provided, That if the appropriate customs officer shall be satisfied that the said document was lost or mislaid without intentional fraud, or was defaced by accident, or is incorrect by reason of clerical error or other mistake and that no part of the merchandise not found on board was unshipped or discharged except as specified in the report of the master or person in charge, such penalty shall not be incurred."; by striking the words "a libel in rem" in the fourth sentence of the second paragraph and inserting in lieu thereof "an appropriate civil proceeding in rem"; and in the third paragraph, by striking the word "manifested" the first time it appears, by inserting the words "included or described in the document prescribed by the Secretary of the Treasury for use as a manifest," before the word "consisting", and by inserting the word "documented" in lieu of the word "manifested" where it last appears.

(o) Section 4381 of the Revised Statutes, as amended (46 U.S.C. 329), and section 553 of the Tariff Act of 1930, as amended (19 U.S.C. 1553), are further amended by inserting the words "document prescribed by the Secretary of the Treasury for use as a" before the word "manifest" wherever it appears therein.

(p) Section 9 of the Act of August 2, 1882, as amended (46 U.S.C. 158), is further amended by deleting the words "with his" following the word "deliver" and by inserting in lieu thereof the words "a document prescribed by the Secretary of the Treasury for use as a"; and by inserting the word "and" after the word "entry".

(q) Section 4382 of the Revised Statutes, as amended (46 U.S.C. 330), is further amended by inserting the words "the document prescribed by the Secretary of the Treasury for use as a" before the word "manifest" and by substituting the word "post" for the word "port".

(r) Section 1 of the Act of June 19, 1886, as amended (46 U.S.C. 331), is further amended by striking the words "That on and after July first, eighteen hundred and eighty-six,"; by substituting the word "No" for the word "no"; by striking the words "collectors or other" and "granting permit to vessels licensed for the fisheries to touch and trade;" and by inserting the words "the document prescribed by the Secretary of the Treasury for use as a" before the word "manifest".

(s) Section 4208 of the Revised Statutes (46 U.S.C. 102) is amended by inserting the words "document prescribed by the Secretary of the Treasury for use as a" before the word "manifest"; and by striking the word "collector" and inserting in lieu thereof the words "appropriate customs officer."

SEC. 11. REPEALS.--Simultaneously with the entry into effect of the regulations prescribed by the Secretary of the Treasury pursuant to this Act, the following provisions of law are repealed:

(a) Sections 3111, as amended, 3118, 3119, 3122, 3124, as amended, 3125, 4197, as amended, 4198, 4199, 4201, 4213, as amended, 4332, as amended, 4348, as amended, 4358, as amended, 4364, 4365, 4366, 4367, 4368, 4369, 4573, 4574, 4575, as amended, and 4576, as amended, of the Revised Statutes (19 U.S.C. 282, 286, 287, 290, 291, 292; 46 U.S.C. 91, 93, 94, 96, 101, 274, 293, 306, 310, 311, 312, 313, 314, 315, 674, 675, 676, 677);

(b) Section 4207 of the Revised Statutes;

(c) Sections 432, as amended, 433, as amended, 434, as amended, 435, 436, as amended, 437, 439, as amended, 440, as amended, 443, as amended, 444, as amended, 445, as amended, 465, 583, as amended, and 585, as amended, of the Tariff Act of 1930 (19 U.S.C. 1432, 1433, 1434, 1435, 1436, 1437, 1439, 1440, 1443, 1444, 1445, 1465, 1583, 1585);

(d) The Act of May 4, 1934 (46 U.S.C. 91a);

(e) Section 1 of the Act of July 3, 1926, as amended (46 U.S.C. 293a); and

(f) The Act of June 16, 1937, as amended (19 U.S.C. 1435b).

SEC. 12. RIGHTS AND LIABILITIES ACCRUING PRIOR TO EFFECTIVE DATE OF ACT - NOT AFFECTED.--The repeal of existing law or modifications thereof embraced in this Act shall not affect any act done, or any right accruing or accrued, or any suit or proceeding had or commenced in any civil or criminal case prior to such repeal or modification, but all rights or liabilities under such laws shall continue and may be enforced in the same manner as if such repeal or modification had not been made.

SEC. 13. SEPARABILITY OF PROVISIONS.--If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the provisions of this Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 14. SHORT TITLE.--This Act may be cited as "The Customs Entry and Clearance Act of 1974."

ANALYSIS

The several navigation laws administered by the United States Customs Service found in title 46, United States Code, and certain administrative provisions of the Tariff Act of 1930, as amended (19 U.S.C. ch. 4), hereinafter referred to as the "Tariff Act," prescribe procedures to be applied to the entry, clearance, and related movements of vessels and vehicles with a specificity which allows little or no administrative discretion in enforcement. These statutes also provide outdated and inconsistent penalties for violations and, in addition, detail with unnecessary exactitude the form and contents of documents required in connection with the implementation of the prescribed procedures, thereby preventing adaptation of the documents to modern needs.

Rapid technological advances in land and water transportation and in the transportation of cargo, such as the use of Lighter-Aboard-Ship (LASH) type barges in conjunction with a mother vessel, and the increasing emphasis on the use of containerization in cargo movement (the subject of several international Customs Conventions); the application of automatic data processing to cargo documentation, including the preparation of manifests and related documents; and the proposed standardization of forms on a worldwide basis under the auspices of the Intergovernmental Maritime Consultative Organization (IMCO), make imperative that a greater degree of administrative discretion and flexibility be permitted in the regulation of these matters than is afforded by existing law.

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The proposed bill accordingly would amend or repeal certain navigation laws dating from the earliest times and certain administrative provisions of the Tariff Act. It would, in their stead, authorize the Secretary of the Treasury, hereinafter referred to as the "Secretary," to prescribe regulations to govern the arrival, entry, clearance, and related movements of vessels and vehicles, subject to standards set forth in the proposed bill, and would provide civil and criminal penalties for violations of the regulations. It thus would afford a degree of flexibility in the control of vessels and vehicles similar to that provided in connection with civil aircraft by section 1109(c) of the Federal Aviation Act of 1958 (49 U.S.C. 1509(c)), which authorizes the Secretary to provide by regulation for the application to civil aircraft of the laws and regulations related to the entry and clearance of vessels "to such extent and upon such conditions as he deems necessary."

Section 1 would set forth certain definitions based primarily on sections 401(a), (b), and (d) of the Tariff Act (19 U.S.C. 1401(a), (b), and (d)). However, subsection (a), which defines "vessel," is also based on section 3 of the Revised Statutes, as amended (1 U.S.C. 3), which refers to "transportation on water" in defining "vessel." This would insure that hovercraft and similar vessels are covered by the definition.

Section 2 would authorize the Secretary to prescribe regulations to govern the arrival, entry, clearance, and related movements (for example, from port to port or place to place) of vessels and vehicles, subject to certain standards. The regulations would be prescribed with due regard for the security of the United States, the facilitation of its commerce, the enforcement of the Tariff Act, the protection of the revenue, and the requirements of other departments or agencies relating to the enforcement of statutes within their jurisdiction. A somewhat similar degree of discretion presently is vested in the Secretary in respect of civil aircraft. It is anticipated that the new regulations would provide procedures for the report of arrival, entry, and clearance of vessels and vehicles similar to procedures provided under existing law, but would simplify procedures governing the related movement of vessels and vehicles, such as from port to port and place to place. In addition, provisions may be made for entry and clearance to take place on board vessels as well as at the customhouse or dockside. Section 2 would not be construed as authority to prescribe regulations governing functions administered by any other department or agency under their statutory authority without the concurrence of that department or agency.

Section 3 would authorize the Secretary to prescribe the form and content of the documents required in the administration of regulations prescribed under section 2 and to provide for the verification by written declaration in lieu of oath or affirmation of any such document. The documents involved include, inter alia, manifests (perhaps to be redesignated as "Cargo Declarations" in agreement with the IMCO requirements), clearance certificates, and permits to proceed. Similar but limited authority is presently provided by section 3124 of the Revised Statutes, as amended (19 U.S.C. 291). Under existing law, section 431 of the Tariff Act (19 U.S.C. 1431), and sections 4197, as amended, and 4199 of the Revised Statutes (46 U.S.C. 91, 93) prescribe the form and content, respectively, of the inward and outward manifests with a degree of specificity which is not in harmony with current practices relating to form design and inhibit full implementation of the standardized model forms prescribed by IMCO for worldwide use.

The need for discretionary authority in prescribing the contents of forms is illustrated by the obsolete requirement (from the Customs viewpoint) that the outward manifest show the "value" of the shipments covered thereby. At the time of the enactment of section 93 of the Act of March 2, 1799, 1 Stat. 698 (R.S. 4197, 4199; 46 U.S.C. 91, 93), "value" seems to have been useful in Customs' compilations of statistical data relating to exports. Compilation of such statistical data is now a function of the Bureau of the Census of the Department of Commerce, and the value of export merchandise is compiled from shippers' export declarations prescribed by that agency.

Section 431 of the Tariff Act, in respect of the inward manifest, requires a passenger list with details of the passengers' baggage. The utility of such a requirement is questionable, as it has been found possible, at least until very recently, to do away with the passenger list in the case of civil aircraft, the largest of which carry a number of passengers which is greater than that carried by all but the largest vessels.

The archaic language frozen into the form of clearance prescribed by section 4201 of the Revised Statutes (46 U.S.C. 96) contains a requirement that the number of guns with which a vessel is mounted be specified. Sections 4573, 4574, 4575, as amended, and 4576, as amended, of the Revised Statutes (46 U.S.C. 674, 675, 676, and 677) establish in detail requirements for the certification of crew lists in respect of vessels of the United States. This information duplicates that found on the articles of engagement (shipping articles) of vessels of the United States required to be executed under the statutes administered by the U.S. Coast Guard and serves no useful Customs purpose. The repeal of the cited statutes has been proposed in a bill sponsored by the Department of Transportation.

The standardized model form of Cargo Declaration prescribed by IMCO as a means of implementing the Convention on Facilitation of International Maritime Traffic, ratified by the United States on March 17, 1967 (19 UST 6251), omits some of the information required by present statutes to appear on the inward and outward manifests and requires only that the master declare as to its correctness. The Customs Service is considering amending its regulations to place this form in use but would be required, at the same time, to prescribe another form containing the oaths of the master as required by present law.

Furthermore, although section 17 of the Customs Simplification Act of 1953 (19 U.S.C. 1486(d)), granted authority to the Secretary of the Treasury to permit any document required by any law administered by the Customs Service to be under oath to be verified by a written declaration in lieu of the oath otherwise required, this statute has not been implemented with respect of oaths required on entry and clearance, and in port to port movements, because it is doubtful that the penalties applicable to false oaths would apply if a false written declaration were submitted in lieu of such oaths. The authority granted to the

Secretary in this section in conjunction with the civil penalty provided for in section 4 of the proposed bill would permit verification by written declaration of all documents required under laws administered by Customs with a penalty for the falsification of such declaration.

Section 4 would establish a civil penalty in an amount to be determined by the Secretary, but in no case to exceed $5,000, for each offense, applicable to any person who violates any regulation prescribed pursuant to section 2, or who makes a false declaration to any document prescribed pursuant to section 3.

Section 5 would provide a fine of not more than $10,000, or imprisonment for not more than 5 years, or both, if the violation is willful or made with the intent to defraud.

The uniform civil penalty in section 4 would replace certain penalties now provided for violation of the following statutes which would be amended or repealed by sections 10 and 11:

Statute Amended	Present Penalty
Section 3126 of the Revised Statutes, as amended (19 U.S.C. 293)	All the penalties prescribed in the laws providing for the delivery of manifests of cargo and passengers taken on board at any foreign port at which the vessel may have touched while in trade between one port in the United States and one or more foreign ports and all other laws regulating the report and entry of vessels from foreign ports.
Section 442 of the Tariff Act (19 U.S.C. 1442)	As provided in section 445 of the Tariff Act, as amended (19 U.S.C. 1445), not more than $500 for each offense.

Statute Amended	Present Penalty
Section 459 of the Tariff Act, as amended (19 U.S.C. 1459)	As provided in section 460 of the Tariff Act, as amended (19 U.S.C. 1460), $100.
Section 460 of the Tariff Act, as amended (19 U.S.C. 1460)	For failure to report arrival as required by section 459 of the Tariff Act, as amended (19 U.S.C. 1459), or, if so reporting, proceeding further inland without a permit, $100.
Section 584 of the Tariff Act, as amended (19 U.S.C. 1584)	For lack of a manifest, $500; if any merchandise, including sea stores, is found on board or after having been unladen which is not described in the manifest, a penalty equal to the value of the merchandise so found or unladen, and if belonging or consigned to the master or to any of the crew of a vessel or to the owner or person in charge of a vehicle, forfeiture; if merchandise described in the manifest is not found on board the vessel or vehicle, the master or person in charge shall be subject to a penalty of $500.[The penalty equal to the value of the merchandise so found or unladen in the event of a discrepancy is retained in section 10 (n) of the proposed legislation. No change is made in respect of the additional penalties applicable when merchandise not agreeable to the manifest consists of narcotics.]

Statute Repealed	Present Penalty
Section 3111of the Revised Statutes, as amended (19 U.S.C. 282)	Articles involved, "together with the vessel, her apparel, tackle, and furniture shall be forfeited."

Statute Repealed	Present Penalty
Section 3118 of the Revised Statutes (19 U.S.C. 286)	The penalty provided by section 3125 of the Revised Statutes (19 U.S.C. 292), $20.
Section 3119 of the Revised Statutes. (19 U.S.C. 287)	The penalty provided by section 3125 of the Revised Statutes (19 U.S.C. 292), $20.
Section 3122 of the Revised Statutes. (19 U.S.C. 290)	The penalty provided by section 3125 of the Revised Statutes (19 U.S.C. 292), $20.
Section 3124 of the Revised Statutes as amended (19 U.S.C. 291)	The penalty provided by section 3125 of the Revised Statutes (19 U.S.C. 292), $20.
Section 3125 of the Revised Statutes. (19 U.S.C. 292)	For violations of 19 U.S.C. 286, 287, 290 and 291, $20.
Section 4197 of the Revised Statutes, as amended (46 U.S.C. 91)	For violation of clearance or delivering a false manifest, "a penalty of not more than $1,000 nor less than $500, or if the cargo consists in any part of narcotic drugs, or any spirits, wines, or other alcoholic liquors (sea stores excepted) a penalty of not more than $5,000 nor less than $1,000;" for failure to file a completed outward manifest timely after clearance on an incomplete manifest, "a penalty of $50 for each day's delinquency beyond the allowed period of four days," and "if the completed manifest be not filed within the three days following the four-day period, then for each succeeding day of delinquency a penalty of $100."
Section 4213 of the Revised Statutes, as amended (46 U.S.C. 101)	"A fine of not exceeding $50."
Section 4364 of the Revised Statutes (46 U.S.C. 310)	"The same penalty, as are [sic] by law provided for vessels of the United States arriving from a foreign port."

Statute Repealed	Present Penalty
Section 4366 of the Revised Statutes (46 U.S.C. 312)	$20
Section 4367 of the Revised Statutes (46 U.S.C. 313)	The penalty provided by section 4369 of the Revised Statutes (46 U.S.C. 315), $100.
Section 4368 of the Revised Statutes (46 U.S.C. 314)	The penalty provided by section 4369 of the Revised Statutes (46 U.S.C. 315), $100.
Section 4369 of the Revised Statutes (46 U.S.C. 315)	For violations of 46 U.S.C. 313 and 314, $100.
Section 4573 of the Revised Statutes (46 U.S.C. 674)	The penalty provided by implication by Section 4575 of the Revised Statutes, as amended (46 U.S.C. 676), $400.
Section 4574 of the Revised Statutes (46 U.S.C.675)	The penalty provided by implication by section 4575 of the Revised Statutes, as amended (46 U.S.C. 676), $400.
Section 4575 of the Revised Statutes, as amended (46 U.S.C.676)	"A fine of $100 for each offense."
Section 4576 of the Revised Statutes, as amended (46 U.S.C. 677)	For violations of 46 U.S.C. 674 and 675, $400.
Section 432 of the Tariff Act, as amended (19 U.S.C. 1432)	"All such articles omitted from the manifest or landed without a permit shall be subject to forfeiture, and the master shall be liable to a penalty equal to the value of the articles." [The liability of the master to a penalty equal to the value of the articles has been preserved in the amendment to section 584 of the Tariff Act, as amended (19 U.S.C. 1584) which is set forth in section 10(n) of the proposed legislation.]

Statute Repealed	Present Penalty
Sec. 433 of the Tariff Act, as amended (19 U.S.C. 1433)	As provided in section 436 of the Tariff Act, as amended (19 U.S.C. 1436), q.v.
Sec. 434 of the Tariff Act, as amended (19 U.S.C. 1434)	As provided in section 436 of the Tariff Act, as amended (19 U.S.C. 1436), q.v.
Sec. 435 of the Tariff Act (19 U.S.C. 1435)	As provided in section 436 of the Tariff Act, as amended (19 U.S.C. 1436), q.v.
Sec. 436 of the Tariff Act, as amended (19 U.S.C. 1436)	For failure to make the report or entry provided for in sections 433, as amended, 434, as amended, or 435 of the Tariff Act (19 U.S.C. 1433, 1434, and 1435), "a fine of not more than $1,000 and, if the vessel have, or have had, on board any merchandise (sea stores excepted), the importation of which into the United States is prohibited, or any spirits, wines, or any other alcoholic liquors,... [the] master shall be subject to an additional fine of not more than $2000 or to imprisonment for not more than one year, or to both:, or for presentation of "a forged, altered, or false document or paper on making entry knowing the same be forged, altered, or false and without revealing the fact, shall, in addition to any forfeiture to which in consequence the vessel may be subject, a fine of not more than $5000 nor less than $50 or to imprisonment for not more than two years, or to both".
Sec. 439 of the Tariff Act, as amended (19 U.S.C. 1439)	"A penalty of not more than $500."
Sec. 440 of the Tariff Act, as amended (19 U.S.C. 1440)	$500

Statute Repealed	Present Penalty
Sec. 443 of the Tariff Act, as amended (19 U.S.C. 1443)	As provided in section 445 of the Tariff Act, as amended (19 U.S.C. 1445), $500
Sec. 444 of the Tariff Act, as amended (19 U.S.C. 1444)	As provided in section 445 of the Tariff Act, as amended (19 U.S.C. 1445), $500
Sec. 445 of the Tariff Act, as amended (19 U.S.C. 1445)	For violations of 19 U.S.C. 1442, 1443, and 1444, a "penalty, for each offense, of not more than $500."
Sec. 465 of the Tariff Act (19 U.S.C. 1465)	A "fine of not less than $100 and not more than $500, or to imprisonment for not more than two years, or both."
Sec. 581 of the Tariff Act, as amended (19 U.S.C. 1581)	For false or forged documents, "not more than $5,000 nor less than $500;" for failing to come to a stop when so ordered, "not more than $5,000 nor less than $1,000."
Sec. 583 of the Tariff Act, as amended (19 U.S.C. 1583)	As provided in section 584 of the Tariff Act, as amended (19 U.S.C. 1584) [Set forth under Statutes Amended, <u>supra</u>.]
Sec. 585 of the Tariff Act, as amended (19 U.S.C. 1585)	"[T]he master of such vessel shall be liable to a penalty of $5000, and the person in charge of such vehicle shall be liable to a penalty of $500 and any such vessel or vehicle shall be forfeited".

The criminal penalties under section 5, which provide for a fine of not more than $10,000 or imprisonment of not more than 5 years, or both, for a willful violation of a regulation prescribed pursuant to section 2, or the making of a false oath, affirmation, or declaration with intent to defraud, in connection with any document prescribed pursuant to section 3, are based on section 1001 of title 18 of the United States Code.

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Section 6 would provide that, in addition to any other penalty imposed by law, any vessel or vehicle used in connection with a violation of any regulation prescribed by the Secretary pursuant to the proposed legislation shall be subject to seizure and forfeiture. The liability to forfeiture, now provided only in certain circumstances in respect of the matters which are the subject of the proposed legislation, would be extended to any vessel or vehicle used in connection with a violation of any regulation prescribed pursuant to section 2. However, the liability to forfeiture would be subject to the exception specified in the proviso in section 594 of the Tariff Act (19 U.S.C. 1594), relating to common carriers; i.e., no common carrier acting in such capacity would be subject to seizure or forfeiture unless the person in charge of the carrier at the time of the alleged illegal act was a consenting party or privy thereto.

The references to liability to forfeiture of vessels and vehicles found in the following statutes would be deleted either by amendment or repeal:

Statute Amended	Subject Matter
Section 3111 of the Revised Statutes, as amended (19 U.S.C. 282)	If any other or greater quantity dutiable merchandise shall be found on board a vessel enrolled or licensed to engage in the foreign and coasting trade on the northern, northeastern, and northwestern frontiers than are specified in the report or entry of such merchandise, or any part thereof shall be landed without the required permit such merchandise together with the vessel, its apparel, tackle and furniture shall be forfeited.

Statute Amended	Subject Matter
Sec. 460 of the Tariff Act, as amended (19 U.S.C. 1460)	The failure to report merchandise imported into the United States subjects the vessel or vehicle in which it was imported and the merchandise to forfeiture.
Sec. 584 of the Tariff Act, as amended (19 U.S.C. 1584)	If any merchandise (sea stores excepted) the importation of which into the United States is prohibited, or which consists of any spirits, wines, or other alcoholic liquors, the importation of which requires a certificate under section 7 of the Act of August 5, 1935 (19 U.S.C. 1707), and the required certificate be not shown, is found upon any vessel not exceeding five hundred net tons, the vessel shall in addition to any other penalties provided by law, be seized and forfeited.
Sec. 585 of the Tariff Act, as amended (19 U.S.C. 1585)	If any vessel or vehicle from a foreign port or place arrives within the limits of any collection district and departs or attempts to depart, except from stress of weather or other necessity, without making the report or entry required by law, or if any merchandise is unladen therefrom before such report or entry, in addition to any other penalties provided, the vessel or vehicle shall be forfeited.
Section 4365 of the Revised Statutes (46 U.S.C. 311)	Whenever a vessel licensed for carrying on the fisheries is found within 3 leagues of the coast with foreign merchandise exceeding the value of $500, without having obtained the permit required by section 4364 of the Revised Statutes (46 U.S.C. 310), such vessel, together with the foreign merchandise, "shall be subject to seizure and forfeiture".

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Section 7 would provide that if any vessel or vehicle departs or attempts to depart, except from stress of weather or other necessity, from the limits of any port or place without making the report or entry, or obtaining the clearance, required by regulations prescribed under section 2, or if any merchandise is unladen therefrom before any required report or entry, the vessel or vehicle may be "arrested" by any officer of the Customs and brought back to the most convenient port or place in the United States. The term "arrested" as used in section 7 is a technical term used to indicate actual seizure of property. See, Pelham v. Rose, 76 U.S. 103, 107 (1869). This provision is an adaptation of that found in the last clause of section 585 of the Tariff Act, as amended (19 U.S.C. 1585).

Section 8 would provide that the existing provisions of law relating to seizure, summary and judicial forfeiture, and condemnation of a vessel or vehicle for violation of the Customs laws, and the disposition of such vessel or vehicle (19 U.S.C. 1602-1617 and 1619-1624), shall apply to seizures and forfeitures incurred for violation of any regulations prescribed under the proposed legislation.

Section 9 would provide that any civil penalty and any liability to seizure or forfeiture imposed by the proposed legislation may be remitted or mitigated by the Secretary in accordance with the provisions of section 618 of the Tariff Act, as amended (19 U.S.C. 1618). Under existing law, where the navigation laws are involved, remission or mitigation is subject to the provisions of section 5294 of the Revised Statutes, as amended (46 U.S.C. 7); and where the Customs laws are involved, section 618 of the Tariff Act is applicable.

The authority to mitigate does not apply to any case involving criminal penalties, nor to any case involving civil liability which has been referred to the Department of Justice for prosecution. These limitations are based on the second paragraph of section 5 of Executive Order No. 6166, June 10, 1933, which provides as to any case referred to the Department of Justice for prosecution or defense in the courts, the function of decision whether and in what manner to prosecute or to defend, or to compromise, or to appeal, or to abandon prosecution or defense, then exercised by any agency or officer, was transferred to the Department of Justice. Section 171.1(a), Customs Regulations (19 CFR 171.1(a)), implements the cited language.

Section 10 would amend certain existing statutes to conform them to the proposed legislation and to permit flexibility in the promulgation of regulations under section 2, and would provide that the amendments shall be effective simultaneously with the entry into effect of the regulations prescribed by the Secretary pursuant to the proposed legislation.

Two changes proposed throughout the conforming amendments, wherever appropriate, are the words "document prescribed by the Secretary of the Treasury to be used as a", or words to that effect, would be inserted before the word "manifest"; and the word "collector" would be deleted and the words "appropriate customs officer" would be inserted in lieu thereof.

The purpose of the amendment relating to the term "manifest" is to provide the Secretary with flexibility in designating a title for that document. The Intergovernmental Maritime Consultative Organization

(IMCO) has suggested the title "Cargo Declaration" in lieu of "manifest." Whether or not that title would be appropriate could be resolved by the Secretary in the regulations prescribed pursuant to section 2 of the proposed legislation.

The substitution of "appropriate customs officer" for "collector" is intended to make the proposed legislation consistent with identical amendments made by The Customs Courts and Customs Administrative Act of 1970, Public Law 91-271, approved June 2, 1970. The proposed amendments make the following changes in existing law:

(a) Section 2792 of the Revised Statutes, as amended (19 U.S.C. 289; 46 U.S.C. 110), would be further amended by deleting the exemption of ferry-boats from the requirements of entry and clearance and from the presentation of manifests. Section 441 of the Tariff Act, as amended (19 U.S.C. 1441), also exempts ferry-boats from making entry and, therefore, in order to avoid duplication, the reference to the exemption from entry in section 2792 of the Revised Statutes would be deleted. The exemptions as to clearance and the presentation of manifests would be deleted since these matters are properly the subject of the regulations to be prescribed under section 2 of the proposed legislation. The exemption from payment of entry and clearance fees, fees for receiving or certifying documents used as manifests, and the requirement that baggage and merchandise be reported to Customs would be retained.

(b) Section 2793 of the Revised Statutes, as amended (19 U.S.C. 288; 46 U.S.C. 111), would be further amended by deleting the exception to the entry and clearance requirements applicable in certain circumstances to enrolled or licensed vessels engaged in the foreign and coasting trade

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on the northern, northeastern, and northwestern frontiers of the United States. The reason for this deletion is that the exception is permissive and not mandatory and authorizes the Secretary to promulgate rules and regulations regarding the exception. Therefore, to avoid unnecessary duplication, the regulations under the proposed legislation would cover the exception.

(c) Section 3126 of the Revised Statutes, as amended (19 U.S.C. 293), would be further amended by deleting the requirement that registered vessels, engaged in trade between ports of the United States and touching at one or more foreign ports during the voyage, shall be furnished at ports in the United States where they lade their cargoes with certified manifests of a particular format. The requirements established for the delivery of manifests on arrival in the United States would also be deleted. The reason for these deletions is that the format and manner of delivery of manifests and related documents are properly the subject of the regulations and the documents to be prescribed under sections 2 and 3 of the proposed legislation. The provision that registered vessels may engage in trade between ports of the United States with the privilege of touching at one or more foreign ports, there to land and take on board merchandise, passengers and their baggage, and mail would be retained.

(d) Subsections (e) of sections 2 and 3 of the Act of November 6, 1966 (46 U.S.C. 817d(e) and 817e(e)), would be amended by substituting "appropriate customs officer" for "collector of customs" and by substituting "any regulation prescribed by the Secretary of the Treasury pursuant to law" for "section 4197 of the Revised Statutes (46 U.S.C. 91)." Section 4197 of the Revised Statutes, as amended (46 U.S.C. 91), would be repealed by section 11(a) of the bill.

(e) Section 431 of the Tariff Act, as amended (19 U.S.C. 1431), would be further amended by deleting the requirement that the master of a vessel arriving in the United States and required to make entry shall have on board a manifest in a form to be prescribed by the Secretary, signed under oath. The deleted provisions are properly the subject of regulations to be prescribed under sections 2 and 3 of the bill. The requirements as to the content of the manifest are also deleted. Subsection (b) of section 431, relating to the manifesting requirements for aircraft, would be retained as beyond the scope of the proposed legislation.

(f) Section 201 of the Act of August 5, 1935 (19 U.S.C. 1432a), would be amended by striking the references to certain sections of the Tariff Act. This is a conforming amendment.

(g) Section 438 of the Tariff Act, as amended (19 U.S.C. 1438), would be further amended by substituting "any regulation prescribed by the Secretary of the Treasury pursuant to law" for "section 435 of this Act" because section 435 would be repealed by section 11(c) of the bill.

(h) The first sentence of section 441 of the Tariff Act, as amended (19 U.S.C. 1441), would be further amended by deleting the words "at the customhouse" and by inserting in lieu thereof "under regulations prescribed by the Secretary of the Treasury pursuant to law." This amendment would preserve the exemptions set forth in section 441 even though the regulations to be prescribed under section 2 of the bill may designate a place other than the customhouse at which to make entry.

(i) Section 442 of the Tariff Act (19 U.S.C. 1442) would be amended by inserting the words "document prescribed by the Secretary of the Treasury for use as a" before the word "manifest" wherever it appears in the section and by substituting "any regulation prescribed by the Secretary of the Treasury pursuant to law" for "of this Act" in the first sentence to conform section 442 to other sections in the bill.

(j) Section 448 of the Tariff Act, as amended (19 U.S.C. 1448), would be further amended by deleting the references in subsection (a) thereof to preliminary entry since this is properly the subject of the regulations to be prescribed under section 2 of the proposed legislation.

(k) Section 459 of the Tariff Act, as amended (19 U.S.C. 1459), would be further amended by deleting the requirements for the report of arrival of a vessel of less than 5 net tons carrying merchandise, or of a vehicle arriving in the United States from contiguous countries, and the production of manifests in these cases. The requirements applicable to any person importing or bringing merchandise into the United States from a contiguous country otherwise than in a vessel or vehicle would be retained as beyond the scope of the proposed legislation. The deleted provisions are properly the subject of regulations to be prescribed under sections 2 and 3 of the proposed legislation.

(l) Section 460 of the Tariff Act, as amended (19 U.S.C. 1460), would be further amended by deleting the penalty provisions applicable to violations of the reporting and manifesting requirements for vessels and vehicles arriving from contiguous countries heretofore found in section 459 of the Tariff Act (19 U.S.C. 1459) and repealed by subsection (k) of this section. The penalty applicable to violations of the requirements relating to persons importing or bringing merchandise into the United States otherwise than in a vessel or vehicle, which remain in section 459, would be retained.

(m) Section 581 of the Tariff Act, as amended (19 U.S.C. 1581), would be further amended by deleting the references to the amount of fine and penalty imposed by subsections (c) and (d) thereof and by inserting language implementing the civil and criminal penalties set forth in sections 4 and 5 of the proposed legislation. This amendment would make the penalties imposed by section 581 consistent with sections 4 and 5 of the proposed legislation.

(n) Section 584 of the Tariff Act, as amended (19 U.S.C. 1584), would be further amended by deleting the penalty for non-production of a manifest and for merchandise which is found on board of or after having been unladen from such vessel or vehicle which is not included or described in the manifest. The reference in the last paragraph to forfeiture of the vessel would be deleted. The deleted penalty and forfeiture provisions are properly the subject of sections 4, 5, and 6 of the proposed legislation. The additional provision for a penalty equal to the value of the merchandise and the additional penalty provisions applicable to narcotics in certain circumstances would be retained. In addition, the fourth sentence of the second paragraph would be amended to substitute the words "an appropriate civil proceeding in rem" for the term "a libel in rem" consistent with the 1966 amendments to the Rules of Civil Procedure for the United States district courts.

(o) Sections 4381, as amended, and 4382, as amended, of the Revised Statutes (46 U.S.C. 329 and 330), section 9 of the Act of August 2, 1882, as amended (46 U.S.C. 158), and section 553 of the Tariff Act, as amended (19 U.S.C. 1553), would be further amended by inserting the words "[a] document prescribed by the Secretary of the Treasury for use as a" before the word "manifest" wherever it appears in these provisions. In addition, "post entry" would be substituted for "port entry" in the last paragraph of section 4382, as amended, of the Revised Statutes consistent with the historical note to 46 U.S.C. 330, which indicates that the change is in order in view of an opinion of the (former) Commissioner of Navigation.

(p) Section 1 of the Act of June 19, 1886, as amended (46 U.S.C. 331), would be further amended by deleting the words "collectors or other" and by inserting the words "the document prescribed by the Secretary of the Treasury for use as a" before the word "manifest" wherever it appears therein. In addition, the words "That on and after July first, eighteen hundred and and eighty-six," would be deleted as no longer necessary; and the words "granting permit to vessels licensed for the fisheries to touch and trade;" would be deleted consistent with the proposed repeal of sections 4364 and 4365 of the Revised Statutes (46 U.S.C. 310, 311).

(q) Section 4208 of the Revised Statutes (46 U.S.C. 102) would be amended by inserting the words "document prescribed by the Secretary of the Treasury for use as a" before the word "manifest" and by deleting the word "collector" and inserting in lieu thereof the words "appropriate customs officer."

(r) Section 201 of the Act of August 3, 1935 (19 U.S.C. 1432a), would be amended by deleting the references to sections 432, 433, 434, and 585 of the Tariff Act, which would be repealed by the proposed legislation.

Section 11 would repeal existing statutes inconsistent with the proposed legislation, and in order that there may be a continuity of regulation, would provide that the repeals shall be effective simultaneously with the entry into effect of the regulations prescribed by the Secretary pursuant to the proposed legislation.

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The statutes to be repealed and the reasons therefor are as follows:

(a) Section 3111 of the Revised Statutes, as amended (19 U.S.C. 282), relates to the oath to be taken by the master of any vessel enrolled or licensed to engage in the foreign and coasting trade on the northern, north-eastern, and northwestern frontiers on making a report of merchandise purchased in a foreign country for the use of the vessel, and provides for the forfeiture of the vessel and any articles found on board other than as specified in the report or entry. These matters are properly the subject of regulations to be prescribed under sections 2 and 3 of the proposed legislation.

(b) Section 3118 of the Revised Statutes (19 U.S.C. 286) relates to manifests and clearances of vessels in the coasting trade and entry for goods taken or delivered at intermediate ports of departure from a place where there is no customhouse. This section is obsolete. It directs the master to "file his manifest, and obtain a clearance in the same manner" as provided in sections 3116 and 3117 of the Revised Statutes, which were repealed by section 3 of the Act of July 3, 1926, 44 Stat. 832.

(c) Section 3119 of the Revised Statutes (19 U.S.C. 287) relates to the reporting of merchandise destined for any foreign port. It provides that: "Nothing contained in the three preceding sections shall exempt masters of vessels from reporting, as now required by law, any merchandise destined for any foreign port." The "three preceding sections" referred to are sections 3116 and 3117 of the Revised Statutes, repealed by section 3 of the Act of July 3, 1926, 44 Stat. 832, and section 3118 of the Revised Statutes (19 U.S.C. 286), which would be repealed by the proposed legislation. The words "as now required by law" refer to the state of the law at the time of the enactment of the Revised Statutes of 1878.

(d) Section 3122 of the Revised Statutes (19 U.S.C. 290) relates to the delivery of a manifest by a vessel destined with a cargo from a place in the United States at which there may be no customhouse to a port where there may be a customhouse. This section is complementary to section 3118 of the Revised Statutes (19 U.S.C. 286), which would be repealed by the proposed legislation and, therefore, also is obsolete.

(e) Section 3124 of the Revised Statutes, as amended (19 U.S.C. 291), relates to forms of manifests, certificates of clearance, and oaths provided for by sections 3118, 3119, and 3122 of the Revised Statutes (19 U.S.C. 286, 287, 290). This section provides that: "The manifests, certificates of clearance, and oaths, provided for by the eight preceding sections, shall be in such form, and prepared, filled up, and executed in such manner as the Secretary of the Treasury may from time to time prescribe." This section, derived from section 4 of the Act of July 1, 1870, 16 Stat. 177, is obsolete. The "eight preceding sections" referred to are:

(1) Sections 3116 and 3117 of the Revised Statutes, which were repealed by section 3 of the Act of July 3, 1926, 44 Stat. 832;

(2) Sections 3118 and 3119 of the Revised Statutes, which would be repealed by the proposed legislation;

(3) Sections 3120 and 3121 of the Revised Statutes, which were repealed by section 642 of the Act of Sept. 21, 1922, 42 Stat. 1989;

(4) Section 3122 of the Revised Statutes, which would be repealed by the proposed legislation; and

(5) Section 3123 of the Revised Statutes, which was repealed by section 642 of the Act of Sept. 21, 1922, 42 Stat. 1989.

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(f) Section 3125 of the Revised Statutes (19 U.S.C. 292), which is derived from section 5 of the Act of July 1, 1870, 16 Stat. 177, provides penalties for a master who "shall neglect or fail to comply with any of the provisions or requirements of the nine preceding sections". The "nine preceding sections" referred to are the nine sections enumerated in paragraph (e) above; that is, sections 3116 through 3124 of the Revised Statutes, all of which either have been previously repealed or would be repealed by the proposed legislation.

(g) Section 4197 of the Revised Statutes, as amended (46 U.S.C. 91), relates to granting of clearances for vessels bound to a foreign port. This is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(h) Section 4199 of the Revised Statutes (46 U.S.C. 93) sets out the form of the outward foreign manifest. This is properly the subject of regulations to be prescribed under sections 2 and 3 of the proposed legislation.

(i) Section 4198 of the Revised Statutes (46 U.S.C. 94) sets out the form of the master's oath to the outward foreign manifest. This is properly the subject of regulations to be prescribed under sections 2 and 3 of the proposed legislation.

(j) Section 4201 of the Revised Statutes (46 U.S.C. 96) sets out the form of the clearance certificate. This is properly the subject of regulations to be prescribed under sections 2 and 3 of the proposed legislation.

(k) Section 4213 of the Revised Statutes, as amended (46 U.S.C. 101), requires masters at the time of entry to file a statement of consular services performed without fee. Further, the collector is required to forward to the Secretary all such statements and also a statement of all invoices certified by consular officers. This section is obsolete by reason of desuetude. The last reference to its implementation is found in article 117 of the Customs Regulations of 1937. There is no similar provision in the Customs Regulations of 1943 as originally issued or subsequently amended.

No provision is found in the Customs Regulations from 1892 to date concerning the direction to the collector to forward to the Secretary a statement of all certified invoices which shall have come to his office. Article 1264 of the Customs Regulations of 1892 lists "accounts, estimates, reports, returns, statements, etc., with their catalogue numbers, which are required to be forwarded by collectors" to the Secretary, but does not include any reference to the forwarding of a statement of all certified invoices.

(1) Section 4332 of the Revised Statutes, as amended (46 U.S.C. 274), deals with a duty of the surveyor of Customs. This section is obsolete. The offices of surveyor of Customs have been abolished by statute and the functions transferred pursuant to various reorganization plans. The subject of section 4332 of the Revised Statutes is now a matter of internal management to be performed by the officers or employees designated by the Secretary for the purpose. The statutory directions, therefore, no longer are necessary. Further, this matter is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(m) Section 4348 of the Revised Statutes, as amended (46 U.S.C. 293), divides the United States into five "great districts". This section is obsolete as a result of the repeal by the Act of June 8, 1940, c. 284, 54 Stat. 254, of related sections 4349 through 4356, 4357, 4359, and 4360 (as amended by section 1 of the Act of Feb. 18, 1875, 18 Stat. 320) of the Revised Statutes, and the Act of July 12, 1876, c. 185, 19 Stat. 90 (formerly 46 U.S.C. 294-305), all of which concerned manifests and permits in the case of vessels licensed for carrying on the coasting trade and trading between different "great districts". The Customs Regulations of 1943, with an extensive revision of the marine regulations theretofore administered by the Bureau of Marine Inspection and Navigation, Department of Commerce, omit any reference to "great districts", and there is no subsequent reference thereto in the Customs Regulations.

(n) Section 4358 of the Revised Statutes, as amended (46 U.S.C. 306), regulates the coasting trade between Alaska and any other portion of the United States in accordance with the provisions of law applicable to the coasting trade between any two "great districts". The section is obsolete.

(o) Section 4364 of the Revised Statutes (46 U.S.C. 310) requires the master or owner of a vessel, licensed for the fisheries, which intends to touch and trade at any foreign port, to obtain permission from the collector prior to departure. This section further requires the master to deliver manifests and to make entries as does any other vessel arriving from a foreign port. These provisions are properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

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(p) Section 4365 of the Revised Statutes (46 U.S.C. 311) provides that whenever a vessel licensed for the fisheries is found within 3 leagues of the coast with foreign merchandise exceeding the value of $500 without having obtained the permit required by section 4364 of the Revised Statutes (46 U.S.C. 310), the vessel shall be subject to forfeiture. The repeal of section 4364 of the Revised Statutes by the proposed legislation makes this section obsolete. Further, this matter is properly the subject of the regulations to be prescribed under section 2 of the proposed legislation and is within the purview of section 6 of the bill.

(q) Section 4366 of the Revised Statutes (46 U.S.C. 312) relates to the report of arrival required of the master of a vessel employed in the transportation of merchandise from district to district who shall put into a port other than the one to which his vessel is bound. The requirement appears to be obsolete, and, in any event, is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

It appears that the Act of June 8, 1940, removed the statutory basis for requiring entry or clearance of an American vessel to the extent that she was being solely "employed in the transportation of merchandise from district to district." Since the vessel was no longer required to enter or clear when proceeding from port to port, no port was legally fixed "to which she was bound", and hence her putting into "a port other than the one to which she was bound" could no longer be established. Section 4366 of the Revised Statutes thereby was rendered obsolete.

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This conclusion is supported by section 4.81, Customs Regulations (19 CFR 4.81), which provides that no vessel which is enrolled and licensed or licensed for the coastwise trade, registered, or owned by a citizen and exempt from documentation, and which is in ballast or laden only with domestic products or passengers being carried only between points in the United States, is required to report arrival or to enter when coming into one port of the United States from any other United States port. If the vessel is carrying bonded merchandise, however, it must report arrival, but the reporting requirement is established by section 433 of the Tariff Act (19 U.S.C. 1433).

Section 4366 of the Revised Statutes appears always to have been inapplicable to foreign vessels, as foreign vessels may not "transport merchandise from district to district" (section 27 of the Act of June 5, 1920, 46 U.S.C. 883, and predecessor statutes).

(r) Section 4367 of the Revised Statutes (46 U.S.C. 313) relates to permits and manifests required prior to the departure of foreign vessels bound from one district in the United States to another. This matter is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(s) Section 4368 of the Revised Statutes (46 U.S.C. 314) relates to delivery of the permits and manifests referred to in section 4367 upon arrival in one district from another. This matter is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(t) Section 4369 of the Revised Statutes (46 U.S.C. 315) provides penalties for violations of sections 4367 and 4368 (46 U.S.C. 313 and 314) and, therefore, is made obsolete by the repeal of those sections by the proposed legislation.

(u) Sections 4573, 4574, 4575, as amended, and 4576, as amended, of the Revised Statutes (46 U.S.C. 674, 675, 676, and 677) relate to crew lists for American vessels and so are properly the subject of regulations to be prescribed under section 2 of the proposed legislation as part of the crew list requirements to be established for vessels generally.

(v) Section 4207 of the Revised Statutes (not codified) prescribes that whenever a clearance is granted to a vessel of the United States bound on a foreign voyage, the collector shall annex a copy of the rates or tariffs or fees which diplomatic and consular officers are entitled by the regulations prescribed by the President to receive for their services. A schedule of the fees referred to appears on the reverse of Customs Form 1378, the certificate of clearance. As the statute refers to the form and contents of the clearance certificate, it is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(w) Section 432 of the Tariff Act, as amended (19 U.S.C. 1432), provides that the manifest of a vessel arriving from a foreign port or place shall separately specify articles to be retained as sea stores and ship's stores, and provides for penalties for not so specifying. This matter is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(x) Section 433 of the Tariff Act, as amended (19 U.S.C. 1433) 6/12 establishes the time in which the arrival of a vessel from a foreign port or place must be reported and thus is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(y) Section 434 of the Tariff Act, as amended (19 U.S.C. 1434), establishes procedures for formal entry of vessels of the United States arriving from a foreign port or place, including requirements for manifests, and thus is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(z) Section 435 of the Tariff Act (19 U.S.C. 1435) establishes procedures for entry of foreign vessels and thus is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(aa) Section 436 of the Tariff Act, as amended (19 U.S.C. 1436), establishes penalties for violation of the three preceding sections and thus would be made obsolete by their repeal. These penalties are properly the subject of regulations to be prescribed under section 2 of the proposed legislation, and are within the purview of sections 4, 5 and 6 thereof.

(bb) Section 437 of the Tariff Act (19 U.S.C. 1437) requires that the register, or document in lieu thereof, deposited in accordance with sections 434 and 435 of the Tariff Act (19 U.S.C. 1434 and 1435) is to be returned upon clearance. Since sections 434 and 435 would be repealed by the proposed legislation, this provision would be made obsolete and is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(cc) Section 439 of the Tariff Act, as amended (19 U.S.C. 1439), relates to the delivery of a manifest by the master of a vessel arriving from a foreign port, and provides a penalty for failure to do so. This matter is properly the subject of regulations to be prescribed under section 2 of the proposed legislation and also is within the purview of sections 4 and 5 thereof.

(dd) Section 440 of the Tariff Act, as amended (19 U.S.C. 1440), relates to the correction of manifests, and provides a penalty for failure to make a required correction. This matter is properly the subject of regulations to be prescribed under section 2 of the proposed legislation and also is within the purview of sections 4 and 5 thereof.

(ee) Section 443 of the Tariff Act, as amended (19 U.S.C. 1443), relates to the manifest and permit for cargo arriving for delivery at different ports and thus is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(ff) Section 444 of the Tariff Act, as amended (19 U.S.C. 1444), establishes a time requirement for report of arrival and production of a permit and manifest for a vessel subject to section 443 of the Tariff Act (19 U.S.C. 1443) which arrives at a port other than the port of first arrival. Since section 443 would be repealed by the proposed legislation, this provision would be made obsolete and is properly the subject of regulations to be prescribed under section 2 thereof.

(gg) Section 445 of the Tariff Act, as amended (19 U.S.C. 1445), establishes penalties for violations of the requirements of sections 443 and 444 of the Tariff Act (19 U.S.C. 1443 and 1444). Since sections

443 and 444 would be repealed by the proposed legislation, this provision would be made obsolete. These matters are properly the subject of regulations to be prescribed under section 2 of the proposed legislation and also are within the purview of sections 4 and 5 thereof.

(hh) Section 465 of the Tariff Act (19 U.S.C. 1465) requires the master of a vessel or the conductor of a railroad car with a frontier document, upon arrival from foreign contiguous territory, to file a manifest of supplies or merchandise purchased abroad and also a statement of the cost of repairs and equipment in the case of a vessel. It also provides penalties for violating these requirements. These matters are properly the subject of regulations to be prescribed under section 2 of the proposed legislation and also are within the purview of sections 4 and 5 thereof.

(ii) Section 583 of the Tariff Act, as amended (19 U.S.C. 1583), requires a vessel or a vehicle bound to a port or a place in the United States to deliver a manifest to the officer of the Customs or Coast Guard first demanding the manifest. This matter is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(jj) Section 585 of the Tariff Act, as amended (19 U.S.C 1585), establishes penalties if a vessel or a vehicle from a foreign port or place departs or attempts to depart without making a report or entry, or if any merchandise is unladen therefrom before report or entry. This matter is properly the subject of regulations to be prescribed under section 2 of the proposed legislation and also is within the purview of sections 4 and 5 thereof.

(kk) Chapter 212 of the Act of May 4, 1934 (46 U.S.C. 91a) provides that whenever it is the duty of the masters of vessels to make entry and clearance, it shall be lawful for any licensed deck officer or purser to do so. This matter is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

(ll) Section 1 of the Act of July 3, 1926, as amended (46 U.S.C. 293a), establishes a sixth "great district" in addition to the five "great districts" provided by section 4348 of the Revised Statutes, as amended (46 U.S.C. 293). Since the proposed legislation would repeal sections 4348 and 4358 (46 U.S.C. 306) of the Revised Statutes, this section would be made obsolete.

(mm) Chapter 362 of the Act of June 16, 1937, as amended (19 U.S.C. 1435b), provides for vessels carrying passengers operating on regular schedules and arriving at night or on a Sunday or holiday to report arrival, make entry, and clear on board and thus is properly the subject of regulations to be prescribed under section 2 of the proposed legislation.

Section 12 would provide that the repeal or modificat on of existing statutes by the proposed bill shall not affect any accrued rights or liabilities, but that all rights or liabilities under such statutes shall continue and may be enforced as if such repeal or modification had not been made.

Section 13 would provide that if any provision of the proposed legislation, or its application to any person or circumstances, is held invalid, the remainder of the provisions, and the application of such provision to other persons or circumstances, shall not be affected.

Section 14 would provide that the proposed legislation may be cited as "The Customs Entry and Clearance Act of 1974."

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February 17, 1974

TREASURY STATEMENT AND QUESTIONS AND ANSWERS ON THE TERMINATION OF SECRET SERVICE PROTECTION OF FORMER VICE PRESIDENT AGNEW

Treasury Statement

The Treasury Department is initiating today termination of Secret Service protection of former Vice President Agnew.

Questions and Answers

Q. Did the President order this action?

A. The decision was made by the Treasury Department with the prior knowledge of the White House and Mr. Agnew.

Q. Will the protection end before midnight Sunday, the deadline set by Comptroller General Staats?

A. We have initiated the termination of protection before midnight but there are certain procedures to be followed in ending a protective detail in a manner which doesn't create an undue risk to the protectee.*

Q. Doesn't this mean that the Comptroller General was right and Mr. Agnew's protection was illegal?

A. The Treasury believes that there is Presidential authority to order Secret Service protective details in cases not expressly covered by statute, but which are in the public interest.

*In fact all protection was terminated before midnight February 17.

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Q. Will there be any attempt to recover the cost of Mr. Agnew's protection?

A. No.

Q. What about the security equipment at Mr. Agnew's house?

A. Any removable security equipment which can be used in the future will be removed.

Q. What effect does this action have on the Secret Service protection being given to Secretary Kissinger and Energy Czar Simon?

A. No effect. The Treasury believes that the protection of those officials is entirely proper.

Q. Isn't it true that the protection is ending because of strong Congressional pressure and the Comptroller General's action?

A. No comment.

STATEMENT OF DR. JOHN C. SAWHILL
DEPUTY ADMINISTRATOR, FEDERAL ENERGY OFFICE
BEFORE THE JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

FEBRUARY 19, 1974

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today to comment on the Economic Report of the President. This report outlines a number of major objectives. I will confine my comments to those items which help structure a comprehensive energy program able to deal with the current shortages and also re-establish our ability to be self-sufficient in energy. I would like to discuss some immediate short-term effects of the crisis, some longer-term effects and their relation to energy self-sufficiency and finally some comments on your Committee's study on the Budget.

Problems of inflation, unemployment and balance of payments have been our major economic concerns for many years. They have now been joined by another problem--shortage of energy--which will dramatically affect all the others if we permit it to. All of us are well aware of the energy shortages precipitated by the oil embargo. However, these are merely symptoms of long-term problems which have been building for many years and will not simply vanish when the embargo is lifted.

We have been rapidly depleting our non-renewable petroleum fuels while failing to develop any adequate alternative sources of energy. We have been operating under the assumption that cheap, abundant energy would always be available. This has contributed to wasteful patterns of energy consumption and insufficient incentives to develop adequate domestic resources. As recent events have shown, this has left us very vulnerable to any interruption of the imports we have come to rely upon.

Short Term Problems

Today, I want to discuss some of the short-term problems caused by the oil embargo and what our national policy should be to minimize its effects.

First, however, I will address the immediate short-term outlook for fuel supplies. Because of the mild winter there will almost certainly be no shortages of home heating oil and our relatively large stocks of distillates provide us with great flexibility in dealing with the changing shortages of the spring and summer. Major conservation efforts continue to be essential, particularly in the consumption of gasoline and residual fuel. Our attention is now focussed on increasing the supplies of gasoline, aviation jet fuel, and residual fuel oils to prepare for the expected summer demand increases. Presuming the embargo remains in effect, our current forecast of overall shortages for the second quarter of 1974 is about 16 percent or 2.8 million barrels per day. This figure is based on unrestrained demand and does not give effect of price elasticity or embargo leakages. We are still studying the impacts of these factors and will publish a comprehensive estimate by mid-March. But based on unrestrained demand, the individual shortages would be 12 percent for gasoline, 27 percent for aviation jet fuel, 6 percent for middle distillates, and 32 percent for residual fuel oil. This is the overall deficit between supply and unrestrained demand for the second quarter based on the usual expected demands during this quarter minus the estimated actual supplies including imports, plus the amount necessary to rebuild stocks in order to avert more serious gasoline and residual fuel shortages in the high-demand third quarter.

A recent study by FEO showed that if the embargo were lifted and pre-embargo shipments resumed beginning in April, the total shortfall - based on unrestrained demand - would be about 8%. The individual shortages would be 4% gasoline, 13% jet fuel, 3% middle distillate and 16% residual. Managing a shortage of this magnitude will continue to require major conservation programs by both business and consumers as well as a continuation of our oil to coal switching program for utilities.

Our main concern is still to minimize impacts on industrial output and the employment situation. The past months have shown that reductions of 15 to 20% in total fuel consumption can be achieved without severe economic dislocations. We are continuing the development of conservation and allocation policies to deal with shortages of these magnitudes. What has not been determined is the longer term effects of this level of shortage on the general economy.

The 1974 Economic Report of the President indicates the possibility that prices might rise enough to clear the market and eliminate the shortage. While this may be appropriate for the long term, in the short term we do not intend to let prices alone ration fuel supplies. We must protect the interest of the consumer at a time when world prices have risen to heights which do not reflect long run demand-supply relationships. Therefore, we will continue to control the prices of "old"oil and are considering price controls on "new" oil and oil from stripper wells.

The short-term strategy of FEO has been to allocate our fuel resources as equitably and effectively as we can, and to respond decisively to exceptions not covered by our regulations as they arise. The 1974 Economic Report stresses the Administration's determination to manage the energy shortage so as to keep loss of jobs and production to a minimum. To do this, it will be essential to provide, or permit, incentives to maximize imports, domestic exploration and production, as well as providing rapid fuel shifts to key industries. Different strategies, however, will be necessary to provide a longterm solution to the energy problem.

<u>Longer Term Problems</u>. Domestic energy supplies have increasingly fallen behind energy demands since 1949, the first year that the United States moved from being a net energy exporter to being a net energy importer. More importantly, over the last 15 years, the rate of growth in energy production has constantly decreased while the rate of growth of demand has constantly increased. Thus, the gap, which has been met by imports, has been widening at an ever-increasing rate. Over the last three years, demand has

grown by over 5 percent per year while domestic production has increased only about 3 percent per year.

As a result, domestic sources, which provided 95 percent of United States energy in 1960, and 88 percent in 1970, provided only 83 percent in 1973. More significantly, the percentage of petroleum imported doubled over the same period. In absolute terms, the quantity of petroleum imported nearly quadrupled. Forecasts, made prior to the embargo and subsequent crude oil price increases, predicted that the United States would import over 43 percent of its crude oil and petroleum products requirements in 1980 at costs exceeding 17 billion dollars, based on 1972 import oil prices.

Were we to import all the oil predicted by these forecasts at present prices, the total outlay would double or triple. This outflow of funds would have a staggering effect on our economy and our balance of payments, even if the oil-exporting nations were to invest a substantial portion of these revenues back in the U.S. economy. We do not intend to let this situation develop. We intend to find low-cost oil production methods or substitutes. National security considerations, indicate that using domestically-produced oil (or substitutes) that cost somewhat more than the equivalent imports, may be a better course than growing reliance on foreign imports.

We have also just found that we can no longer count on importing as much oil as we need, even at any price. Thus, for the twin reasons of national security and balance of payments, we must reduce our dependence on oil imports. This is why the President established in November a new national goal of energy self-sufficiency by the end of this decade. We feel that the thrust of Project Independence is essential to both short and long term solutions to the energy problem. I would now like to discuss Project Independence, what it means to us, its objectives and how they can be achieved.

Project Independence

The first major thrust of Project Independence is to eliminate waste and conserve energy resources. We cannot wait for the normal market forces to reduce demand as prices rise. We must adopt energy conservation and demand curtailment as a long-term individual and collective ethic now, and not simply as a temporary expedient to be followed during this period of acute shortage. This will mean lighter and less powerful automobiles; lower speeds on our highways; reducing heat losses in our homes; fewer empty seats on our public transportation; less waste in our industrial processes and powerplants; fewer throwaway containers. These measures will enhance rather than detract from our economic well-being and standard of living. Our goal is to cut our annual energy consumption growth rate from the present 5 percent to 3 to 3.5 percent by 1980. This could save as much as 6 million barrels of oil equivalent per day.

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We also plan to do considerable research aimed at permanently reducing energy consumption. For example, better insulation of houses, more efficient automobile engines, and more efficient power cycles can save energy without causing economic or social dislocation.

The second major thrust to Project Independence is to stimulate the development of existing domestic energy resources as well as alternative new sources. Specifically, our program will include the following:

- We must develop our coal reserves more effectively. We have 1.5 trillion tons of identifiable coal reserves, one-third of which are economically recoverable now. We must utilize this abundant resource. We need to mount major research and development efforts in coal gasification and liquefaction. Simultaneously, we must develop and use techniques for mining coal that do not scar the landscape permanently or endanger the health and safety of miners.

- We have talked for years about the production of oil from our oil shale. There is an estimated 1.8 trillion barrels of oil in the U.S. shale resources which could satisfy our oil needs for over 100 years. We need an increased effort by both the Federal government and private industry to develop this potentially productive resource. Some have estimated the in-situ processes for extracting shale oil would make it possible to produce oil close to the current cost of Persian Gulf crude. In-situ extraction should also have minimal impact on the environment and its development must be expedited.

• We must also push forward in the development and utilization of nuclear power. Currently, nuclear power provides less than one percent of our energy needs after 30 years of development. It could easily provide 10 percent by 1985. We must take every step to expedite the licensing and construction of nuclear powerplants which are an essential part of our program for achieving energy self-sufficiency. We will also develop a broad nuclear program which looks toward liquid metal and other breeder reactors. In addition, top priority will continue to be given to assuring that nuclear power plants are built and operated safely with acceptable environmental impact. We must convince government policy makers and the public that nuclear reactors are safe and waste disposal problems can be solved.

• We have also talked for years about development of such relatively distant alternatives to fossil fuels as fusion, geothermal and solar energy. For the next decade these alternatives are still very much in the research and development stage of growth and they could not come into widespread use until after 1990. Nevertheless, although we will invest in the development of these alternatives, at the same time we must focus now on nearer-term measures for expanding energy supplies.

In summary, then our long-term policy must be to greatly accelerate these energy related research and development programs. This is where the major budget impact occurs. The President proposes spending over $1.8 billion in this area in 1975 compared to $700 million in 1973. This will be complemented by an even larger investment by the private sector.

Joint Economic Committee Study

An integral contribution to Project Independence objectives must be a program of tax initiatives designed to provide incentives for energy conservation and domestic resource development. Several such initiatives were presented in the Joint Economic Committee's staff study "The 1975 Budget: An Advance Look." The energy section of this study refers to four possible types of taxes designed to reduce energy consumption: an increased excise tax on gasoline, an excise tax on crude oil, a tax on all energy sources, and an excise tax on excessive residential energy uses. We are currently studying these propositions and other alternatives. Any of these taxes, or combinations of them would undoubtedly have some effect on demand and would induce conservation. What is lacking at this point is a quantitative insight into the effectiveness of such measures and their effects on the general economy and we are attempting to quantify these effects. A further issue is how the revenue raised should be used. Your staff study indicates that a 30 cent tax on gasoline could yield $16 billion and suggested that this revenue might be applied to such programs as unemployment compensation, public service employment, or aid to State and local governments. I feel that if such a tax were enacted, we should also consider using such revenues on energy related initiatives. For example, I think we should positively encourage energy-resource development and investment and research into alternative energy sources. By doing so, we could accelerate the rate of private investment. In addition, funds raised in this way could be used to promote conservation practices such as allowing tax incentives to homeowners for installing insulation, and subsidizing mass transit.

This finishes my prepared statement. I will be happy to answer any questions the Committee may have.

FEDERAL ENERGY OFFICE
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FOR FRIDAY, FEBRUARY 22, 1974 P.M. RELEASE

SIMON ANNOUNCES CREATION OF ENERGY CONSERVATION CORPS

Washington--William E. Simon, Administrator of the Federal Energy Office, today announced the formation of an Energy Conservation Corps (ECC) to enlist the aid of elementary and high school students in voluntary programs to save energy.

Simon said the FEO has contracted with the State Department's U.S. National Commission for UNESCO to set up a pilot ECC program in the six New England states.

"Thousands of young persons are taking, on their own, practical steps to meet the energy crisis," he said. "They are switching to public transportation to get to school, instead of driving; they are turning off excess lights at home; they are working in their communities and at school to conserve energy. The Energy Conservation Corps is a step toward taking full advantage of youth's ideas, enthusiasm and willingness to work."

The pilot program, to be directed by Dr. Mansfield I. Smith, of the Bolton Institute, is projected to involve as many as one million families this winter in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.

Participating high schools in these states will be invited to send one teacher and two students to the nearest of 30 workshops scheduled for the region. Participants will be briefed on the energy crisis and how to conserve energy at school and at home, as well as how to recruit and train fellow students to be ECC members.

These high school level ECC volunteers will then visit elementary schools, to show the younger pupils as well how to conserve energy in their homes and schools.

John E. Upston, executive director of the U.S. National Commission, said that if the pilot program is successful, it will be extended to other areas beginning next September.

Upston also said the program may be tied into international energy conservation programs.

"Since the energy crisis is international," he said, "we can put American students in touch with young conservationists around the world, through UNESCO National Commissions in other nations."

Note to Correspondents: Photographs of Dr. Mansfield Smith, ECC Program Director, William E. Simon, Federal Energy Office Administrator, and John E. Upston, Executive Director of UNESCO National Commission are available at the Public Affairs Office, Room 3140-A Benjamin Franklin Station, Washington, D. C. 20461. Contact: Jack Schneider; telephone (202) 961-6021.

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FEDERAL ENERGY OFFICE

PRESS CONFERENCE

WITH

THE HONORABLE WILLIAM E. SIMON
Administrator
Federal Energy Office

and

THE HONORABLE JOHN C. SAWHILL
Deputy Administrator
Federal Energy Office

Room 3110
New Post Office Building
Washington, D. C.

Tuesday, 19 February 1974

The press conference was convened at 3 p.m.

MR. SIMON: First of all, I want to apologize for being late.

Which one of these microphones work?

VOICES: All of them.

MR. SIMON: Can everybody hear me?

Last Wednesday at 8:00, meeting with the President, he directed me, because of his great concern with the long lines at the gasoline stations, to immediately implement, within our ability, a program that would help alleviate these lines. I was away over last week end. John Sawhill and the rest of the sturdy team implemented their program that we are announcing today, and that is the emergency injection of supplies to the critical areas, 20 states. Ten are going to receive an additional 5 percent, and 10 are going to receive an additional 2 percent of their base supplies for February. Now, remember, this is based on the entire month, this 5 percent, 2 percent, and with only 7 days, last 7 or 8 days when they get these supplies, that's 25 percent of the month, so you'd have to multiply that times 4, really, to take a look at the whole month. And so we hope that this is going to go a long way to alleviating the inconveniences that are presently being borne by the American people.

The success of the conservation measures and the cooperation of our citizens has made this possible.

We are also sending teams to all 50 states, commencing immediately. Now, this is an effort that we announced last week: that we are going to equalize monthly all of the percentages around the country, to make sure that to the best of our ability we can have everybody sharing the shortage equally.

We're going to meet with the major oil companies next week to make sure that in the implementation the actual distribution of the supplies to these states on a monthly basis, that it can be done equitably.

As you know, our allocation program is barely one month old. We need a little more time to ascertain some of the problems, to find them, and do something about them.

Have the sheets been passed out, Bob?

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VOICE: Yes, they have been passed out.

MR. SIMON: Okay. You also have there your antidiscrimination regulation and preferential treatment and what is defined there. Congress gave us a very clear mandate in the Petroleum Allocation Act that no class of user can be discriminated. And this is just a law that we're adhering to and we're attempting to clarify the law with all the flexibilities possible. It's very similar to the Crude Allocation Program that we're seeing so many articles in the newspapers today saying that the Crude Allocation Program is backing up imports of a million or a million and a half barrels a day, potentially.

And my answer to that is, "Yes, we probably are." That's why we asked the Congress: "Please, don't mandate allocation of crude at the producer level," because it would have predictable results. And we've had legislation on the Hill to give us the flexibility that we need, that Congress mandated these specifics that are coming home to injure us in our efforts right now.

Also, propane prices. We met with the propane producers last week and several price rollbacks have already been effected, and further rollbacks are going to be effected. So we're on top of that program.

Now that, very briefly, is what we have been doing in this past four days. I'll be delighted with John and Jerry to respond to any of your questions.

QUESTION: How much do you think 2 percent will alleviate the lines particularly in a state like Connecticut?

MR. SIMON: Well, it all depends. Basically, the Governor is going to have the ability -- first of all, he's got his 3 percent set-aside. Then he's got this additional allotment that we're giving to him on a monthly basis. Remember, that 2 percent basically is 8 percent, isn't it? Because it's only for the last period of the month, the last 7 days of the month that he's going to be getting this 2 percent. You know, if we were giving 2 percent for a whole month, that would be 2 percent. But we're giving a month's allocation -- 2 percent of a month's allocation for only one week, really, because the new supplies come in on March the 1st. And we would hope that there, again, that this would alleviate the long lines that are occurring in the states. Most of our problems in these states are intrastate distribution. You're finding three counties here that are in trouble, and they have plenty in other counties. So we're working with the Governors on a continuing basis to see if we can't get a better distribution within the states.

QUESTION: How do you choose the states that got the extra allotment? Is that a matter of the length of the line? Or how do you go about that?

MR. SIMON: Well, we sent out teams. As you know, we announced those teams going out, I believe it was 10 days ago. So it came from on-site investigation, number one, working with the Governors, and the Governors' staff on the data of what supplies had been delivered to their state, and what had been consumed. And those figures are kept to varying degrees of efficiency in the state by the sales tax records, number one. And, of course, we have the industry data. So we attempt to make compatible these two numbers. And that, coupled with on-site investigation enables us to get a rationale on how much we need to put in there.

QUESTION: What are you comparing exactly as you compare one state to another as to who gets the 5 percent and who gets the 2, and who gets none? --

MR. SIMON: Well --

QUESTION: -- the length of the line, or the speed with which they are selling out?

MR. SIMON: Basically, you take a look at what should be delivered to the state, based on the base period of 1972, the comparable month under the allocation program. And if they're getting less than they should, then you give them the allotment on that basis. So it's done with the numbers that we have after we make them compatible with the state numbers wherever possible.

QUESTION: Mr. Simon, will that affect the March quotas in any way? And can the extra fuel which was allotted in February be carried over into March?

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MR. SIMON: Well, your second question, first. If indeed it's left over, it is there for them to carry over into March, yes. And this is an additional supply of gasoline to these various states. We're not moving it from one state to another; this is an additional supply, a draw-down in inventory, if you will, of about 2 million barrels, which will be put into these states. In March we're going to make a further adjustment on an equalizing basis, where some states have gotten more than the national average, and others less, and we're going to continue to work with these figures to make sure that all states are bearing the brunt of this thing equitably.

QUESTION: Who decides where this extra gas goes? In which critical areas?

MR. SIMON: Well, the Governor has the ability. The Governor of New York State has the ability to know where his critical shortages are. Indeed, he knows it already because he's working on the intrastate distribution right now, which is -- They've got problems in New York State, but no problems in Rochester. So I would imagine that the Governors would direct the supplies to where the lines are and where the shortages are the greatest.

QUESTION: So the Governor of Illinois could shove all five percent into Chicago?

MR. SIMON: Into Cook County. Exactly. He would exercise that flexibility just as he has the flexibility now of this 3 percent set-aside; to be using that during the period of a month. And there, again, the allocation program is a month old. We have not been telling the Governors how to use their set-aside, and they have been just a little bit slow in drawing it down because it's been a new instrument that they have. So we would hope that they begin to draw down a little bit faster.

QUESTION: With respect to the February 1973 distribution, the one you announced prior to this?

MR. SIMON: Yes, this supersedes that and gives the specifics of -- plus, there's an additional -- in other words, Maryland that was on there for 2 percent, and they might be on here for 2 percent, it's the same 2 percent.

QUESTION: What about the states that were cut back? Will they still be cut back?

MR. SIMON: Oh, we're going to, as I say, equalize the percentages and the states that have been over, they're going to be cut back, yes. And that's what our teams work on when they go out there: to make sure that the numbers that we have from the company data, the supplies that are being distributed into the state are the same numbers that the state had, as nearly as possible.

QUESTION: Those cut back 2 percent, are still cut back 2 percent?

MR. SIMON: Yes, sir.

QUESTION: In this one metropolitan area we have three jurisdictions. Maryland gets 2 percent, Virginia 5 percent, and the District of Columbia gets nothing?

MR. SAWHILL: The District of Columbia previously had been given 2 percent under the earlier redistributions.

MR. SIMON: And there again the difference between 2 and 5 percent is what supply had been delivered in February in those various areas. And there are parts of downstate Virginia that are flat out, I'm told.

MR. SAWHILL: Yes.

QUESTION: Depleting your inventories, will this possibly run into trouble where more gasoline is needed?

MR. SIMON: No, this is less than one percent of the inventories. The inventories at the last reported figures was 219 million. Inventories have been going up between -- gasoline, this is -- between 2 and 4 million barrels per week the last four weeks. The refineries have begun their shiftover from the -- to the gasoline supplies, and then taken those three facts, plus the conservation measures that continue to show us great improvement, this has enabled us to do this. And, as I say, this is a one-shot injection. But this does not preclude us from doing

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this again if indeed trouble spots occur around the country.

QUESTION: Can you do it again in March if you don't take away from the other states?

MR. SIMON: Well, that would be judgmental. I mean, that's a guesstimate what might or might not occur in March. But we wouldn't hesitate to do it again, assuming the supplies were available and we're not doing something that this gentleman suggested, that would be bad for us come late spring or early summer, because we don't believe in postponing the problem.

QUESTION: Is there any provision for growth in the way you distinguish between the 5 and 2 percent?

MR. SIMON: Yes, we have growth cranked into all the numbers we are working with with the states. It's not only the growth in population; it is also the growth in motor vehicle registration. We're using the states' figures on the growth of motor vehicle registrations to crank in these supplies. And we'll continue to. And that is one important factor in the equalization process.

QUESTION: Mr. Simon, did you talk to the President today?

MR. SIMON: Yes. That is why I was late. I didn't want to be a name dropper.

(Laughter.)

MR. SIMON: And I'm also meeting with the Governor -- the Governors Executive Committee on Thursday of this week to outline the complete program that we're going to be working with them, and ask for their suggestions, just as we have been working very closely. And that's one of the reasons for our success in great areas that you don't hear about very often.

QUESTION: Did the President tell you anything about the oil embargo?

MR. SIMON: No, sir, we didn't discuss that. We continue to set policy in the Federal Energy Office based on the continuing embargo, and not betting on any termination.

QUESTION: There has been no suggestion of a lifting of the embargo?

MR. SIMON: No, sir.

QUESTION: When you say "inventory," will you define that a little closer?

MR. SIMON: These are the inventories that are held by the major refiners and the oil companies, et cetera, that have it there for sale, that is subject to our allocation program right now. And they're presently allocating under defined rules, the base period, a certain percentage to certain class users, et cetera. And we are just increasing, if you will, on a one-shot basis this allocation from existing inventories.

QUESTION: What is that total inventory?

MR. SIMON: 219 million barrels.

QUESTION: Of gasoline?

MR. SIMON: Yes, and one must multiply that times 200 times 42. Compared to last year that's 4 million -- 3 to 4 million barrels of gasoline under last year, and two years ago, if I remember correctly, it was 236 million barrels.

QUESTION: That is how many days of use?

MR. SIMON: We use approximately 5 to 6 million barrels per day in this country.

QUESTION: Going back to your February 9th directive --

MR. SIMON: Remember, you can simplistically then divide that number and say we have X amount of supply, but when it begins to draw down to about the 160- 165 million barrels, then you begin to have spot shortages due to the distribution in this country being as faulty as it is. So you just can't say that we have X supplies and know that

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it will break evenly, because we have all learned sadly -- we suspected it -- that the shortages didn't break evenly in this country.

QUESTION: Mr. Simon, going back to your earlier allocations, in the states that received an increase allocation earlier this month, is this the same 2 percent again?

MR. SIMON: We just added to this list certain states at 2 percent, certain states at 5 percent, and it's the refined final list. It doesn't mean that Maryland, as I said, who was on the original 2 percent and they're on here at 2 percent, gets 4. No, they get 2.

QUESTION: What about states like Maine and Kentucky wherein your original, they were supposed to get supplemental allocations originally and now --

MR. SIMON: No, you see, this list is in addition to the Governor's state set-aside of 2 percent. The previous list, the oil companies, under our program, can redistribute up to five percent of supplies without asking the FEO. And previously we asked them to begin that redistribution process.

QUESTION: What about states having 2 percent on February 9 and now are getting 5 percent?

MR. SIMON: That will be an increase, yes.

As I said, and this is important. This supersedes the earlier announcement.

QUESTION: Kentucky and Maine where they were promised increased allocations earlier, but are not on this list --

MR. SIMON: Those states will be getting the additional 2 percent or up to 2 percent, depending upon the distribution systems in their areas.

QUESTION: Even though they are not on the list?

MR. SIMON: That's correct.

QUESTION: Could I ask: Have you told the

Congress that the President is going to veto the energy bill?

MR. SIMON: Well, it's been my recommendation right along that we would rather have no legislation rather than bad legislation. I never try to guess what the President would do as far as a recommendation is concerned. There are many unworkable parts of this Emergency Energy Bill. We just wanted a simple bill that would give us the mandatory conservation powers that we knew needed to mandate so many things like the electric lighting. We need, obviously, rationing.

QUESTION: Haven't you told Congress he will veto the Emergency Energy Bill as it now stands?

MR. SIMON: I guess you could say that that's what I've done. I cannot tell a lie.

QUESTION: Good. I'm for you.

(Laughter.)

MR. SIMON: That's as correct a question as I ever got. I could not have evaded that if I wanted to.

(Laughter.)

MR. SIMON: I evaded it almost successfully in the last press conference, but I -- you trapped me.

QUESTION: Mr. Simon, how soon do you think the increases will begin to show an effect in shorter lines?

MR. SIMON: I would think it would be a matter of days. There again, that will vary in the areas depending how long it takes to distribute.

QUESTION: We are talking about alleviating the whole problem of longer lines. At least applying it to this metropolitan area, I have done quite a bit of traveling around some of these different areas and it seems that the lines are getting longer, particularly here in the District. The more gas stations closing and closing earlier. The problem doesn't seem to be resolving at all even with the 2 percent that you said earlier here in the District.

MR. SIMON: A lot of people are changing their buying habits. There are many things that are inexplicable about this: why spot shortages occur in places and not in the others, and where the supplies are. But based on the data that we have of what supplies have been delivered to various areas, as far as the national level is concerned, it would seem that the surrounding areas needed help and that this area was up to snuff. And if we could get more into the other areas, some of this buying would occur out there.

QUESTION: Following on with telling Congress that the President will veto the bill -- if the President does veto the bill, will you roll back oil prices on oil --

MR. SIMON: That really has not been decided at this point. Thatdiscussion is still continuing right now as to whether or not a rollback per se is what is desirable. We all know what our intermediate and indeed long-term goals are as far as stimulating production in this country is concerned. And it requires a price that will guarantee -- to give an incentive to the investment needed to bring on this supply. And a rollback injects a great deal of uncertainty into a marketplace and discourages investment that's needed. And so in that way it's very counter-productive.

QUESTION: (Inaudible.)

MR. SIMON: Well, basically, of course, Congress mandated the speed limit change, so that would require an amendment to that legislation. We haven't had the conversation on the Fitzsimmons suggestion, which I believe was from 10:00 p.m. at night until 6:00 a.m. in the morning. And one must look at the safety factors if it's just for trucks because, obviously, if that truck is driving at a much faster speed than automobiles it's terribly dangerous, and the Secretary of Transporation is studying that right now.

QUESTION: That would apply to all vehicles?

MR. SIMON: Well, if it applies to all vehicles, and also you have to assess how many vehicles travel at that hour of night. And we are attempting to save a substantial amount of gasoline through the reduced speed limits.

QUESTION: What are the advantages of this?

MR. SIMON: The Secretary of Transportation is looking into that proposal right now. That would be in his area of responsibility. I would say that we will definitely be discussing this. But there has been no position taken on that issue at all, because Mr. Fitzsimmons just made this suggestion this morning.

QUESTION: I have one question about the 2 percent increase in Maryland. On February 9 the allocation called for 2 percent and it would just be a matter of days before we would see the effect of this. Why would there be an alleviation of problems if it's the same 2 percent?

MR. SAWHILL: On February 9th we told the suppliers to begin reallocating up to 2 percent in certain states. Now, we don't have data at this point telling us how much additional supplies they've put in. This is a draw-down of inventory. This can be effective immediately, depending how inventories are scattered around the country. So to the extent that we can immediately draw down those inventories and get these additional supplies into the states, and to the extent that the Governor has the discretionary power to put it in those areas of the states that are most affected, we think we can begin to see some results very soon.

MR. SIMON: Remember, these are --

(Simultaneous discussion.)

MR. SAWHILL: We don't have any -- we haven't gotten any reports back.

MR. SIMON: Also, it wasn't specifically directed to the troubled areas. This one will be by the Governors, number one. And, number two, this is a creation of additional supplies, not just a moving around of the existing shortage. So we're hopeful that it will work. And, as I say, we're going to look very closely at how it does work, and within the constraints of availability, if the lines do persist, we're going to do something else about it. Because we're

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not going to have the American people sacrificing as they are and being put to this inconvenience. Also, the President feels extremely strongly about this.

QUESTION: One additional point. This 2 percent for Maryland in this list is different from an additional 2 of the February 9th allocation? Is that correct?

MR. SAWHILL: No, that is not correct.

QUESTION: It is the same 2 percent?

MR. SAWHILL: Right.

QUESTION: But the 2 percent announced for the District of Columbia which is not on this list will go through anyway --

MR. SIMON: Correct.

QUESTION: You don't know whether the February 2 percent has gotten there or not?

MR. SAWHILL: No, we do not.

QUESTION: You are saying you are giving the Governors of the States enough gas (inaudible).

MR. SIMON: We hope for three things. Number one, they're working on the intrastate distribution of the existing supplies. Number two, they use their 2 percent set-aside that they have always had --

MR. SAWHILL: Three.

MR. SIMON: Three percent, beg your pardon.

-- to take care of this problem. Now, they have got an additional 2 or 5 percent to create additional supplies for them to deal with this. And we are hoping that this is going to alleviate it, but I can't guarantee you that it's going to.

QUESTION: How did Virginia get allocations on February 9th?

MR. SIMON: I'd have to go back and look at the number --

MR. SAWHILL: Virginia did not get -- yes, Virginia was in that list that got up to 2 percent.

QUESTION: So the 5 percent is 3 percent additional?

MR. SAWHILL: Right. To the extent that that 2 percent was used.

QUESTION: What have you found as far as the Metropolitan Washington area is concerned? As far as the gas lines are concerned?

MR. SIMON: Do you have those figures?

MR. SAWHILL: I don't have any figures on the length of time of the lines. But they have found that there were lines in the D. C. area, although they found that the lines --

(Simultaneous discussion.)

MR. SAWHILL: Well, they haven't found the lines in the Washington area to be any worse than they are in any of the other metropolitan areas around the country.

QUESTION: Have they gone down, or increased, or what?

MR. SAWHILL: Well, our teams, as you know, we just dispatched them last Thursday. They were in over the week end, so they really couldn't compare to what they were on February 9th.

QUESTION: The President is concerned about the long lines at this time. My question to you, sir, isit you, or did the President say,"We've got to do better?"

MR. SIMON: The President directed me to find ways to reduce these long lines within the constraints -- as I said to this other gentleman earlier -- of not having it come back and injuring us greatly come the spring or the summer when the demand for gasoline traditionally rises. And we felt that for reasons of conservation that the inventories would be at levels that we could safely do this

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at this time to help alleviate the problem. We've got this latitude with the inventories at fairly comfortable levels, and the refineries are in the process of shifting, having added the increment of 3 to 4 million barrels per week the last 3 to 4 weeks. So we're hopeful that this will help the same way that we were able due to the conservation and the great break in the weather to give the truckers the additional amounts, and the airlines, earlier.

QUESTION: Mr. Simon, going down this list and say whether states are now on this list as compared to February 9 --

MR. SIMON: I'm sorry, I don't think I have got the February 9th statement with me, but --

VOICE: I can read you off the list from February 9, if you wish.

Arkansas, the District, Delaware, Illinois, Kentucky, Maryland --

QUESTION: Would you repeat that?

VOICE: Arkansas, The District of Columbia, Delaware, Illinois, Kentucky, Maryland, Maine, Mississippi, New Jersey, North Carolina, Virginia and Tennessee. And I believe West Virginia was also on that list, but I don't --

QUESTION: (Inaudible.)

MR. SIMON: Not the actions that were taken today, but future actions are going to affect the haves and have-nots, because there are certain states that are above what you call the national average. And we're going to attempt, as the months go by -- there again, we're only in the first month of this program -- to equalize so everybody is sharing the same percentage of shortage. And right at present, it's not equal.

QUESTION: Regarding the equalization on the rapid growth, could you detail the form that it will follow?

MR. SIMON: When you say "rapid growth areas," we have been using the motor vehicle registrations in the heavy growth states as a prime criteria of the additional usage versus the '72. How many additional cars do they have in that state, licensed vehicles?

MR. SAWHILL: And we do have a procedure in our regulations to adjust the base period for growth. If a gasoline station is experiencing greater than a 10 percent growth, he can apply to his supplier and work with the supplier. That's one of the reasons we are calling the oil companies in here is to expedite that process, so that our own internal administrative procedures can really begin to take this into account.

QUESTION: (Inaudible.)

MR. SIMON: That's cranked through right now through the vehicle registration, as far as the additional supplies are concerned. Sure.

QUESTION: Are you only using a numerical basis for this or are you allowing something for states that are following your requests to put --

MR. SIMON: Oh, no, we are not discriminating against any states. They know -- they have the ability to know what their state needs. And the states have moved very quickly to begin the odd-even where the lines have been too long. And the Oregon experience is beginning to show up: it's taking a lot of the panic out of the line. And we did a study in Massachusetts last week that showed that 72 per cent of all the vehicles waiting in line had over a half a tank of gas. And we're all convinced at this point that the buying is of the topping-out nature of the gasoline tank. And if we could just convince people that they should go in when their tank gets between down to about a quarter of a tank, if you will, that everybody would be a lot better off. And that is what we are attempting to do.

Yes, ma'am.

QUESTION: I would like to ask you another question.

The President has obviously said to you, "Bill Simon, I will veto the Emergency Energy Act that is now pending in Congress." What is it about this Act that he objects to most?

MR. SIMON: Basically -- let's clarify one thing: He has not said that to me. That's number one.

Let's say that that definitive conversation was not held, as far as I will -- as he stated it.

But the rollback in putting inflexibilities, of course, is a major problem with that bill, rolling back everything to the five and a quarter, giving a flexibility, as they call it, a percentage above that for the stripper well as well as the new and the matched barrel. Congress has had a very difficult time, history has shown, in trying to put any prices on any commodity in this country. And we have told everybody what our long-term supply prices, and what it is going to take to get this guaranteed incentive, to have Congressional veto power within 15 days over any movement of this, is just a restricting thing and should be left completely flexible.

The Federal Energy Administration, as far as the creation of this FEA and the Emergency Energy Act, gives the administrator really, instead of the President, rather extraordinary powers. It has no statutory base that inhibits my ability to hire people. There are just a myriad of rigidities in the bill -- massive studies that have to be undertaken in a very short period of time and presented to Congress. We have a whole list of objections that are truly unnecessary for the simple legislation that we need to meet these current problems.

Now, if some of these other things are needed, then we ought to direct ourselves to the usual Congressional methods of enacting legislation, such as the windfall profits. We sent our windfall profit tax proposal up there that we testified before Ways and Means several weeks ago, Secretary Schultz and I, two weeks ago. This directs itself at the problem of windfall profits.

We have a mandatory reporting act that we have been working on with the Congress, specifically. There's a mandatory bill in here that is unnecessary. So this is just a pot-pourri, if you will, of legislation that is going to impede our efforts rather than aid them.

QUESTION: (Inaudible.)

MR. SIMON: I would certainly hope not. I would hope the President would not have to be faced with the choice of whether to veto this legislation; indeed, we would get the simple legislation that we need to get on with our job. And not only that we get the simple legislation that we need to get on with this immediate job, but the most important job of all, which almost everybody loses sight of these days: our job of getting on with the ability for self-sufficiency.

We've got legislation that has been languishing on the Hill for months with absolutely no Congressional action. From the deregulation of natural gas, to deep water ports -- everything else that we need to give us the ability, the power if you will, in these areas to get on with our most important job.

VOICE: What are your plans to get going on this?

MR. SIMON: Well, we're continuing to work terribly hard on exactly this. And I'll know better at the end of the day, as soon as I leave here, what my chances are.

QUESTION: How does March compare to February with regard to --

MR. SIMON: Well, as you move into spring each year and the warmer weather comes, then obviously the supplies would increase at the same time.

QUESTION: Mr. Simon, I raised this question but I wasn't satisfied with the answer because...I want to discuss the question of how to rate the gasoline shortage at the present time...a 5 percent cutback in --

MR. SIMON: That was an approximate, assuming all the refiners went back to that level.

QUESTION: (Continuing.)

MR. SIMON: When we talked about a 5 percent as far as the shift in the refineries, remember that was the cause of some confusion. And obviously still is. By shifting this 5 percent, it meant that the shortage would be 15 percent; that the production of gasoline, the actual production of gasoline would be curtailed 15 percent, by this 5 percent shift going from 46 to 41,

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or 47 to 42.

QUESTION: ... now the latest figures are that we are 15 percent below the '72 level.

MR. SIMON: No, we always equated 5 percent, Bert, as being 15 percent as far as actual physical shortage of gasoline and 5 percent related to the percentage of gasoline that was being produced in the refinery.

QUESTION: But 85 percent of what you received in 1972...in the month of February.

MR. SIMON: Would you agree that if we used the demand figures for 1973 and the demand so far in 1974 and added it on to the 15 percent that that would answer your question, as nearly as you could on the extent of the total shortfall? What demand has grown, in other words -- pardon me?

QUESTION: (Inaudible.)

MR. SIMON: But that's what we're talking about, about the total demand has risen and what the shortfall is. We're distributing 15 percent. The demand has fallen since the beginning -- actually, since the end of '73 when we started this program. And if I remember the year 1973 -- and I don't have these numbers here, that's why it was my judgment based on my memory -- it was about 3 1/2 percent, the growth last year. So that falls right in the 15 to 20 percent shortfall. But we will provide you with this data. We'll have that written up in Q & A form.

QUESTION: (Inaudible.)

MR. SIMON: Basically, I went in to talk to the President to report to him, as he directed me to do last Wednesday, on this success that we are going to have in implementing the program of alleviating the lines at gasoline stations. That's number one.

Number two, we talked about the legislation, as far as it has been languishing on the Hill, everything that we need to get on with our longer range job of self-sufficiency. And, more importantly, really I don't go in there to take his time to just gossip. The foreign policy aspects of this, and the lifting of the embargo I am interested in just as any human being. But I was in there today to talk business with him.

QUESTION: On this matter of growth rate, is the fact of high growth rate -- the one-shot injection will simply relieve that for a week or two, then next month we come back --

MR. SIMON: No, we are-- here again we are going to equalize as the months go by.

MR. SAWHILL: We have an administrative procedure whereby the companies themselves, certified by us, can make these adjustments into the high growth areas. Admittedly, it takes a little while for this procedure to get into effect. But we've expedited it. And it's one of the reasons we have called the companies in here: to make sure they understand how it works.

MR. SIMON: And it's not all high growth areas, because you can't call New York City a high growth area. I would say that is a change in buying habits, the way people are buying a lot more in New York City, and the way people are staying around rather than buying it out in the country where they might have gone to the country on week ends, et cetera. So it's been a combination of both. No one single reason.

QUESTION: Where would you expect the effects to be shown?

MR. SIMON: Well, we are going to start that -- that will be commenced in March. I won't say it would be perfected in March, as far as the equalization is concerned. We are going to continue to work with the Governors and the states, and the percentages using their data and our data. The data that we have that industry supplied of what goes into those various states, and the data of what is supplied and what is consumed, based on the sales tax records. So I would hope that we would make a major step in this direction this week.

QUESTION: Mr. Simon, you are calling for Congress to amend the (inaudible) Act. What other plans --

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MR. SIMON: Basically, as far as the allocation program, we need more flexibility as far as backing out potential imports are concerned. We are in this bill, creating the allocation of crude, inhibiting imports, because the person has no incentive to import when he's got to share it with everybody.

MR. SAWHILL: And over and beyond that it requires, as far as crude oil, to ship to those refiners that can maximize production of gasoline, the more efficient refiners, to smaller, less efficient refiners that can't maximize the production of gasoline. So it reduces our overall gasoline production.

QUESTION: Outside of the crude aspect, is there anything else --

MR. SIMON: Not at present, no, sir.

QUESTION: (Inaudible.)

MR. SIMON: We were going to make these figures available to you. We've listed today on our --

QUESTION: (Inaudible.)

MR. SIMON: We'll be glad to -- we'll have all those numbers before the week is out.

QUESTION: (Inaudible.)

MR. SIMON: Pardon?

QUESTION: (Inaudible.)

MR. SIMON: Kentucky was one of the states where we had started redistributing on February 9th, up to 2 percent, the oil companies themselves. Kentucky didn't appear to our teams to have significant problems in their metropolitan areas. The Governor needed the 2 percent set-aside addition.

QUESTION: (Inaudible.)

MR. SIMON: This is basically where we are attempting to help them by alleviating the lines that they have to wait in to make gasoline available.

Now, in the discrimination press release, if you will read that carefully, where we attempted to clarify some of the misconceptions that people had, where Congress clearly mandated that we could not discriminate between classes of users, they can establish priorities. But within the priorities that they established for their regular customers, they must treat everybody equally. Now, doctors, et cetera, should be in a priority class, and they are indeed handled that way in many states.

QUESTION: (Inaudible.)

MR. SIMON: Available supply. Those figures basically came from the, what we call Form 1000, the data that the oil companies submit to us on the supplies that they are going to put into the state based on their allocation fraction. We added all those up, and that's the available supplies for those states. And then we went out and checked the data with the states as to what their figures showed their states received, and so we tried to make it as compatible as possible.

QUESTION: (Inaudible.)

MR. SIMON: Well, it depends on exactly the specific. But anything that was not normal business practice prior to -- and that's very clear in the Congressional mandate -- what was not normal business practice would be considered discrimination. Wouldn't you say that, Mr. General Counsel?

VOICE: The specific uses to which you refer need not necessarily be discrimination.

(Simultaneous discussion.)

MR. SIMON: That need not necessarily be discrimination, but if there are exceptions granted for some classes of customers and not for others, then that very well might be a case for discrimination. What we were seeking to do in the fact sheet that has been passed out to you is to articulate some of the rationale of basic fairness which we are seeking to use in operating that portion of the program.

QUESTION: If there is a minimum payment and there is only a small amount of gasoline, doesn't that violate the price regulations?

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VOICE: If someone seeks to charge a price for gasoline in excess of the gasoline that he actually (inaudible) than that's a price in excess of the permitted price under the regulations.

QUESTION: Over the weekend Mr. Bonner(?) of Gulf Oil accused you of being disorganized and having severe problems administering their allocation program through the regional office. Do you have any comment on that?

MR. SIMON: I don't know about disorganization. We are an agency that is, I guess, two and a half months old at this point. The formulation of any agency is a difficult thing and there is going to be some confusion, especially when you are going to have the agency based in seven or eight different buildings around town. I am not suggesting that that is very easy to administer; I am suggesting that **one of the very first acts we took when we took over on December 1, was to make sure we beefed up the allocation program and with professional and dedicated people we would start out and continue a job never tried before in the United States, to allocate short supplies in a peacetime period. We had no precedent. We have had problems. We have had growing pains and we are trying to handle a crisis at the same time. And we are working terribly hard and I think most of the time I have gotten from Congressmen, and I even got one from Hugh Scott this morning, a letter that specifically applauded our regional office headquarters in Philadelphia and cited many instances of cooperation from them. We continue to get cooperation from everybody in the allocation area.**

Most major oil companies are cooperating fully in letter and in spirit with our regulations. In recent weeks the Gulf Company stands alone in adopting a hard line of resistance, not only to the spirit, but perhaps to the letter of the regulation. We are investigating reports right now that Gulf is refusing to return to its base period of allocation. It has moved out of certain areas. We have had many reports from the regional office that Gulf is acting slowly in the process. They are allocating gasoline to their own stations and this is having a deleterious effect on the independents. We will look into this and change it if it is true.

Gulf Oil Company instituted a suit on the crude oil allocation program. I think it ought to be against Congress, who are clearly the ones who passed the law. We are only attempting to effect, as equitably as possible,

and our own attorney, Bill Walker, General Counsel, has met with the Gulf attorneys, and they are taking a narrow view of all of the regulations we have printed. And they are going to resist us at every turn.

As I say, they stand alone among the oil companies. Many other oil companies continue to cooperate fully. Bill cites an example and an announcement. They said they called for a hearing and were denied one. I have a letter from Mr. Bonner right here, that suggests a meeting where we could discuss orally some of the problems of allocation. This meeting was held two days later and Mr. Sawhill met with him.

"As you may know, I am seeking an appointment to talk with you or whoever you designate, concerning this proposal and notwithstanding the somewhat legalistic wording of the attached wire. Gulf is seeking an opportunity for definitive oil discussions of a number of serious commercial problems in the allocation of the crude oil program."

We met with them and Bill met with their attornies. They continue to be resistant and unduly -- Bill, do you want to comment on that?

MR. WALKER: Their objection has been to the mandate imposed on us by the Congress to allocate crude oil and refined petroleum problems in such a fashion -- in the case of gasoline, to require them to serve customers as previously served in 1972. In some marketing areas they are not curtailing their operation. Gulf is not alone in this situation. Other companies find themselves similarly situated, but we have received commendable cooperattion from all companies.

QUESTION: You don't say much about the crude oil allocation program. It appears some of their complaints are really very similar to some of your complaints? Rigidity of the law?

MR. SIMON: If Mr. Bonner would pay attention, he would find out I was criticizing this before him.

QUESTION: The Black community is criticizing the energy offices in sensitivity to the needs of special problems of the poor. Are you aware of the criticism and the criticism that there is no department within the Energy Office which deals with the problems of the poor?

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Are there any intentions to set up a special department?

MR. SIMON: I met with the Urban Coalition over a month ago, to deal with some of these difficulties. We are completely sensitive to this problem, and anything you bring to our attention that shows discrimination, if it requires a special office, we will set a special office up. But we will deal with that at the highest level of the Federal Energy Office, right at this point.

So, any problems you've got in this area I wish you would address in specifics to us and we will do something.

QUESTION: The governors of the various states cited today have the power of allocation?

MR. SIMON: Yes. This additional allocation is going to be the same as the satisfied they have under our regular program, that they can deliver it with complete discretion to the areas in their states having problems.

QUESTION: For example: in Virginia the 3 percent increase today in reallocation, is that the 146 million gallons of gasoline, or does that 146 million gallons of gasoline go up 3 percent?

MR. SIMON: 146 is the base number used. If you look at the last column it shows the numbers of gallons to be delivered.

QUESTION: Additional to the 146?

MR. SIMON: Yes, 146 was already given.

QUESTION: Plus 7?

MR. SIMON: Yes.

VOICE: Thank you.

(Whereupon, the press briefing was concluded.)

STATEMENT OF DR. JOHN C. SAWHILL
DEPUTY ADMINISTRATOR, FEDERAL ENERGY OFFICE
BEFORE THE JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

FEBRUARY 19, 1974

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today to comment on the Economic Report of the President. This report outlines a number of major objectives. I will confine my comments to those items which help structure a comprehensive energy program able to deal with the current shortages and also re-establish our ability to be self-sufficient in energy. I would like to discuss some immediate short-term effects of the crisis, some longer-term effects and their relation to energy self-sufficiency and finally some comments on your Committee's study on the Budget.

Problems of inflation, unemployment and balance of payments have been our major economic concerns for many years. They have now been joined by another problem--shortage of energy--which will dramatically affect all the others if we permit it to. All of us are well aware of the energy shortages precipitated by the oil embargo. However, these are merely symptoms of long-term problems which have been building for many years and will not simply vanish when the embargo is lifted.

We have been rapidly depleting our non-renewable petroleum fuels while failing to develop any adequate alternative sources of energy. We have been operating under the assumption that cheap, abundant energy would always be available. This has contributed to wasteful patterns of energy consumption and insufficient incentives to develop adequate domestic resources. As recent events have shown, this has left us very vulnerable to any interruption of the imports we have come to rely upon.

Short Term Problems

Today, I want to discuss some of the short-term problems caused by the oil embargo and what our national policy should be to minimize its effects.

First, however, I will address the immediate short-term outlook for fuel supplies. Because of the mild winter there will almost certainly be no shortages of home heating oil and our relatively large stocks of distillates provide us with great flexibility in dealing with the changing shortages of the spring and summer. Major conservation efforts continue to be essential, particularly in the consumption of gasoline and residual fuel. Our attention is now focussed on increasing the supplies of gasoline, aviation jet fuel, and residual fuel oils to prepare for the expected summer demand increases. Presuming the embargo remains in effect, our current forecast of overall shortages for the second quarter of 1974 is about 16 percent or 2.8 million barrels per day. This figure is based on unrestrained demand and does not give effect of price elasticity or embargo leakages. We are still studying the impacts of these factors and will publish a comprehensive estimate by mid-March. But based on unrestrained demand, the individual shortages would be 12 percent for gasoline, 27 percent for aviation jet fuel, 6 percent for middle distillates, and 32 percent for residual fuel oil. This is the overall deficit between supply and unrestrained demand for the second quarter based on the usual expected demands during this quarter minus the estimated actual supplies including imports, plus the amount necessary to rebuild stocks in order to avert more serious gasoline and residual fuel shortages in the high-demand third quarter.

A recent study by FEO showed that if the embargo were lifted and pre-embargo shipments resumed beginning in April, the total shortfall - based on unrestrained demand - would be about 8%. The individual shortages would be 4% gasoline, 13% jet fuel, 3% middle distillate and 16% residual. Managing a shortage of this magnitude will continue to require major conservation programs by both business and consumers as well as a continuation of our oil to coal switching program for utilities.

Our main concern is still to minimize impacts on industrial output and the employment situation. The past months have shown that reductions of 15 to 20% in total fuel consumption can be achieved without severe economic dislocations. We are continuing the development of conservation and allocation policies to deal with shortages of these magnitudes. What has not been determined is the longer term effects of this level of shortage on the general economy.

The 1974 Economic Report of the President indicates the possibility that prices might rise enough to clear the market and eliminate the shortage. While this may be appropriate for the long term, in the short term we do not intend to let prices alone ration fuel supplies. We must protect the interest of the consumer at a time when world prices have risen to heights which do not reflect long run demand-supply relationships. Therefore, we will continue to control the prices of "old"oil and are considering price controls on "new" oil and oil from stripper wells.

The short-term strategy of FEO has been to allocate our fuel resources as equitably and effectively as we can, and to respond decisively to exceptions not covered by our regulations as they arise. The 1974 Economic Report stresses the Administration's determination to manage the energy shortage so as to keep loss of jobs and production to a minimum. To do this, it will be essential to provide, or permit, incentives to maximize imports, domestic exploration and production, as well as providing rapid fuel shifts to key industries. Different strategies, however, will be necessary to provide a longterm solution to the energy problem.

Longer Term Problems. Domestic energy supplies have increasingly fallen behind energy demands since 1949, the first year that the United States moved from being a net energy exporter to being a net energy importer. More importantly, over the last 15 years, the rate of growth in energy production has constantly decreased while the rate of growth of demand has constantly increased. Thus, the gap, which has been met by imports, has been widening at an ever-increasing rate. Over the last three years, demand has grown by over 5 percent per year while domestic production has increased only about 3 percent per year.

As a result, domestic sources, which provided 95 percent of United States energy in 1960, and 88 percent in 1970, provided only 83 percent in 1973. More significantly, the percentage of petroleum imported doubled over the same period. In absolute terms, the quantity of petroleum imported nearly quadrupled. Forecasts, made prior to the embargo and subsequent crude oil price increases, predicted that the United States would import over 43 percent of its crude oil and petroleum products requirements in 1980 at costs exceeding 17 billion dollars, based on 1972 import oil prices.

Were we to import all the oil predicted by these forecasts at present prices, the total outlay would double or triple. This outflow of funds would have a staggering effect on our economy and our balance of payments, even if the oil-exporting nations were to invest a substantial portion of these revenues back in the U.S. economy. We do not intend to let this situation develop. We intend to find low-cost oil production methods or substitutes. National security considerations, indicate that using domestically-produced oil (or substitutes) that cost somewhat more than the equivalent imports, may be a better course than growing reliance on foreign imports.

We have also just found that we can no longer count on importing as much oil as we need, even at any price. Thus, for the twin reasons of national security and balance of payments, we must reduce our dependence on oil imports. This is why the President established in November a new national goal of energy self-sufficiency by the end of this decade. We feel that the thrust of Project Independence is essential to both short and long term solutions to the energy problem. I would now like to discuss Project Independence, what it means to us, its objectives and how they can be achieved.

Project Independence

The first major thrust of Project Independence is to eliminate waste and conserve energy resources. We cannot wait for the normal market forces to reduce demand as prices rise. We must adopt energy conservation and demand curtailment as a long-term individual and collective ethic now, and not simply as a temporary expedient to be followed during this period of acute shortage. This will mean lighter and less powerful automobiles; lower speeds on our highways; reducing heat losses in our homes; fewer empty seats on our public transportation; less waste in our industrial processes and powerplants; fewer throwaway containers. These measures will enhance rather than detract from our economic well-being and standard of living. Our goal is to cut our annual energy consumption growth rate from the present 5 percent to 3 to 3.5 percent by 1980. This could save as much as 6 million barrels of oil equivalent per day.

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We also plan to do considerable research aimed at permanently reducing energy consumption. For example, better insulation of houses, more efficient automobile engines, and more efficient power cycles can save energy without causing economic or social dislocation.

The second major thrust to Project Independence is to stimulate the development of existing domestic energy resources as well as alternative new sources. Specifically, our program will include the following:

- We must develop our coal reserves more effectively. We have 1.5 trillion tons of identifiable coal reserves, one-third of which are economically recoverable now. We must utilize this abundant resource. We need to mount major research and development efforts in coal gasification and liquefaction. Simultaneously, we must develop and use techniques for mining coal that do not scar the landscape permanently or endanger the health and safety of miners.

- We have talked for years about the production of oil from our oil shale. There is an estimated 1.8 trillion barrels of oil in the U.S. shale resources which could satisfy our oil needs for over 100 years. We need an increased effort by both the Federal government and private industry to develop this potentially productive resource. Some have estimated the in-situ processes for extracting shale oil would make it possible to produce oil close to the current cost of Persian Gulf crude. In-situ extraction should also have minimal impact on the environment and its development must be expedited.

• We must also push forward in the development and utilization of nuclear power. Currently, nuclear power provides less than one percent of our energy needs after 30 years of development. It could easily provide 10 percent by 1985. We must take every step to expedite the licensing and construction of nuclear powerplants which are an essential part of our program for achieving energy self-sufficiency. We will also develop a broad nuclear program which looks toward liquid metal and other breeder reactors. In addition, top priority will continue to be given to assuring that nuclear power plants are built and operated safely with acceptable environmental impact. We must convince government policy makers and the public that nuclear reactors are safe and waste disposal problems can be solved.

• We have also talked for years about development of such relatively distant alternatives to fossil fuels as fusion, geothermal and solar energy. For the next decade these alternatives are still very much in the research and development stage of growth and they could not come into widespread use until after 1990. Nevertheless, although we will invest in the development of these alternatives, at the same time we must focus now on nearer-term measures for expanding energy supplies.

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In summary, then our long-term policy must be to greatly accelerate these energy related research and development programs. This is where the major budget impact occurs. The President proposes spending over $1.8 billion in this area in 1975 compared to $700 million in 1973. This will be complemented by an even larger investment by the private sector.

Joint Economic Committee Study

An integral contribution to Project Independence objectives must be a program of tax initiatives designed to provide incentives for energy conservation and domestic resource development. Several such initiatives were presented in the Joint Economic Committee's staff study "The 1975 Budget: An Advance Look." The energy section of this study refers to four possible types of taxes designed to reduce energy consumption: an increased excise tax on gasoline, an excise tax on crude oil, a tax on all energy sources, and an excise tax on excessive residential energy uses. We are currently studying these propositions and other alternatives. Any of these taxes, or combinations of them would undoubtedly have some effect on demand and would induce conservation. What is lacking at this point is a quantitative insight into the effectiveness of such measures and their effects on the general economy and we are attempting to quantify these effects. A further issue is how the revenue raised should be used. Your staff study indicates that a 30 cent tax on gasoline could yield $16 billion and suggested that this revenue might be applied to such programs as unemployment compensation, public service employment, or aid to State and local governments. I feel that if such a tax were enacted, we should also consider using such revenues on energy related initiatives. For example, I think we should positively encourage energy-resource development and investment and research into alternative energy sources. By doing so, we could accelerate the rate of private investment. In addition, funds raised in this way could be used to promote conservation practices such as allowing tax incentives to homeowners for installing insulation, and subsidizing mass transit.

This finishes my prepared statement. I will be happy to answer any questions the Committee may have.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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TREASURY ANNOUNCES REGENERATIVE BLOWER/PUMPS
FROM WEST GERMANY
ARE BEING SOLD AT LESS THAN FAIR VALUE

The Treasury Department announced today that regenerative blower/pumps from West Germany are being, or are likely to be, sold at less than fair value within the meaning of the Anti-dumping Act of 1921, as amended. These regenerative blower/pumps have various industrial applications including the powering of pneumatic conveying equipment, drying plastic pellets and powering of dental aspirators. Notice of the determination will be published in the Federal Register of February 25, 1974.

The case now will be referred to the Tariff Commission for a determination as to whether an American industry is being, or is likely to be, injured. In the event of an affirmative determination, dumping duties will be assessed on all entries of regenerative blower/pumps from West Germany which have not been appraised and on which dumping margins exist.

A notice of "Withholding of Appraisement" was issued on November 23, 1973, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. Pursuant to this notice, interested persons were afforded the opportunity to present oral and written views prior to the final determination in this case.

During the two-year period of 1972-73, imports of regenerative blower/pumps from West Germany amounted to approximately $350,000.

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TREASURY OFFICIAL GIVEN LEAVE TO HEAD RESEARCH
IN NEW PRIVATE PHILANTHROPY STUDY GROUP

A treasury Department official, Gabriel G. Rudney, has been given a leave of absence to serve as Research Director of the newly organized Commission on Private Philanthropy and Public Needs, it was announced today.

Mr. Rudney was named to the post by John H. Filer, Chairman of the Board, Aetna Life and Casualty Company, who is serving as Chairman of the Commission.

The work of the Commission, the formation of which was initiated by John D. Rockefeller, 3rd, has the endorsement of Chairman Wilbur D. Mills of the House Ways and Means Committee and Treasury Secretary George P. Shultz and Deputy Secretary William E. Simon.

Primary purpose of the Commission, headquartered in Washington, is to study the role of private philanthropy in the United States and develop recommendations on how it might be strengthened. Leonard L. Silverstein, an attorney, is Executive Director.

Mr. Rudney, who served as Assistant Director, Office of Tax Analysis at Treasury, was responsible for development and evaluation of tax legislation in social and economic areas.

He completed his undergraduate work and earned his M.A. degree in Economics at the University of Chicago, and was named a Federal Executive Fellow of the Brookings Institution in 1967-68.

A native of Newark, N. J., he is married and has two children, a son attending the University of Michigan and a daughter at the Sidwell Friends School, Washington, D. C.

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S-366

FEDERAL ENERGY OFFICE

PRESS CONFERENCE

with

JOHN C. SAWHILL
Deputy Administrator
Federal Energy Office

New Post Office Building
Washington, D. C.

Thursday, 14 February 1974

The press conference was convened at 10:00 a.m.

VOICE: We had a little Xerox machine problem this morning in three different buildings and we will have our handouts ready in probably another ten minutes. You probably heard his czarship has left town, so we decided to have a news conference to introduce you to these new, spacious surroundings.

What happened, a few days ago a high-level government official announced that the energy crisis was about over, and that the long lines at the gasoline stations would cease here in the next few months. So his czarship is out of town looking for a job.

(Laughter)

He is looking for a -- some kind of cotton-picking job down south.

(Laughter)

With that I will introduce the assistant czarship, John Sawhill.

DR. SAWHILL: Well, I have got some things to talk about this morning and I expect you have some questions you want to ask me. If you will just give me a few minutes to describe the situation as I see it this week, then we will get to your questions.

I think the first thing I would like to address myself to is gasoline. As you know, we are having acute shortages that are persisting in certain areas around the country. We are very aware of these. I am happy to announce today that we are going to begin some action that we think will be a step in the direction towards alleviating these shortages.

Basically we think there are four things we can do to relieve shortages. First, we can assist the states in shifting gasoline from those areas in the state which have sufficient gasoline to other areas where shortages are existing.

I was in New York last week, up in Rochester. I found generally there were sufficient supplies, there were not long lines. In New York City, on the other hand, there have been significant shortages. This is the case where I think some intrastate shifts are possible.

Secondly, we can work with the state governors and make sure they clearly understand how to use their state set-aside which gives them a vehicle for relieving a

acute shortages in local areas. Thirdly, we can shift additional supplies into the states, but this of course means shifting supplies from other states, and in order to do this, we have to make sure that we have an adequate amount of information available to us so that we can treat every American going to the gas pump to buy gasoline in an equitable fashion.

Finally, we can work with the states and with local communities to help them manage the shortage more effectively to work with the states and to insure we have adequate information and to insure that the states and the Federal Government agree on the information available to us, and to help the states develop means of managing the shortage more effectively and to insure that states know how to utilize the programs that we have announced and understand our regulations.

We are today dispatching teams to 19 states and the District of Columbia. These teams will consist of officials from the Federal Energy Office, and from our regional offices, and they will specifically be moving into the states with an action orientation, working with them on checking the reliability of the state data, showing them the data that we have available to us, making sure the states' governors understand how to use our program, understand what our regulations mean, understand what we can do together to move supplies around in the states.

The purpose, as I said, is to insure the American people that all Americans are treated equitably at the gas pump. We are attempting to estimate for a state the '74 requirements for gasoline and compare this with the '74 supplies moving into the states.

In order to estimate the 1974 requirements, we are looking at the comparable month in 1973 and determining exactly what the supplies were at that time and we are adjusting that figure by a growth factor, and that growth factor is the increase in motor vehicle registrations. As soon as we have gotten this data assembled and gone to the states and made sure the states agree with the data, then we will be in a position to really understand exactly what the situation is around the country.

That is why we are sending these teams out so that they can work with the states, they can help the states understand our regulations, and they can check and verify this data. Last week we had a team in Connecticut. As soon as we get our teams up into the other parts of New England and those states are included in the 19, we will be determining whether or not the additional allocations are necessary for New England.

Now as far as managing the shortages are concerned, we have been meeting over the last day with a group of 12 retail dealers representing dealers around the country, and we have been discussing with them various ways of helping relieve this panic buying we see and reduce the lines we are experiencing around the country.

We are going to be going out to the states again with guidelines, asking them to establish minimum purchase requirements, either purchase requirements relating to a half a tank; that is, having people not be permitted to purchase gasoline when they have more than half a tank, or a $3 minimum or a $4 minimum, whatever seems appropriate for the particular state or locality.

Secondly, we are going to be suggesting to them some plans of staggered hours of operations, because we found in some areas that people that work at unusual hours are having difficulty buying gasoline since stations are only open in some cases for very short periods during the day.

What we want to do is to assure people, regardless of what their working hours are, that there will be gasoline stations open for them at those hours; and most importantly, we are asking local communities under state leadership and guidance to establish information systems such as having local radio stations, or local television stations, or perhaps local newspaper broadcast or write, or publish, when the hours of operation are open for a particular station.

We are also going to be suggesting to the states, as they adopt the odd-even plans, which we find are working effectively in some states, certainly, that they have Saturday become a free day or an open day, so we don't have situations where, if there are two odd days on either side of a Sunday, when we have asked gasoline stations to be closed, that people have to go without gasoline for three days in a row.

Turning now to the truckers, we have heard reports from around the country that truck stops aren't getting sufficient fuel. I spoke with Frank Fitzsimmons on the telephone this morning and told him that I was today sending telegrams to the major oil companies, directing them to immediately begin making interim allocations of fuel to the truckers. We will proceed on this immediately.

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There's going to be no red tape involved. We are going to get fuel out to the truck stops.

The propane situation is another thing we have discussed in the past. In the past week we have sent investigating teams out in the country. We have found some illegal marketing and pricing practices; and it's been resulting in some exorbitant prices that we have seen charged to the American public.

For example, we found a firm that by restating its May 15, 1973,selling price, was overcharging propane customers by over $2 million. That kind of thing just cannot be allowed to happen, and it won't be allowed to happen.

Today we are dispatching an IRS strike force to conduct a nationwide review of the propane industry to determine exactly what the situation is and to correct and identify problems; and if we find cases of violation, we are going to prosecute them.

This afternoon we will be meeting with the 26 leading companies in the propane industry to review the propane situation, to explain our regulations to them, and to assess the possibilities for price reduction.

Following that meeting, for any of those of you who are interested, we will be reviewing the result with the press and we will have a press release announcing our actions.

The airline situation continues to be a difficult one. As I have said in the past, the crude program, by taking crude away from the major refiners and shifting it to some of the smaller refiners which don't have facilities for making sufficient amounts of jet fuel, has resulted in reduced allocations to the airlines for February.

Today we are directing an increase in refinery yields by six-tenths of 1 percent; and we are directing the refiners to immediately begin drawing down inventories to supply the airlines with their proper allocations.

In February of '74, inventories of jet fuel are some 28.6 million barrels, that is about 29 days' supply. Last year at this time they were about 26 million barrels, or only 24 days' supply.

We have sufficient inventories and we are going to move these out to the airlines in the interim as the refinery shift begins to go into effect.

We also are announcing in the package of materials we will be handing out to you the fact that tomorrow we will be submitting to the Congress an energy information disclosure act, an act which will mandate the disclosure of energy information to the federal government for all types of energy, not just the oil industry, but coal, uranium, nuclear, and other types of energy as well.

The situation report we will also be passing out to you, you will notice there is a discrepancy this week between the figures compiled by the Federal Energy Office from Customs Bureau data and figures compiled by the API. The API figures show imports this week of 4.4 million barrels, which is significantly below the level we forecast for a fully effective embargo.

Our figures show imports of 5 million barrels which is 100,000 barrels a day above the level that we forecast for a fully effective embargo.

At this point we have rechecked our figures and it appears the API figures are not correct, although we haven't had any verification of this from the API.

You have to remember the API only gets their information from 50 to 60 percent of the industry where we get information on all imports.

I don't think there are any other significant points in the situation report.

I should point out that the -- in the situation report, that the demand, the reduced demand figures which we have been talking about in the past, I think, are becoming less meaningful now that we have moved into the allocation program. Since we are not putting any more supplies out there, the fact that demand is down really only reflects the fact that the allocation program is limiting the amount of supplies available.

As far as the Washington energy conference is concerned, we were encouraged by the commitment to renewed cooperation that was reaffirmed at this conference, although some differences of views exist, obviously, among nations regarding the best way to deal with the international energy situation.

We do think the conference was successful in establishing a broad framework for future cooperation in such areas as conservation, development of alternative sources of energy, instituting emergency international allocation measures, and importantly, establishing a framework for cooperation of international research and development.

We have already had discussion with some countries even as recently as yesterday on ways that we could expand our cooperation in research and development.

One other announcement that will appear in your package is that we will be submitting legislation next week asking for modifications in the crude oil allocation program.

This program is forcing shifts, as you know, from major refiners in some cases to other major refiners. On the buy-sell list, if you have studied it, you notice that Gulf, for example, is a seller to Texaco.

It seems to us, in order to encourage imports and encourage continued domestic exploration that the program should be modified to take care of the smaller refiners.

I don't think at this point we have a good definition of smaller refiners; but not to force a complete swap within the industry.

I think that about covers the material that we will be passing out to you.

QUESTION: Mr. Sawhill, with regard to that crude oil allocation program, I notice that Cities Service has to sell 2 million barrels under the present plan because they closed an antiquated East Chicago, Indiana, refinery. They are claiming that that will reduce their available supplies of distillate to their customers to 66 percent, because they have been a chronically crude-short company; whereas, on the other hand, Exxon only has to sell about 102,000 barrels of crude; and Exxon has dramatically increased its market share on the East Coast and other areas.

Will your revisions take into account things like closed refineries and so on?

I note that Mobil also is keeping a refinery open that it had previously closed in East Chicago, Indiana, I believe to reduce its liability under the crude program.

What form will those crude revisions take?

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DR. SAWHILL: Well the problem as you mentioned and certainly some of the problems we will be considering in making our revisions to the program, I can't comment on the specific case of Cities Service or Mobil. But obviously, the intent, I think of the Congress, and of the Administration, is to expand our production of refined products, not to decrease it.

We don't want to have a program in place which is going to decrease it. On the other hand we have to have a program in place which is going to provide adequate supplies of crude to the smaller independent refiners. We intend to do that.

QUESTION: Mr. Simon promised Connecticut emergency allocations Sunday, backed up by Mr. Weber on Monday. Everybody is expecting today he will be able to tell us how much it is and what it will mean.

DR. SAWHILL: We are going to make an assessment of the entire New England situation. We will be doing that today, dispatching teams into all the major New England states. As soon as we have had a chance to assess the whole New England situation, then we are going to determine what emergency allocations should be made.

I expect that we would be in a position to comment on the New England situation by this weekend.

QUESTION: We understand that whatever action you are going to take on propane prices depends upon what the propane producers voluntarily agree to do at this meeting today, or are you going to tell them?

DR. SAWHILL: We will be meeting with them and explaining to them how our regulations work. There has been a great deal of confusion about that. Our regulations permit them to lower their prices and bank their costs and later use these costs against propane at a lower price. I think that as we explain the regulations to them and discuss some of the atrocious situations that we have uncovered as we have investigated propane pricing around the country, that we will see some reduction in propane prices.

But rather than comment more on that at this point, I think it would be better to wait until after the meeting when we have had a chance to fully assess the situation.

QUESTION: Then you are not going to impose rollbacks?

DR. SAWHILL: I think we will see a reduction in prices. That is what we want.

QUESTION: Dr. Sawhill, a few days ago on the Hill Mr. Simon said the FEO was not going to be taking any action on a rollback of crude oil prices until Congress did something about the stripper well. Now in the last couple of days we have heard reports some sort of rollback on new oil by your office is imminent.

Could you clarify this?

DR. SAWHILL: The FEO constantly has under consideration rollback in crude oil prices. At this time we are not prepared to announce any rollback. We certainly do call upon Congress to give us the authority to control stripper well prices because we just don't think it is appropriate to have new oil prices uncontrolled and stripper well prices uncontrolled.

We have to have the authority to control both.

QUESTION: You don't rule out some sort of rollback on crude oil?

DR. SAWHILL: We certainly don't rule out a rollback at any time, but we are not prepared to make any announcement on that this morning.

QUESTION: Are you saying Mr.Sawhill, would it help the governors to shift gasoline supplies within their state? Does that mean you might tell a given bunch of stations, "Sorry, your lines have not been as long. You are going to have to add a sixty percent of base than the stations in the big city down the road are going to get 80 percent of base."

DR. SAWHILL: No, I don't think it would work like that. That is a hypothetical situation. I think what we would do would be to direct suppliers that were supplying areas in Western New York, which seem to have sufficient supplies, to reallocate gasoline from Western New York to New York City, for example. And of course we are also going to be asking the State Governors to use their set-aside program.

As you recognize, three percent of the gasoline going into each state can be used at the governor's discretion. We are urging the governors and I believe have an agreement from the Governor of Connecticut to use that set-aside program to put that gasoline into those areas where long lines and acute shortages have been experienced.

QUESTION: I have three questions for you on different subjects. One is on the imports. You have a total figure but what is the breakdown between crude oil and refined products, the FEO figure?

DR. SAWHILL: I think this is in ---

VOICE: I have those here.

DR. SAWHILL: Yes. The crude oil import is two million one hundred and thirty thousand barrels a day versus API's figure of a million nine hundred and seventy-five thousand. As far as product is concerned, our figure is 2 million 8. The API figure is 2 million 6.

QUESTION: The second question ---

QUESTION: Are all figures comparable or -- API said earlier they don't count imports in Puerto Rico, the Virgin Islands, and Guam.

DR. SAWHILL: These are comparable. As a matter of fact, over the past several weeks, they have been almost identical. As yet we don't understand the discrepancy.

QUESTION: On the propane question, you said you found a very bad situation, atrocious was the word you used. Are there going to be any prosecutions immediately from your studies so far?

DR. SAWHILL: I think prosecutions will come. We will certainly follow up on the situation we have found. If it turns out that they warrant prosecutions, yes. We will prosecute. I think we are going around the country to determine what the situation is.

QUESTION: On the February allotment situation, that has been very confusing over the past week. When do you expect, or if you expect, to issue a revised listing telling the states what the allotments for February really are?

DR. SAWHILL: Well, we have a listing showing the amount of supplies that suppliers are putting into the states in February, according to their calculations based on our regulations. We ---

QUESTION: Last week's listing or a revised one?

DR. SAWHILL: This is a list of -- you know, we have that information from the suppliers telling us what supplies they are putting into the states in February.

Now what we have got to do now is work with the states to ascertain their data and our data are comparable. We have got to look at those states which are receiving in February 1974 a small percentage of what they received in February 1973, with this growth factor adjusted.

Until we verify our data with the state's data and come to an agreement that this data is indeed accurate, and until we have been into the states and really had a chance to assess where they are having acute shortages, we don't feel that we can do this thing mechanically on some kind of a formula.

We have to do it by really getting to the states and understanding their problems.

QUESTION: When is that going to be made public?

DR. SAWHILL: As soon as we have had a chance to verify our data with the states.

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QUESTION: How long will that be?

DR. SAWHILL: Our teams are going out today, the 19 states that I mentioned. We are on the phone with the states.

I couldn't give you an estimate of when we will have every state completed, but I certainly hope over the next week that we can have the bulk of the information available.

QUESTION: Mr. Sawhill, the Federal Bureau of Management in Seattle deals with a region of the Northwest. I understand on Tuesday they recommended that we have an increase in gasoline supplies going into Oregon because Oregon has been shortchanged in comparison with the other Northwest states.

He indicated, I understand, in a letter to Mr. Simon, that the figures that the Governor sent to Mr. Simon this week are accurate and reflect this kind of shortage.

Now, are you prepared to act on that recommendation? Is this another case where you are going to send in a team to see what can be done?

DR. SAWHILL: We have to assess every state across the nation on the same basis. We basically have to use the same approach. We have to assure people in New York and Connecticut that they are being treated on an equitable basis with people in Louisiana and Oregon.

So we have got to develop a system which I have described of looking at February '74's requirement versus February '74's supplies and apply this uniformly across the nation.

Until we have done this, we can't make an allocation to Connecticut or an allocation to Oregon. We have to ensure uniformity. This is the only way to ensure fairness to the American people.

Now, I was on the phone last night with both Senators from Oregon as well as Governor McCall. I explained the situation to them. I told them we would have a team there tomorrow to work with them, to check and verify their data, to make sure it was comparable with the way we were looking at data across the country.

I believe they are satisfied we are taking the kind of action that is going to give them supplies they are entitled to.

QUESTION: Practically speaking, how are you going to have this uniformity of supply?

DR. SAWHILL: We achieve uniformity of supplies to the extent that the distribution system in the oil industry permits it by transferring supplies from one state to another state.

QUESTION: Mr. Sawhill, the question of crude oil allocations. Some independents are complaining they are being sold only a very hybrid, uncontrolled domestic oil or Mideast oil. Is there merit to that complaint; and, if so, what do you propose to do about it?

DR. SAWHILL: Well, we have heard reports from independents that they feel they are being unfairly discriminated against. I think we have to take a look at the whole crude allocation program.

As I said, I think we need adjustments in this program. That is one of the reasons we are going to Congress asking for legislation.

QUESTION: Mr. Sawhill, on redistribution of gasoline within a state, is it the FEO that would do that or are you going to ask the states to do it?

DR. SAWHILL: Well, I think there are really two answers to that question.

Using the state set-aside to make a redistribution in the state, up to the extent of that set-aside; beyond that the FEO has to step in. That is why we have to work in partnership with the states after we have assessed their local situation and local problem.

QUESTION: Mr. Sawhill, the White House says it encourages healthy debate on the status of the crisis; and Herbert Stein said last night he thinks perhaps ten cents a gallon increase in the price of gasoline to dampen consumption would be helpful.

The Vice President also said last night that he thinks we are probably over the hump that would require gasoline rationing.

Would you comment on these separately and take part in that debate?

DR. SAWHILL: Well, I think we encourage healthy debate. That is a good way to start out. I think as far as the price situation is concerned that Mr. Simon and I both feel very strongly we are going to continue to control prices in this country, that we are not going to let prices that are within our control, the price of old oil, for example -- and we have asked for Congress to give us the authority to control stripper well oil -- we are just not going to let these prices rise to what we have characterized as the emotional levels that world prices have risen to.

As far as an additional ten cents a gallon, I don't think at this time that that would be appropriate.

QUESTION: Would you comment on the Vice President's remarks, please, sir?

He said that he thinks we are possibly over the hump that would require gas rationing.

DR. SAWHILL: As far as gasoline rationing, we have been hopeful all along we could avoid gasoline rationing.

The problems this would cause I have gone into previously and won't review with you again.

We are doing everything we can to avoid it. That is why we are working with the states, to -- in sending out these teams to ensure as much as possible an equitable distribution of gasoline. That's why we are giving the states guidance on how they can stagger hours of operation and provide minimum levels so that we can eliminate these long lines, and to the extent we are successful, we will be able to avoid rationing.

QUESTION: Mr. Sawhill, you have given an estimate of the chances of gasoline rationing. How do you rate that at this time?

DR. SAWHILL: I don't think it would be appropriate for me now to change our estimates of gasoline rationing. I don't think these probability estimates really mean a great deal.

We are working as hard as we can to avoid rationing, to give the American people an equitable allocation program.

I think if we are successful in doing that, that we are going to be able to avoid rationing, particularly if we see a relief in the embargo.

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QUESTION: You said in the past there was a 50-50 chance. Do you stick by that?

DR. SAWHILL: I don't think we would change our estimate of probability. I am not sure that estimate means a great deal. I think what means a great deal is what we are doing to try to avoid rationing, the teams we are sending out, the guidance we are giving to the states and the other work we are doing.

QUESTION: There is a significant difference between your saying there is a 50-50 chance of gas rationing and Roy Ash saying there is little or no chance of gas rationing.

DR. SAWHILL: Well, as Mr. Bent has just said, there are always healthy differences of opinion within the Administration.

QUESTION: That was Mr. Warren at the White House who said that. I was quoting him.

QUESTION: That six-tenths of 1 percent is of what?

DR. SAWHILL: That is a refinery shift. In other words, we are asking them to make 106 percent of the net fuel they made in January.

QUESTION: Aside from the additional 6 percent, what does that represent in barrels?

DR. SAWHILL: I think it is approximately 100,000 barrels. Let me get that figure for you.

QUESTION: Okay.

One more related question: In polling 16 oil companies that produce 95 percent of the jet fuel in the U.S., domestic jet fuel, yesterday, all of them indicated that they had quite a large surplus of heating oil, of oil that was -- of petroleum that was marked heating oil, but it was actually aviation jet kerosene. Is there anything going to be done to free some of this for the airline?

DR. SAWHILL: To the extent it meets specifications and can be burned by the airlines, we would like to see that move out to the airlines. That is one of the reasons that in the telegram I am sending to the refiners today, I am asking them to release their inventories to the airlines so we can get the fuel to the airlines.

QUESTION: I wonder if in the last days before FEO was established, Governor Love was still in charge of energy policy, there were a lot of comments made throughout the Administration that seemed at odds with what he was trying to do.

In the last three days we have had comments that are at least a bit off of what you people are saying. Is this a sign that your honeymoon is over with the Administration?

DR. SAWHILL: I don't know if I would characterize it as the honeymoon being over.

I think Mr. Simon and I tried hard to let people know what caused the energy crisis. We wanted people to know this wasn't caused by the embargo. It was caused by a basic imbalance between basic production and domestic demand.

Once the embargo is over, we are still going to be 38 percent dependent upon the rest of the world for imports of crude oil and refined products. We have tried very honestly and openly to explain this to the American people, to let them know, as the President said, it is important to move forward with Project Independence to bring on the new supplies so that we can reduce this dependence on foreign imports.

QUESTION: Do you think you are trying hard enough to explain it to the other members of the Administration?

DR. SAWHILL: I don't think I should comment on that.

QUESTION: Just as a starting point, Mr. Simon originally said that this point in February, around the middle of the month, would be the time when he made his decision on gasoline rationing.

Now apparently he is going to put off the decision, from what he has been saying. I wonder if you could run through the timetable as it now appears, because we

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don't have legislation. There is a question about whether you have authority to ration gas on your own. I think in an emergency you could, some people believe.

Also there is the delay in setting up the rationing machinery. I think what everybody would like to know is where we will be when gasoline demand is at its peak, along around June or July. The gap between supply and demand may be greater then.

DR. SAWHILL: Well, I think probably the best way to answer that question is that it is here in the middle of February, and we have certainly decided at this point not to go with the gasoline rationing program on March 1st.

It would take us, we estimate, between 45 and 60 days to put a rationing program into place. I think we have outlined the factors we would use to determine whether rationing is necessary.

We are working as hard as we can to avoid rationing, to distribute the supplies equitably. To give the American people a sense of fairness with our allocation program, to the extent that we can do this, I think we can avoid rationing.

Now refiners are beginning to switch over from making distillate to making gasoline. This will at least maintain the shortage at no worse levels than it is today, because while it is true demand rises in the spring and summer, I think we are going to see some reduction in that rate of demand increase because of the conservation measures we put into place.

By the same token, we will see supplies begin to increase. So certainly we wouldn't expect to see any worsening of the shortage. If we can, through our allocation program, distribute this equitably across the country, and if we can, by working with states and -- help them to manage the shortage more effectively, we think we can avoid rationing.

QUESTION: At the same time, what will the imbalance be when the air-conditioning system starts to operate again in the country? So much of it is locked in. Where will the oil be coming from? What will the balance be for electric products?

DR. SAWHILL: I think there are two answers to that question. The first one is like we went out to the American people and asked them to turn down their thermo-states. This summer we are going to go out and ask the American people to turn up their thermostats.

I think we will be talking about 78 degrees or 80 degrees in our office buildings and homes this summer.

If we get the same kind of response that we got to the turning down of the thermostats, I think we can conserve enough electricity to permit gasoline supplies to be made.

On the other hand, the distillate stocks we now have, as I said previously, one of the reasons we have avoided switching over more rapidly than we did in the past was to build up these distillate stocks so we can blend them with residual oil and have adequate supplies on hand for the utilities.

Finally, we begin to switch the utilities over to coal. We are continuing to work hard on that program.

If we get an emergency bill which gives us the appropriate environmental variances that we need, we can accelerate that program.

That is another thing we can do to ensure adequate supplies of electricity.

QUESTION: Variances have to be given to buildings that are built -- that have no natural ventilation system, that is buildings that simply you cannot open windows.

DR. SAWHILL: There may have to be, yes.

QUESTION: Mr. Sawhill, to follow up on a previous answer you gave: if I wrote it down right you said certainly we won't expect to see any worsening of the gasoline supply.

DR. SAWHILL: No. I said worsening of the gap between demand and supply because we will be increasing supplies of gasoline; and I think that through our conservation measures we have reduced demand for gasoline.

QUESTION: Well, if that is the case, then, sir, can't you give us a more definite answer on the rationing possibility?

DR. SAWHILL: I think the answer on the rationing situation is going to depend on how well the American people respond over the next several weeks to the measures we are taking to try to reduce the acute shortages in certain areas around the country and how well we all respond to learning to live with the shortages we are going to experience, at least until the embargo ends.

QUESTION: Mr. Sawhill, I want to make sure I understood that you said that nothing has changed to make you alter your estimate of the 50-50 chance of gasoline rationing. Is that correct?

DR. SAWHILL: I would rather not talk about gasoline rationing in terms of probabilities. Whether it is 50-50 or 60-40 or 40-60, I don't think that is a terribly meaningful way to express it.

QUESTION: What had caused you to change your willingness to give an estimate of that sort which you have done repeatedly at these conferences over the past week?

DR. SAWHILL: We talked about it in terms of probability to give people a sense of where we stood on gasoline rationing. I think at this point rather than talk about probabilities and talk about whether it is 50 percent or 60 percent or 70 percent, the important thing is to talk about what we can to do avoid gasoline rationing.

QUESTION: Mr. Sawhill, has anyone put pressure on you to cease making estimates of that sort?

DR. SAWHILL: Absolutely no one.

QUESTION: Mr. Sawhill, Pan American World Airways is considering taking action against the Federal Energy Office for its inaction on bonded fuel prices. Would you comment on that, first off; and then tell me, can the FEO do anything about bonded fuel prices?

DR. SAWHILL: We are studying the bonded fuel situation right now. The original interpretation of our lawyers was we did not have the power to allocate bonded fuel. Pan American disagrees.

We have asked our lawyers to take a look at the situation and talk to members of Congress to try to determine what the intent of Congress really was.

I think as soon as we ascertain that and have had an opportunity to work with Pan American, that we will be in a position to have a more definitive answer on bonded fuels.

QUESTION: Could I get in a question on the fuel allocation for February again? I understand you haven't worked out the state-by-state allocation, but when your figures came out last week they were missing six companies, including two large ones.

Now, can you give us the total nationwide fuel availabilities, not necessarily right here, because I know there is a list of them; but for gasoline and the others, can we get those nationwide figures compared with demand and see what the nationwide shortfall is for February?

DR. SAWHILL: Yes, we can give you totals.

As I say, before we start talking about state-by-state figures, we want to sit down and talk to the state officials.

QUESTION: I tried all day yesterday to get those and couldn't get them.

QUESTION: Last month you sent 124 IRS men out to audit refineries on their production, the idea being to check perhaps.

DR. SAWHILL: No. That just began in February. We formed the audit teams last month. We have now dispatched them to the refineries. They are conducting their audits right now to determine whether the inventory figures they are giving us are accurate, whether the production and the cost figures we are getting are accurate.

As soon as we have our first reports we will make that information available to you.

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I think the American people are going to be interested to know whether the information we are getting from the oil industry is in fact the true facts of the situation.

QUESTION: You have no indication now?

DR. SAWHILL: We don't have an indication now. The only thing we can say is that the data we were getting until this week on imports seemed to be in pretty good balance, the industry data, the data we were independently getting from the Customs Bureau.

This week there is a significant difference.

QUESTION: President Nixon asked Mr. Simon in January to get him a preliminary report by February 1st on any unjustified profit stockpiling of fuel. I wondered what you had found in regards to that.

DR. SAWHILL: Our regional offices are working on a case-by-case basis to determine situations where we find unusual supplies of fuel in the hands of suppliers, and what we do is we don't make allocations of fuel where we find hoarding or stockpiling.

We don't have any national statistics available right now.

QUESTION: On maximizing gasoline last week you said that the oil companies, some oil companies were doing it on their own but you were not urging them or directing them to move the gasoline last week.

What is the situation on that right now?

DR. SAWHILL: Actually the -- yes, I think the trend that I discussed last week is continuing this week. You will see this when you get our situation report.

QUESTION: You are not taking direct action on urging them or directing them to --

DR. SAWHILL: No. At this time we are not. We are basically making the same statement we did previously. To give you the figures, in January, the 25th, it was 42 percent; February 1st, the shift went up to 43 percent; this week it is 44.8 percent.

We are beginning to see shifts towards gasoline as we would expect at this time of the year, and pretty much comparable to what we have seen in prior years.

QUESTION: Percent of what?

DR. SAWHILL: This is a percent of total crude oil inputs to refineries.

QUESTION: Petroleum marketing groups have charged that oil is bearing the brunt of this energy shortage.

DR. SAWHILL: What?

QUESTION: Petroleum marketer groups, specifically the National Oil Jobbers Council and the National Oil Institute, charge that oil heat is bearing the brunt of this, that the result of the energy crisis will be the death of the oil heat industry, and that you are worsening the situation by allowing large interruptible industrial customers to shift to oil heat when they are interrupted by national gas companies, and also the redirection of distillate supplies to utilities is also worsening the situation, as far as they are concerned.

They also charge that you have not -- that you have not taken any sort of initiative toward any tangible control of electric heat and natural gas industry, that you have not sought the power to regulate those two industries except by jawboning them.

Now, are you going to do anything toward legislative control?

DR. SAWHILL: Your questions are almost as long as my answers.

(Laughter.)

That is good, though. I think that is a very interesting question.

Basically, the strategy we have for managing this crisis is to save jobs. When an industry gets interrupted, we are certainly going to provide them fuel. We don't want to put a lot of people out of work.

On the other hand, we have to consider the interests of the oil heat dealers. We have called in the electric utilities, the gas utilities. We have got agreements on the part of both of them not to go out and solicit additional customers away from the oil heat dealers. If we continue to find this kind of practice going on, we may have to take conditional measures.

QUESTION: Including legislation or rulings?

DR. SAWHILL: I think before we announce specifically what we are going to do, we would want to understand a little better the situation.

QUESTION: Mr. Sawhill, on your -- these action teams, your allocation people are all set --

(Inaudible.)

-- and suddenly they were held up.

Two questions: One is, what happened to change that action that they were going to take?

And secondly, what have your regional offices been doing for the past two months in the states and the state figures?

DR. SAWHILL: The gasoline allocation program just went into effect on the 1st of February. We have been working with this program now for approximately two weeks. Our regional offices are -- have been working with the industry and working with the states to try to help them understand our regulations.

We feel, however, that in addition to the regional office people, we need some people from Washington out working with the states to give a uniformity across the nation to this program. That is why we are dispatching these teams.

As far as the data is concerned, we feel real responsibility to you, the press, and to the American people to make sure that when we provide you with data, it is accurate data.

We are just not going to give you figures that we haven't checked and verified to the fullest possible extent with the states and with the industry, and independently on our own.

QUESTION: When did you announce the redistribution?

DR. SAWHILL: We didn't announce redistribution last week. We asked suppliers and began talking with suppliers about making redistributions up to 2 percent.

One of the purposes of our teams is to go out and determine whether we should go to 2 percent, whether it should be less, or maybe, in some cases, more.

QUESTION: Mr. Simon, you mentioned a jet fuel increase -- I am sorry, Mr. Sawhill -- of .6 percent; the press release says 6 percent.

DR. SAWHILL: It is 106 percent. I suppose the 6 percent figure is correct, rather than what I said.

QUESTION: If the energy emergency bill as it now stands does somehow finally get through Congress, will you and Mr. Simon recommend the President sign it?

DR. SAWHILL: Well, as you know, the President expressed in a letter to several members of Congress severe reservations about an earlier version of this bill; and some of these things have changed. Many of these things haven't changed.

Right now we are analyzing the bill. The President is analyzing the bill. We don't have any definite position on that at this time.

QUESTION: How hampered are you by the lack of any legislative authority for FEO, for one thing? Now power to mandate conservation measures and various other points which you seem to -- really would be quite helpful.

DR. SAWHILL: I would like to reiterate what I

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said before. We badly need organizational legislation for a federal energy administration. Right now we are operating with people detailed in from other agencies. We don't have appropriations authority. We have to get our appropriations through other agencies.

We can't assure people we bring in here that we are going to be a permanent agency. It is hurting our recruitment efforts. There is no question in my mind about that. We need this organizational legislation.

As far as the emergency powers, as I said in response to a previous question, we certainly need the environmental portion of that emergency bill so that we can continue on and accelerate, if necessary, the coal-switching program for utilities.

I think we need some mandatory conservation authority, and I think we need authority to ration if we are truly going to have a rationing system that we can put in place.

QUESTION: Mr. Sawhill, truckers were promised 100 percent of all the fuel they needed to carry on operations. Accordingly, the FEO wired oil companies to increase allocations to truck stops. What about motor carriers who buy their fuel in bulk? Will their allocations be increased, too?

DR. SAWHILL: Yes, they will.

QUESTION: Mr. Sawhill, Senator Fannin of Arizona announced yesterday afternoon that you promised him in writing an additional 1 million gallons of gasoline for Arizona for February and March. Is this correct, or is it based on verification by the teams?

DR. SAWHILL: No. Basically it was in writing. I talked to him yesterday and later sent a communication to him. We have worked hard with the state of Arizona because they have grown tremendously over the years.

Through the administrative procedure we have established for adjusting base periods and accounting for growth, we have determined, by working with the suppliers and with the state, that Arizona is entitled to an additional 1 million gallons as a result of this base period adjustment. We have made that adjustment and through our administrative procedure will be moving an additional 1 million gallons into that state over and above what they would have gotten if they hadn't had this base period adjustment.

QUESTION: What kind of a percentage is this?

DR. SAWHILL: I am sorry. I don't have that.

QUESTION: Can you supply it?

DR. SAWHILL: Yes, we can supply the percentage of that.

VOICE: Their monthly is around 90 gallons a month.

DR. SAWHILL: Several states, including Florida, for example, have begun using this administrative procedure, this procedure whereby retail gasoline station operators work through their suppliers to justify the fact that they are entitled to an extra growth allocation, and as I say, we were also working very hard in Florida to try to -- particularly in the southern part of the state where there has been rapid growth, to process these forms.

We have to have an administrative procedure in place to do this to assure equity.

QUESTION: Just the other day, the FEO issued a new regulation to ban discrimination by gasoline service station operators against customers, by making various sweetheart deals or long-term package deals or things of that nature.

Now we have been getting messages from around the country suggesting that the gasoline station operators, some of them, at least, are a little upset about that. And we are being asked specifically what is the legal authority for FEO to tell a service station operator or anyone else not to alter a normal business practice, or to sell to a certain customer if he doesn't want to? Where does that show up in the mandatory fuel allocation act?

DR. SAWHILL: I don't have the specific section of the act I can quote to you. Our general counsel has assured me we do have the legal basis for doing that.

We think that this basically -- we polled the retail dealers group we had in yesterday. We had 12 people from around the country representing the responsible retail dealers in the country.

Incidentally, they were an excellent group.

We found that only one of 12 was opposed to this regulation we announced.

Basically we are asking the American people to cooperate with us. We just cannot have any kind of discrimination going on. We can't have discrimination at the station level, between whites and blacks, or regular customers and non-regular customers.

We think the only way to operate this program is on an equitable and fair basis.

QUESTION: You talked today a lot about the American people cooperating and responding. How can you expect them to continue to respond if other members of this Administration say we are over the hump, the problems are waning, the problems have disappeared?

Isn't this a great deal to expect from the consumer?

You are worried about credibility and confusion. Aren't they getting an extra dose of confusion from some of your own colleagues in the Administration?

DR. SAWHILL: Well, I think in order to have an open Administration you obviously have to have room for disagreement in an Administration.

However, I think that as far as the official spokesman for energy policy is concerned, that continues to be the Federal Energy Office. The President has given us the mandate. We believe that we are the spokesmen to the American people on energy matters.

Others will comment from the sidelines, but we think the American people are primarily looking to Bill Simon and myself to articulate the nature of the energy situation to them.

QUESTION: Are you saying the American people should listen to you and to disregard what others in the Administration say on this subject?

DR. SAWHILL: No. I think we are saying there is always room for honest disagreement about any policy. I think people have to have the opportunity to hear more than one side of an argument.

QUESTION: What are legislative disincentives to production and imports that you would have Congress remove from the crude oil business?

DR. SAWHILL: My crude oil expert is sneaking away.

MR. WEBER: Would you repeat the question, please?

There are three or four. The most important one is the fact that imported crude oil is included in the allocation program. This is, as you know, a very high cost crude oil.

The only way that we could achieve the requirements of equitability under the program, including imported oil under the program, was to have a weighted average pricing mechanism which, of course, those who have to sell crude oil, to sell imported crude oil at less than what they paid for it or at a price -- at a price that would have some incentives built into the system which put some companies at a competitive disadvantage.

The result is that we have the backing out of the ports. That is clear.

There are other provisions in the law, too, that have to do with size of the refinery, have to do with the definition of independent refinery, and some other utilities, specific provisions which put us in a strait-jacket, that make it much more difficult for us to have the flexibility to handle the program, to achieve the intent of Congress and at the same time not result in an unnecessary reduction in the supply.

QUESTION: Mr. Sawhill, I wonder if the announcement a few days ago that Gulf was going to file suit against the allocation program, that had anything to do with your changing the allocation program.

Did you fear other suits in this area?

DR. SAWHILL: It had absolutely nothing to do with it. We discussed this program with Gulf on previous occasions. We have long been debating the whole need for crude allocation.

As a matter of fact, Mr. Simon felt as early as last fall that the idea of moving to a crude allocation was not a good one.

QUESTION: Is there any reason you didn't notify leaders of the independent truckers about your moves to supply truckstops with the raw fuel?

DR. SAWHILL: There are so many leaders of independent truckers that I wouldn't have known where to begin.

We certainly will be notifying them. As a matter of fact, I expect to do a radio broadcast today to get out to truckers across the nation exactly what we are doing to try to get fuel out to them.

I think it is terribly important.

VOICE: Thank you, Mr. Sawhill.

DR. SAWHILL: Thank you.

(Whereupon, at 11:07 a.m. the press conference was concluded.)

GPO 871-793

PETROLEUM SITUATION REPORT

6-14

FEDERAL ENERGY OFFICE

FOR WEEK ENDED FEBRUARY 15, 1974

PETROLEUM SCORECARD

FORECAST SUPPLY DEFICIT

February 1974	2.8 million B/D
1st Quarter 1974	2.7 million B/D

APPARENT DEMAND
(Million Barrels Per Day)

	For Period Ended February 15, 1974 Current Week	Latest 4 Wks.
Forecast Demand	20.9	20.5
Apparent Demand	16.6	16.6
Indicated Savings	4.3	3.9

PERCENTAGE SAVINGS BY FUEL TYPE

	For Period Ended February 15, 1974 Current Week	Latest 4 Wks.
Gasoline	13.0	14.1
Jet Fuels	42.7	33.9
Distillate Fuel Oil	20.9	19.3
Residual Fuel Oil	27.0	22.5
Total, 4 Products	20.9	19.2

IMPORTS
(Million Barrels Per Day)

1st Qtr 1974
Forecast, with Fully Effective Embargo 4.9

	For Period Ended February 15, 1974 Current Week	Latest 4 Wks.
Actual (FEO) 1/	4.8	5.3
Actual (API)	4.6	5.1
Increase over Forecast(FEO)	-0.1	0.4

1/ FEO excludes imports to/from Puerto Rico and asphalt.

EMBARGOED FOR RELEASE UNTIL 2:00 P.M., EDST, FRIDAY, Feburary 22, 1974

HIGHLIGHTS

DEMAND FOR ALL PRODUCTS in the week ended February 15 was lower than last week. Demand for the four major products this week was 20.9 percent less than forecast and, for the 4-week average, 19.2 percent under forecast.

MOTOR GASOLINE production increased 3.6 percent this week, although crude runs to stills were down by 1.6 percent. Refinery yields have increased for the third successive week and stocks have risen by more than 2.3 million barrels. This week's stock level of 219.2 million barrels is the first time this year that stocks have been above the same period last year. This week's level is 2.4 million above last year.

DISTILLATE FUEL OIL: Stocks of distillate fuel oil dropped 6,100,000 barrels during the week, but are still 46 million barrels more than they were at this time last year. New England consumption of fuel oil, for the week ending February 10, was 15 percent less than normal use. Nationwide, the number of heating degree days was 5.1 percent lower than normal for the week ended February 17, and 8.0 percent lower than normal for the season since July 1.

RESIDUAL FUEL OIL stock drawdown for the first 15 days of February was 11,000 barrels a day compared to a forecast drawdown of 261,000 barrels a day. Stocks are now at 46.4 million barrels, about 4.1 million barrels higher than forecast. The 4-week apparent demand of 2,851,000 barrels a day is 22.5 percent lower than the forecast demand of 3,680,000 barrels a day.

CRUDE OIL PRODUCTION this week, at 9,153,000 barrels a day, was 59,000 barrels a day lower than last week, with Oklahoma production down 39,000 barrels a day. No State reported an increase in production. The 4-week average of crude oil production, 9,207,000 barrels a day, was 178,000 barrels a day less than a year ago, but almost 180,000 barrels a day higher than forecast. Crude runs to stills averaged 10,960,000 barrels a day, 180,000 down from last week. A major portion of the decline was due to a serious fire in the Texas Gulf Coast District.

CRUDE OIL IMPORTS for the week ended February 15 were 1,901,000 barrels per day, as reported by API. This was an increase of 54,000 barrels per day over last week's revised API figure of 1,847,000 barrels per day. The latest 4-week average of 2,330,000 barrels per day is below FEO's daily average forecast by 95,000. For the week, FEO reported crude imports of 2,177,000 barrels per day and, for the 4-week period, 2,412,000 barrels a day, which is only 82,000 barrels per day greater than API.

PRODUCT IMPORTS, as reported by API, increased only slightly this week to a level of 2,677,000 barrels per day and, for the last four weeks, averaged 2,760,000 barrels a day. Residual fuel oil was the only major product that showed an increase this week. FEO reported 2,611,000 barrels per day, down 218,000 barrels per day from last week. FEO's latest 4-week average of 2,839,000 barrels per day was 79,000 barrels per day above API. It should be noted that FEO does not include imports from Puerto Rico or imports of asphalt, whereas API does.

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FEDERAL ENERGY OFFICE
Public Affairs
Benjamin Franklin Station
Washington, D.C.
Tel: 961-6161

FOR IMMEDIATE RELEASE FEBRUARY 22, 1974

SIMON ORDERS MORE GAS TO TWENTY-SIX STATES AND DISTRICT OF COLUMBIA

President Nixon has expressed deep concern over the difficulties being faced by the American people in being able to obtain sufficient supplies of gasoline. He met with William E. Simon, Federal Energy Office Administrator, today and directed him to take immediate steps to provide extra gasoline to those areas most affected by the current shortages. Mr. Simon reiterated his determination to take whatever action is necessary and said today that he is ordering major oil companies to provide additional gasoline to twenty-six states and the District of Columbia. These supplies will be provided to the Governors and the Mayor for distribution through the state set-aside and will be drawn from existing inventories. Additional supplies were made available on February 9, 1974 and February 19, 1974. The following table reflects these supplies and shows the additional amounts being provided today.

E-74-82

State	Additional Amount to be Received as Result of February 9 and 19 Announcements GALLONS (In Millions)	Additional Amount to be Received as Result of Today's Announcement GALLONS (In Millions)	Total Additional Amount for February 1974 GALLONS (In Millions)
Alabama	5.24	5.24	10.48
Arizona	3.66	3.66	7.32
Connecticut	1.75	7.05	8.8
Delaware	.4	1.6	2.0
District of Columbia	.3	1.4	1.7
Florida	5.86	11.73	17.59
Illinois	6.27	25.13	31.4
Indiana	3.33	13.27	16.6
Kentucky	2.1	8.3	10.4
Maine	.68	2.72	3.4
Maryland	2.20	8.8	11.0
Massachusetts	3.24	12.96	16.2
Mississippi	1.57	6.33	7.9
Missouri	3.10	12.4	15.5
Nevada	.96	.96	1.92
New Hampshire	.98	.98	1.96
New Jersey	10.62	10.62	21.24
New York	8.00	32.90	40.9

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State	Additional Amount to be Received as Result of February 9 and 19 Announcements GALLONS (In Millions)	Additional Amount to be Received as Result of Today's Announcement GALLONS (In Millions)	Total Additional Amount for February 1974 GALLONS (In Millions)
North Carolina	3.42	13.78	17.2
Oregon	3.39	3.39	6.78
Pennsylvania	6.11	24.39	30.5
Rhode Island	.59	1.31	1.9
South Carolina	0	9.00	9.00
Tennessee	2.96	11.84	14.8
Vermont	.68	.68	1.36
Virginia	7.34	7.34	14.68
West Virginia	1.97	1.97	3.94
TOTAL	86.72	239.75	326.47

Simon stressed that these additional allocations are part of a continuing program to equalize gasoline shortages across the Nation. "It is my intention," Simon said, "to continue to order gasoline into these area that are experiencing extreme shortages."

Simon said he will work with Congress in revising the current mandatory allocation program act. He cited in particular the crude oil allocation program, which, he said, has some features which act as a disincentive to importing increased quantities of crude oil.

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FEDERAL ENERGY OFFICE
Public Affairs
Ben Franklin Station
U.S. Post Office Building
Washington, D. C. 20461
961-6291

EMBARGOED FOR RELEASE UNTIL 11:00 A.M., FEBRUARY 22, 1974

REMARKS BY JOHN C. SAWHILL
DEPUTY ADMINISTRATOR, FEDERAL ENERGY OFFICE
BEFORE THE

MINNESOTA NEWSPAPER ASSOCIATION
ST. PAUL HILTON HOTEL
WEST BALLROOM
ST. PAUL, MINNESOTA

Good morning, and thank you for inviting me to speak to you about the energy crisis. I like to talk to newspaper people. If we in the Federal Energy Office can get our ideas across to you, you will have them to pick and choose from in deciding what to communicate to your readers.

We in the FEO have been doing a lot of speaking lately, because we really feel we have to get our message out. The energy crisis is real. Shortages will be with us for the near-to-middle future. The magnitude of our problem will be determined to a large extent by the way the American people and institutions respond to our energy conservation and fuel distribution programs, and initiate their own programs to cut down on waste. And the response of the people will be determined, to a large extent, by what they think of their government.

We've not only been speaking a lot, we've been speaking a lot to the Fourth Estate. Last week I addressed the American Women in Radio and Television, in Washington. In the past three weeks, Bill Simon has addressed the National Press Club twice.

Although I must say that the first of those times was an evening of gaity in which he, as Energy Czar, inaugurated the new President of the National Press Club, Clyde LaMotte. I'm not sure that one counts as an address because from what I hear, by the time the evening was over, the members of the Press Club had consumed enough distillates from the Press Club bar to exceed their allocations for the year. Incidentally, an unfortunate rumor grew out of that night's activities, and I want to take this opportunity to set the record straight: It is not true that the Federal Energy Office is going to announce new regulations to limit the power of the press for the remainder of 1974.

Within the next month, I'm going to be speaking to the Washington Journalism Center, the American Society of Newspaper Editors and a newspaper association in Chicago. And Bill Simon will be addressing the National Newspaper Association next month, and the American Newspaper Publishers Association in April. Sometimes I wonder how you people have time to get newspapers out, with all the conventions you have.

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You have asked me to talk about "The Road to Energy Self-Sufficiency." I am going to talk about the road we will be taking, and its bumps and turns, and some misunderstandings that have come out about "self-sufficiency." But I also want to talk about the road to governmental credibility -- a road this government, and its officials and agencies, and the American people have to begin taking.

In a survey released two and a half months ago, pollster Lou Harris reported that "public confidence in government generally must be reported as being lower than a constituent democracy can afford." Now that a crisis has come, government is using all the moral suasion it has. We had better be able to afford the expenditures of moral capital we are required to make. And we had better start building up our credit with the American people. The alternatives are unacceptable.

First, let me turn to the energy crisis, to give you an idea of what's in store for this country, assuming that government does retain and obtain enough confidence to do the job required. Then I'll address the crisis of confidence.

The United States is fortunate in being 85% self-sufficient in energy. No other industrialized countries in the world except Canada and the Soviet Union, produce so much of the energy they consume. So unless the term "self-sufficient" is used in an absolute sense, meaning 100%

self-reliant, it is a goal we have already obtained, far more than all but two other major economic powers.

Thus, one possible road to self-sufficiency is to play semantical games. We could re-define self-sufficiency and say that we have achieved it. We can stop responding to the fuel shortages and say at some future date that the energy crisis is over, because a crisis is, by definition a situation to which we must respond. If we do not respond, we recognize no crisis. We won't play these games. That would not shorten the lines at the gas pumps. What we need is the capability of producing enough of our energy demand so that there is no question that our needs will be met, and we will never again be in the vulnerable position we find ourselves in today.

Some would argue that there isn't much point in America producing energy at an equivalent cost of $17 a barrel, if we can buy fuels from abroad for $7 a barrel. They would say that it's not worth the cost, just so we can claim to be "energy self-sufficient." Let me draw an analogy. We now import almost all of the coffee we drink from South America. The Government could finance a massive Research and Development program to convert much of our farmland to coffee growing, and within ten or twenty years we might be able to boast that we are "coffee self-sufficient." But coffee would cost three times what it costs now, and might not be as pure as what we presently import. And we would have to farm vast acreage presently used for growing food,

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or for parks and recreation. So we don't. We import.

Energy self-sufficiency is a means to insuring our national security, economic well-being, and freedom from attempts to extort unreasonable prices -- in financial or political costs. It is not an end in itself. If there are other means we can use toward that end, we can, and should, and will. But we must be assured that our agreements with foreign fuel sources will be honored, and that we have enough agreements, with enough diverse sources, that our sovereignty is never challenged by a fuel supplier upon whom we have become too reliant.

Regardless of how we ultimately define self-sufficiency -- it will probably be something between our present 85% capacity to meet our needs with domestic production, and a 100% capacity -- we are going to have to conserve energy, increase production, and increase imports for the near-to-middle future.

For the past twenty years, American energy consumption has grown at a rate of between four and five percent a year. This growth rate will have to be greatly curtailed. Some conservation will result from simple elasticity -- as the price of energy rises, our consumption drops. With higher energy prices, industry may not be quick to automate a function formerly performed by a worker, if the energy cost of operating a machine, together with the capital outlay and maintenance costs, becomes greater than the cost of paying the worker. And some conservation is already occurring as a result of our efforts and the efforts of newspapers, other industries, state and local governments, and public interest organizations, urging and advising people to save energy.

But, even with massive conservation efforts, we anticipate that our energy demand will increase. At a slower rate, perhaps, but it will increase, we estimate, at between two and three percent per year for the foreseeable future. So we must build up our domestic production, through increased use of our as-yet-untapped resources.

We're planning to put $10 billion into Research and Development over the next five years. But we won't even begin to get energy from these R&D efforts until the latter part of this decade, at the earliest.

There will be some tangible increases in domestic energy production in the next few years, mostly due to using existing technology for oil drilling, coal mining, and building nuclear power stations. But for the next half-dozen years or so, we're going to have to rely primarily upon expanded imports and the conservation efforts of industry and the people.

Now let's take a look at the credibility crisis. The energy crisis and this crisis of confidence are inextricably intertwined. Government must respond -- in an effort really unmatched by anything this country has done except to fight

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major wars -- to the energy crisis. Government cannot act effectively without the confidence of the people. And the people will not give confidence to a government they do not trust.

This hits us in the Federal Energy Office first, because we are heavily involved in programs of soliciting the voluntary and mandatory cooperation of the American people. We are allocating a scarce and vital resource -- people must trust us to insure compliance with a government directed allocation system. Voluntary cooperation people will give us only to the extent that they believe it is appropriate for government to be setting guidelines and making suggestions, and that they should join with their fellow citizens to make our programs work.

But even mandatory cooperation, required by law, cannot be obtained if the people don't trust their government. We can't go around checking thermostats in people's homes every day to see that the daytime temperature is at 68 degrees or below, and the nighttime temperature is at 60 or lower. We can't check speedometers to see that people cut down on their driving speed. The American people do not want, and will not accept, a police state. They <u>do</u> want, and will accept, government programs based upon notions of justice and equality that will, in the words of the Declaration of Independence, "insure their future health and happiness."

There are a number of ways a society can act to persuade people to adopt desirable behavior, and to curtail undesirable behavior. One way, and one that I think we have resorted to too often, is to pass a law making the undesirable activity illegal and the desirable activity mandatory. Then, with beefed-up law enforcement, we can fine, incarcerate, or otherwise intimidate offenders who disobey the rules society has set forth.

This is what societies -- including ours -- do when they haven't enough support from the people or from certain groups of the people, to get them to voluntarily cooperate for the public interest. The trouble with it is that such law enforcement mechanisms, once established to meet a temporary need, become permanent because the need becomes permanent. If we take away from the people the responsibility to be self-policing, they cease to be responsible for policing themselves.

This shouldn't surprise us. Responsibility breeds responsible behavior. Lack of responsibility breeds irresponsibility. The editors among you know that if your reporters come to rely upon expert proofreading, they won't be as careful as they could be about turning in copy that is ready to go. But if a reporter knows that his mistakes may come back to haunt him, because they have a way of creeping into print, he or she will take great pains to see that material is well-written and marked up and edited before it goes to the typesetter.

Now I'm not suggesting that you shouldn't have proofreaders or that society shouldn't have police, or that people in either profession are leading us down the road to irresponsibility. But I am suggesting that, if your reporters are really concerned about what's in the paper when it hits the streets, instead of just about getting done with work and going home, they will not rely so much upon a re-write job. They'll do it right themselves.

And if the American people are really concerned about making our energy policies work, they'll not adopt an attitude of, "if you can get away with it, it must be OK." The American people, like your reporters, must look to the larger good of the group, instead of only to narrow interests of getting home a few minutes earlier or being a couple of degrees warmer.

But in order for people to put the interests of the group -- which are really their long-range self-interests -- ahead of their short-term, personal comfort, they have to believe in the group, its purposes, its policymakers, and the policies that are set for the good of all.

And that's why we in government need credibility. We need the confidence of the American people. It doesn't do much good to ask for it, and say that we're trustworthy. That's like the old story: If you suspect someone is dishonest, and he tells you he is honest, you still don't know. An honest person, and a dishonest person, will both tell you that they are honest.

Frankly, a lot of the American people don't believe what government officials say. And they have reason to doubt. They have been misled by government officials. They have even seen some government officials enrich themselves and their friends at public expense. They have come to doubt all public officials because of the misdeeds of some.

At FEO, it doesn't do us any good to say, "but we haven't lied to you." We do not get the benefit of the doubt. So how do we gain public credibility? We start off with the notion that we have no right to expect the American people to accept what we say, just because we said it. We assume that, as the polls show, the people will be skeptical, and the press, as agents of the public in getting the truth out of government, will also be skeptical.

At FEO, we back up our statements with facts, and we back up our facts with proof of how we obtained them. When we are making decisions based upon incomplete information -- as we had to earlier this week in reallocating gasoline to ease the hardest-hit areas having the worst spot shortages -- we admit, as we did in our announcement this week, using judgment and common sense as well as quantitative data. In this case, we felt it was more important to act quickly to move gasoline into areas our action teams had identified as critical than to wait 2 or 3 weeks until all the facts on supply and demand were available.

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When we make mistakes, we admit them. Most journalists assume that the government only releases the good news, the information that will win favor. In our press operation at FEO we also spend time on getting the bad news, and getting it straight, so that you people and the public you serve will know what to expect ... even if the outlook isn't good as we might hope.

We will not promise what we can't deliver. We will not promise an early end to the energy crisis, when we know that it will be with us for some time to come.

At FEO, we try to be as open and accessible to the press, the people, and the politicians -- regardless of their partisan convictions -- as possible. We have testified before Congress so many times since this session began a month ago that it's a standing joke in our office that Bill Simon and I have better attendance records on Capitol Hill than some of the members.

I can't even begin to tell you how many interviews and press conferences we've had with journalists, to try to help them get stories straight. But I doubt that any of you have heard from your Washington correspondents that our office is hard to get through to.

Next week, the Federal Register will publish our agency's Freedom of Information regulations. Most of you probably don't work closely with Federal agencies, and you probably don't have a lot of experience trying to pry information out of reluctant bureaucrats. But those of you who have tried, or have read about the process in your journalism reviews, know that the Freedom of Information Act doesn't work. Even the Congressional committee that wrote the law admits that it doesn't work.

Well, FEO's operating regulations go far beyond the requirements of the law, and we think they will work. The principal problems with the Freedom of Information Act are that it has too many exemptions, and allows too much delay. If an agency wants to keep something secret, it can stall for months, even years, before a newspaper can get the agency to court.

At FEO, our regulations require that we acknowledge requests for access to information under the FOI Act within 48 hours of the time the request is received. If we have been unable to comply with the request, we may take up to ten days to respond. Only if we certify that we cannot locate the information, or that it is of such a technical and complex nature that we cannot determine whether it should be released, will we allow a further delay. In any event, we will respond within 30 days, with the information or a denial and our reason. The person seeking the information can then appeal, directly to me. Within 30 days of receiving an appeal of a request that has been denied, I will decide whether or not to grant the request. If I refuse, and the requestor thinks I should have granted the request, the next step is Federal District Court.

This means that within a total of 40 days, or 60 days, if we certified that it took more than ten days to locate and evaluate the information, people can take us to court. I know of no other agency that is so responsive.

Naturally, we don't plan to stall requests for the maximum time allowed under these regs. We have always tried to handle reporters' queries as quickly as possible. But the regulations are not intended to cover situations where agencies want to cooperate. We have the regs so that our people will know the operating rules, and so that interest groups and the press and public could force the FEO to open up records that should be open, even if the agency didn't want to. These regulations, incidentally, have the force of law.

The other major flaw in the Freedom of Information Act is that it has too many exemptions, and they are too often abused. The exemptions are so broad and vague that they can be construed -- by reasonable people, but people who might want to be a bit too secretive -- as covering almost any data a government agency has.

At FEO, only one person will have the authority to initially deny a request for information under the FOI Act. We will have in our Public Affairs office an Information Access Officer. Bureaucrats having custody of information may grant requests, but they will not be able to deny access. If they don't want to release information, they will have to pass the request to the Information Access Officer, along with their reasons for wanting to deny the request. The Information Access Officer, in consultation with our General Counsel, will make the determination. This is intended to countermand the natural tendency of people working bureaucracies to want to avoid answering questions -- sometimes to avoid embarrassment, sometimes just to evade what they consider a nuisance.

We are going to take some other steps at FEO that we hope will improve our credibility. We're going to publish tight regulations regarding conflicts of interests and outside income of our employees and consultants.

We're going to be meeting more and more with the American people affected by what we do, instead of only with leaders. We might be able to set up a town meeting kind of format. Bill Simon and I obviously couldn't have a town meeting in every town, or even in every State. But we can have one in each of ten regions the Federal Government has the country divided into. This way, we may not be able to learn everybody's problems. But we will hopefully at least be able to

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learn about the kinds of problems people are having, and what they think we should do about them.

At FEO, Bill Simon and I, and the people who work with us, are aware that we have a number of constituencies. We must be responsive and available to the President, as a part of the Executive Branch of government. We are accountable to the Congress, and its committees, subcommittees, and members. We have to answer to Governors, and Mayors, and other State officials. One thing I should say here: we will not play partisan politics with America's scarce fuel supplies. I don't think anyone has even accused us of being favorable to one party or another, or one or another wing or splinter of a party.

We are also responsible to the American business community, and to organized labor, organized education, and a host of other legitimate interest groups with demands that may or may not be legitimate when weighed against each other.

And we are answerable to the press, which informs all of these groups.

But, most of all, we cannot forget, as bureaucrats and officials sometimes tend to do, that our ultimate constituency is the American people. That's the roughest one, because the people, when they're pushed to the wall and paying attention, can't be fooled. They will have their way.

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Feb. 13, 1974

Treasury PIOs: If asked, you may say:

The Treasury Department today confirmed that Deputy Secretary William E. Simon has been assigned Secret Service security guards.

The action was taken because of the controversial nature of his Federal Energy Office Duties.

Secretary of the Treasury George Shultz directed that a guard be assigned, acting under his authority to direct the assignment of Treasury personnel. Secret Service is a bureau under the Department's control.

oOo

THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON, D.C. 20220

FEB 14 1974 658

Dear Mr. Moss:

Secretary Shultz has asked me to reply to your letter of February 5, 1974, regarding Secret Service protection of former Vice President Agnew, which the President ordered on October 10, 1973.

With respect to conclusions expressed in the Comptroller General's letter to you of February 1, 1974, it is, of course, evident that the statutes are silent on affording Secret Service protection for former Vice Presidents of the United States. However, it does not follow from this proposition that the President lacks the executive power to direct the Secret Service to provide such protection.

The Treasury did not "contend" that the President has inherent executive power to order protection of Mr. Agnew. We stated we understood that the President's authority is based on his inherent executive power. Indeed, it would be presumptuous of the Treasury to attempt to speak for the President on this matter and we expressly stated that we could not. In this connection, you should be aware that Senator Joseph M. Montoya, Chairman of the Subcommittee on Treasury Appropriations of the Senate Appropriations Committee, in November 1973 requested a statement as to the legal authority for the President's directive. Senator Montoya's request was forwarded to the Counsel of the President for reply.

The President's directive of October 10, 1973, that temporary Secret Service protection be afforded Mr. Agnew, was not an unprecedented action. In the past, Presidents have, under appropriate circumstances, directed the Secret Service to provide protection on a temporary basis to certain persons, although no statute expressly authorized such protection. None of these prior directives have been regarded as unlawful.

Before section 3056(a) of title 18, United States Code, was amended in 1971, to authorize the Secret Service expressly to protect visiting heads of state and of foreign governments and, at the direction of the President, other distinguished foreign visitors and representatives of the United States performing missions abroad, there were a number of instances going back to the days of World War II in which Presidents directed that Secret Service protection be afforded to persons in those categories. Moreover, after the last amendment of 18 U.S.C. 3056(a) in 1971, and the enactment in 1968 of the statute authorizing protection of

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major candidates, there have been other occasions on which the President directed that Secret Service protection be afforded to individuals who were not in categories or offices described in the statutes. Senator Edward M. Kennedy asked for and received Secret Service protection during the 1972 Presidential campaign although he was not a candidate for the Presidency. Senator Hubert H. Humphrey was protected for a six month interval in 1969 following the expiration of his term as Vice President.

It is the Treasury position that we are properly carrying out a Presidential order which was neither unprecedented nor unreasonable. Given the historical background, and in the absence of an authoritative expression to the contrary, the President's order is presumptively valid and lawful. Accordingly, the Treasury cannot comply with your request to terminate the temporary protection of Mr. Agnew.

We have taken the liberty of sending a copy of this letter to Senators John L. McClellan and Joseph M. Montoya and Representatives George H. Mahon and Tom Steed.

Sincerely,

Edward C. Schmults

Edward C. Schmults

The Honorable
John E. Moss
U.S. House of Representatives
Washington, D. C. 20515

~~609~~ 660

SECRETARY OF THE TREASURY GEORGE P. SHULTZ

ADDRESS

Savings Bond Kickoff
Luncheon
N.Y. City

February 21, 1974

DEPARTMENT OF THE TREASURY

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SECRETARY OF THE TREASURY GEORGE P. SHULTZ: Thank you, Dick.

Mr. Mayor, Mr. Secretary, Messrs. Chairmen of various elements of the Savings Bond Drive, and distinguished ladies and gentlemen.

You can imagine how good it makes the Secretary of the Treasury feel to be in a group like this and see the drive and the enthusiasm behind this savings bond program. It's very important to the Treasury. I think Don mentioned that there are over $60 billion worth of these bonds outstanding. That's almost a fourth of the publicly held debt, and I would take note of the fact that the average holding period of these bonds is a little better than five years and that's a larger number than the average holding period of the debt as a whole. So it adds an element of stability to the debt. There are over 25 million individuals who are associated with us, and I think that's a very significant fact to which I want to return in a moment. And as I think John deButts noted, about two and a half million in the past year were added to the roles or increased the amount which they saved through this program.

So you can see, to any Secretary of the Treasury, and I'm sure Joe Fowler would agree with me readily, this is quite an important deal that we're talking about and means a great deal to us.

But I would like to spend my allotted time here today talking about this same subject, but from a little different angle. I don't have very much time here, a two o'clock deadline. That's a heck of a note to get me here and put me on and here I am, but I'll say my piece quickly and probably it will be more effective that way.

But let me just reflect back with you, as John deButts said, on some of our history, on Alexander Hamilton and one of his first actions as Secretary of the Treasury. He decided to redeem at par the War of Independence bonds, which were selling way, way below par at the time, 30 cents, I think, on the dollar, or something of that kind, to redeem them at par. And he did so having in mind two things, first of all, to establish the credit of this new nation and secure it, stand behind it. The Treasury should do that. But second, it was his theory, and one that has stood us in very good stead every since, that it's good for the country to have sort of a piece of the country held widely among the citizens. In that sense, a national debt, widely held, is a good thing. So he took this action and, of course, we have been in the national debt business ever since.

[Laughter]

I'm a bigger businessman than any of my predecessors already.

[Laughter]

But I think this notion of investment in America is a very real thing, and the fact that, as I understand it, in January 1974, the just past month, almost three-quarters of a billion of savings bonds were sold, a record high in the post-World War II period, tells you something about this sense that John deButts referred to of people looking for ways to be constructive and to make a contribution, and we can see many other ways in which people are expressing confidence in their country and in their economy.

Just to take one in the economic field, the continued very large flow of investment in new plant and equipment, which is, after all, a bet on the future. And I could recount many other things that are indications of confidence and indications of health.

But I would like to reflect with you on a somewhat different aspect of the situation 'cause I have this sense, and I'm questioned. Yesterday I was questioned at the House Appropriations Committee along these lines -- that, Will, what you say is so. Employment has increased tremendously, personal income has risen, plant and equipment spending is strong, and so forth, our balance of payments has turned around, and yet somehow, more broadly, not just the economic scene, more broadly, something's wrong, and you get this question, or I do, in various ways in many different settings. And I have pondered, as you have, I'm sure, what is it that's wrong and what do we do about it if we can figure out what's wrong.

So let me advance to you my answer to those questions, and I will state at the beginning that this is just a personal answer on my part, having thought about this and worried about it, and may not strike you as a reasonable answer. But it seems to me that in a great many areas of strategic importance in our lives, over the last five or six years we have basically cut off

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from prior ways of thinking and handling these strategic subjects, these old moorings that we lived by, and we are, so to speak, on a search, on an adventure, looking for new moorings. And I would submit to you that in any society there are certain strategic ideas that are pretty deep in the culture and which need to be sort of settled, and we go on from there and we argue about all the tactical things that float on top of these strategic ideas, and we don't argue about them, but when the strategic ideas are sort of up for grabs, in a way, that is unsettling.

Now let me give some illustrations of the sorts of things that seem to me to contribute, on the one hand, to the unsettling, and then let me go on and try to give to you a somewhat different interpretation, with some suggestions for why it is that these things make us nervous.

Well, the first example that comes to mind, of course, is the effort to change our relationships with the communist world, the effort to create a different situation that's come by the word detente. Now just to show how different the situation now is from a few years ago, you remember that old joke about how the husband does the important things and my wife does the unimportant things, makes the unimportant decisions, like she decides how to spend our money and where to send our children to school and where we should live and all those unimportant things. I decide the important things, like should we admit Red China to the UN. Do you remember that old joke and how stale it is now, how out of date it is now? But that was only a few years ago that people were breaking up over that kind of story.

So, we have this notion that somehow or other we recognize that we don't like their system any better than we did before. We recognize they don't like our system. We recognize, I hope, that whatever the sense of detente, we must maintain strength militarily, and yet we are reaching for a little different kind of relationship than we had before, basically in order to keep the world from blowing up. So it's a constructive effort, but it's difficult for us because the old situation, we had automatic answers to every question. We knew what we thought. Now there are all sorts of difficulties that are perplexing. If we're having detente, why do we need a strong national defense? Well, I think the question answers itself, but you have to think about it. It's a little trickier than the old-style question and answer in that subject.

So, we have departed from one mooring and we are searching for another sort of consensus, another way of organizing our thoughts and our feelings on that subject.

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Take the field of international economics, international monetary relationships, which, I suppose, is appropriate for an audience like this. For many decades we had the mooring that the dollar was fixed to gold. That was there; you could bank on it, literally. And that was a mooring. By the middle of 1971 it was quite obvious to anyone who was informed about what was going on that that mooring was gone. The reality of events swept it away and the old monetary system disappeared. And since that time, we have been rearranging our thoughts and trying to construct something that is different, that is new. And we have made a lot of headway, in my opinion, on that subject, in many ways more headway than people can recognize, but nevertheless, we aren't there yet. So in international circles, there is sense of unease and it spills over into the population at large, which doesn't pretend to understand exactly what's going on, but they read about how the dollar's stronger, the dollar's weaker and so forth, and they didn't use to read about those things and it's unnerving.

Turning to some of our more domestic subjects, the field of ears. You know, I would assert to you that it was settled, but it wasn't settled in a satisfactory way at all, but nevertheless it was settled. People had a certain way of living and thinking on the subject and there was a sort of uneasy stability. But that's all been changed. Gradually, beginning in the middle 1950s, a sense that that old mooring was not a very good mooring came about and we cut off from whatever that pattern was. We have moved a long way to some new pattern of racial relationships, but I think anyone who has worked in this field would say we aren't there yet. We don't have a new mooring, a new set of relationships and patterns that we are satisfied with.

Take the subject of our environment. We've always thought of America as so big and bountiful that the environmental problems were put down as essentially keeping the mountains with snow on their caps and things like that, but suddenly it has dawned upon us that our streams are filthy and getting worse, and our cities, many of them, get unbearable at certain times, and our environment is very badly fouled up. And so we have reached for a solution, some sort of a new mooring and we have reacted way over on perhaps another extreme, from the extreme of neglect to the extreme of some very tight regulations of one kind or another. We see the problems that there are with that. We know that we have departed permanently from the old situation where we could just proceed without any attention to the environment, but we don't see quite where is that new synthesis, that new interplay between the need for production and transportation and so forth, on the one hand, and the need to pay attention to the livability and cleanliness of our air and our streams. So we're unsettled.

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I needn't go into the unsettling nature of the inflation problem as we see it today. I think it is part of another sort of sense of unease.

People for many years felt that if there was a problem, somehow or other if you could get it to the attention of people in Washington and persuade them to spend some money on it, it would get solved. And I think even among those who are the advocates of the programs that resulted from that philosophy and belief, which we all have shared to a degree, there is a recognition that somehow that hasn't worked out and we need to have some new sense of more decentralized decision-making. Just what it is is uncertain. Some new interplay between the private and public sector, but it's very difficult to construct it. But it is a search for something in the way of a new mooring, having departed from the old one.

And then, of course, there's the energy business, and here I can't help but feel that the thing that shocks the people the most is not so much the long lines, but the notion that here we are in the United States and nobody could lay a glove on us, and all of a sudden here are these people who have really laid a glove on us. Now I think we are reacting pretty well, and we are tightening up our belts in the short run, and I hope we will have the determination to do the things in the long run that will get us out of the vulnerable position that we were getting ourselves into, and the great thing about it is we can do it. All the resources are there. But nevertheless, this is a very unnerving experience for the country.

So that is my thesis, that the thing that is troubling people is that on many areas that go deeply into the sense of our culture and society and economy, we have, either by deliberate decision or by the flow of events, let go of old ways of thinking and old consensus and old mooring, and we haven't yet found the new moorings, the new commonly held beliefs that we need to sustain us.

Now I think that if you reflect on all of the examples that I have given, it must be apparent that, I think on practically all of them, while they can be looked upon as problems and as difficulties, it's also equally, perhaps more, possible to say that these represent genuine opportunities to construct a better society. They represent a genuine way for Americans to express that spirit that we have always had of adventure, of willingness to explore the frontiers, of a desire to continue the momentum of American life, of trying to improve the qualitative, as well as quantitative, aspects of our life. So just as easily as using this thesis to explain why it is that people seem to have this sense of unease, I think one could imagine using it as a way of saying why it is that everybody is so lifted up and excited about

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life. But that isn't the way they are. So I think we have to then ask why the interpretation. And at least, as I would judge it, it comes fairly close to some of the things that John deButts was saying in his talk today. I think it results from the fact that somehow we have lost the right interplay between our roles as followers and our roles as leaders. And it seems to be very difficult for us to follow leadership these days and to recognize it and to honor it.

Now this is not something that comes out of the Watergate business, simply, because, it seems to me, it predated the Watergate. This is something that certainly affects the President, but it is not limited by any means to the President. It is a characteristic that runs right across the whole society. It's been quite a jolt around Washington for the members of the Congress to find that they stand lower than the President does in the polls, so apparently something's wrong there. But business leadership is way down low on the totem pole. There's not room at the top -- there's plenty of room at the top of the totem pole; there's not room at the bottom. Business leadership doesn't seem to stand very well; union leadership doesn't stand very well; the universities aren't respected in the way that they once were, by quite a long shot; our religious institutions are not.

The media, of course, looks us all over all of the time, but I suspect that even the media has caused some people to scratch their heads once in a while and I think they, as well as the rest of us, are caught up in this syndrome of the problem of leadership as we see it and feel it, sense it around the country.

In my view, what has happened is not that radical elements have somehow stirred people up against leadership, but rather that we are doing it to ourselves. There is a process of mutual recrimination that is sometimes beyond belief. When you bring the heads of a major industry in, have them all stand up and then shoot them down like clay pigeons, that is massacre. That is guerrilla warfare on another element of leadership. So we have a process of mutual recrimination. We have a process of guerrilla warfare going on in which we are sort of tearing everybody down. If anybody sticks his head up, is looking pretty good, he becomes the target and must be shot down.

Now I think that the problem is not because of the quality of the people who are the leaders, as I look around. The President himself has given magnificent leadership and very recently. Just take this brilliant Middle East diplomacy that has been going on as an example. But our leadership in many areas is very good. And here we have John deButts, a terrific leader, a terrific person. All you have to do is go abroad and pick up the telephone and you get the idea that somehow our telephone company must be doing something right and it must -- it must...

[LAUGHTER AND APPLAUSE]

SECRETARY SHULTZ: ...that there's something there, and you can say this. So we have good quality leadership in our business community. As individuals, you know them, you're part of them.

Take our labor leadership. I'm a great fan of George Meany. He's a terrific leader, I think. I don't say -- he doesn't agree with me all the time, by a long shot, and I don't agree with him. But he's a damned good leader for the American labor movement, and as you look around among others in that leadership group, you see many people who are outstanding.

And I think the same can be said for our professorial ranks and for individuals in the religious and the media and many others. So I don't attribute this as a characteristic of individuals, but somehow or other, to the times and to this sense of recrimination that is so widespread.

So what do we do about it? Well, I'm the last person in the world, having come from the university world -- which is the world of criticism. That's what you live on there -- to say that we should try to reconstruct ourselves and not be so critical and so forth. We must maintain our sense of criticism, but I think that we need to try more than we have to put the pieces together. We need to remember that saying that it's much easier to be critical than it is to be constructive. And after all is said and one, it seems to me, as I think was the theme of John's remarks -- after all is said and done and we've all had our bellyful of seeing everything that's proposed criticized, there is this desire to say, "Well, all right, you've criticized everything. What have you got to offer that's constructive? What can you do?" And then get out and do it.

And it seems to me that as leaders, as people in positions of responsibility, we need to remember that and we need to identify problems, make constructive proposals to deal with them, and take action behind those proposals, and at the same time certainly be willing to criticize what the other guy is proposing, but if by some chance somebody who is in our political opposition or who is in the ranks of labor, if you're management, or vice versa, or the press or what not, if by some chance somebody comes up with a good idea, why don't we admit it once in a while and say, "That sounds constructive. I'll follow you on that." And develop not only a sense of leadership, but a sense of fellowship in trying to refresh ourselves and our spirit in America. And I think if we can do this, then we have all of the ingredients here in terms of the great issues and problems that are open to us, that are at this point not so structured that you can't do something constructive

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and different with them, but which are, rather, open right now and subject to good ideas and strong effort and action.

We can apply ourselves to these types of problems that I mentioned, and we can get the sense of excitement and adventure and direction for our country and ideals for our country that we have lived by and can continue to live by, and make out of this situation something very positive that lifts us up and allows us to say, with John deButts, yes, I do believe in America. I do believe in the leadership that we have across the country, in government, out of government, and I'm willing to give it a chance and to work with it to solve these great problems which, if solved in a reasonable and satisfactory way, will be so great for our country.

Thank you.

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Names and Titles of those accompanying Nikolay Semonovich Patoliche[v]
Minister of Foreign Trade;
Cochairman, US-USSR Trade &
Economic Council

to meeting with Secretary Shultz, Feb. 25, 3:00 p.m.

Vladimir Sergeyevich Alkhimov
Deputy Minister of Foreign Trade;
Cochairman, US-USSR Trade and Economic Council

Sergey Arkad'yevich Mkrtumov
Trade Representative Designate, USSR Trade
Representation, Washington, D. C.

Rem Grigor'yevich Gorbunov
Executive Secretary, Soviet Secretariate
Joint US-USSR Commercial Commission

Oleg Aleksandrovich Lyamin
Interpreter, Ministry of Foreign Trade

U.S. officials

Secy Shultz
JACK Bennett, Under-Secretary Designate
Lewis Bowden, ~~ASSO~~ Actg Deputy Asst Secy of Commerce (for E-W TRADE).
ED Rendall ~~[illegible]~~ Reporteur

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE 6:30 P.M. February 25, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on February 28, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing May 30, 1974		26-week bills maturing August 29, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	98.198 a/	7.129%	96.440 b/	7.042%
Low	98.170	7.240%	96.413	7.095%
Average	98.183	7.188% 1/	96.420	7.081% 1/

a/ Excepting 2 tenders totaling $30,000 b/ Excepting 2 tenders totaling $520,000

Tenders at the low price for the 13-week bills were allotted 19%.
Tenders at the low price for the 26-week bills were allotted 12%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 45,740,000	$ 34,930,000	$ 33,360,000	$ 10,310,000
New York	3,012,355,000	1,967,355,000	3,039,715,000	1,610,885,000
Philadelphia	52,765,000	27,765,000	36,490,000	11,490,000
Cleveland	46,515,000	46,515,000	55,690,000	15,585,000
Richmond	51,915,000	45,105,000	44,830,000	24,500,000
Atlanta	25,305,000	25,305,000	12,840,000	11,920,000
Chicago	227,445,000	127,345,000	272,695,000	39,445,000
St. Louis	55,340,000	42,340,000	43,635,000	17,135,000
Minneapolis	23,655,000	19,655,000	18,115,000	3,965,000
Kansas City	42,565,000	34,485,000	30,915,000	22,865,000
Dallas	33,020,000	19,965,000	26,390,000	11,510,000
San Francisco	164,615,000	109,375,000	110,670,000	20,670,000
TOTALS	$3,781,235,000	$2,500,140,000c/	$3,725,345,000	$1,800,280,000d/

c/Includes $412,570,000 noncompetitive tenders accepted at the average price.
d/Includes $175,680,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.42 % for the 13-week bills, and 7.45 % for the 26-week bills.

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UNITED STATES DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

GEORGE P. SHULTZ
SECRETARY

Addressing A Toast To:

NICOLAI PATOLICHEV
MINISTER FOR FOREIGN TRADE
UNION OF SOVIET SOCIALIST REPUBLICS

GREAT HALL
SMITHSONIAN CASTLE
1000 JEFFERSON DRIVE, SOUTHWEST
WASHINGTON, D. C.

MONDAY, FEBRUARY 25, 1974
8:40 O'CLOCK P.M.

P R O C E E D I N G S

SECRETARY SHULTZ: Mr. Minister, Co-Chairmen Alkhimov and Kendall, members of the Congress, and all of our guests from the Soviet Union and from the United States:

We welcome you here this evening and for your entire visit.

I think we ask ourselves, as we look around and meet each other and talk and shake hands, what is it that brings us together?

I think the answer is summed up quite well in a word, although the word itself is mysterious to many, and certainly subject to many problems; of course, the word is the emerging sense of detente.

We know that this is a relationship that is not static, and that is more difficult to manage and to understand and to work with than a simple, unchanging, hostile relationship.

So we know that detente is not a thing that we can take a picture of as in a sense a relationship was. It is more aptly a process that goes on and develops and changes and sees problems and meets problems and works in various dimensions.

And as our leadership, President Nixon, and General Secretary Brezhnev have developed this new spirit, it has moved forward on a diverse set of fronts.

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It is not a unitary phenomenon, but is set forward in terms of political relationships, military concerns, scientific developments, cultural affairs, economic and trading relationships, and many others; in other words, it is a diverse process.

And, of course, we know that all of these parts are related to each other, and we seek to have them move in this process in a manner which is self-reinforcing; each part helps the other part, and is related to the other part.

Of course, our particular part here of this process of such importance to the world has to do with economic and trading relationships, and it is our concern to see these develop.

I think, just looking at the assemblage here this evening, is ample demonstration of the extent to which we have moved together in this area.

We know that we have accomplishments that can be pointed to. One of the great virtues of this field of work is that as you work through the process, there is a plant. You can point to it. Here is vodka. You can drink it.

Some people even drink Pepsi Cola.

(General laughter.)

SECRETARY SHULTZ: There is a tangible -- I drink it myself. Really, Don, I do. It is very good.

There is something tangible about it, and you can point to it, and people are able to relate themselves to it. It means jobs. It means things that we consume, and that help us.

And so I think that we have an opportunity in this field to contribute importantly to the development of this broad process that I referred to earlier.

I have been listening carefully to the interpreter, and I do feel comforted to see that she interprets everything exactly the way I say it.

(General laughter.)

SECRETARY SHULTZ: We also have our problems, and we know that one of them is the problem that has historically been known as MFN, or Most Favored Nation Treatment, which has become related to the way in which financing is arranged for trade.

I think, myself, that to some extent we are, as is often the case, the prisoners of our words because the words imply that what is being sought is some sort of special deal that makes the Soviet Nation the most favored nation for our trade or which provides for them a form of financing that is better than, different from the financing available to other countries with whom we trade.

At any rate, it seems to me we ought to try to coin a new phrase that is more descriptive of what it is that we are seeking.

What we are seeking is equal trading opportunities. Let us have ETO, rather than MFN, or something like that, that describes the process that is involved, and perhaps that can make some small contribution to this particular problem that we are struggling with.

At any rate, as we work together, we develop more information about each other. We develop an ability to anticipate and to help, and we develop a greater sense of certainty and assurance that I suppose sometimes is summarized by the word "trust" or "confidence," and I think this is all to the good.

At the same time, in any relationship of this kind, where we are trying to project into the future and plan ahead a little, we know that we are dealing with uncertainty. Uncertainty is a part of life, and we cannot avoid that.

I suppose the test of our developing ability to work together is often in how well we are able to handle the uncertainty and the difficulties that arise.

I think that with all of the accomplishments, nevertheless, there is considerable uncertainty right now; and a measure of our ability to handle it is the sense in which I think it is fair to say all of the people here this evening are continuing on in developing our projects, working them through, trying to bring them to a constructive fruition, as the time is appropriate, while we struggle with the

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uncertainties and the problems.

I think, as young as our relationship is, in some very deep and important ways, in the economic sphere as well as in other spheres which I need not go into, it is measuring up to some important tests.

One of the reasons for this is surely Minister Patolichev, who has worn out two Secretaries of Commerce, and is working on his third ---

(General laughter.)

SECRETARY SHULTZ: --- and who has a great deal to do with developing this relationship, and who has come to be admired by even Secretaries of the Treasury, let alone Secretaries of Commerce.

We feel very much in your debt, Mr. Minister, for your continued and constructive, although tough, approaches here.

We know that you are a person who, as an individual, as a human being, has put a great deal of yourself into this relationship, and we appreciate it.

I want to propose a particular toast, which I will propose as soon as she translates this.

To Minister Patolichev.

(A toast.)

(A chorus of "Hear-Hear.")

(Applause.)

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MINISTER PATOLICHEV: After such a brilliant speech by my counterpart, Mr. Shultz, I am in a very difficult position; but, still, I will risk.

I will start from thanking Mr. Shultz for his invitation to come to this country and participate in tomorrow's meeting of our Joint Soviet-American Economic Trade Council.

I also want to thank Mr. Shultz for the opportunity he has accorded me of meeting with high-ranking and respected people in this country.

Well, at least, you are all well aware, as you said, I am working on a third Secretary.

(General laughter.)

MINISTER PATOLICHEV: Well, I do not think that, because you are occupied with serious matters.

Here I see Mr. Peterson and other gentlemen. I met here with a big group of Congressmen who visited Moscow. I see here Mr. Hartke. I see here in the audience many of the Congressmen I met with in Moscow and here in Washington.

Also present here is a big number of business people with whom we have been operating all ready for a long time.

It is natural that a Minister of Foreign Trade of the Soviet Union is supposed to talk about trade, although it is true I have not got enough experience in foreign trade, not yet.

(General laughter.)

MINISTER PATOLICHEV: I am not a professional in the field of foreign trade.

About sixteen years ago, Comrade Khrushchev suggested that I should enter the field of foreign trade, to which I answered I had no idea what foreign trade was all about.

And he said, "But I am suggesting that you should become a Minister for it," to which I said, "Well, that's a different thing," and accepted.

(General laughter.)

(Applause.)

MINISTER PATOLICHEV: And so I accepted, and sort of stayed on for the past sixteen years in this post.

Now speaking, jokes aside, I have been meeting with many Congressmen, many business people from the United States.

Well, we are always expressing loud and clear our views on the need for and benefits of developing trading relations between our two countries.

You remember, Mr. Shultz, we were together visiting with the General Secretary. Mr. Peterson could second me on that. We went with him to the Crimea to meet with the General Secretary.

Mr. Hartke could also second me that we had a very long and productive discussion with the General Secretary, at which he explained in much detail the various aspects of foreign policy of the U.S.S.R.

Out of my experience, I can tell you, frankly, that in our relations with other countries, such as France, Italy, Germany, and others, the problems that we have been discussing with you are non-existent long ago. All those questions went just into history long ago.

The MFN Principle, what it is all about, it means that the treatment you are being accorded is not less favorable than that accorded to others.

We do not discuss these questions for the last fifteen years neither with France nor with Italy, Germany, Finland, Sweden, Norway, and many others, questions of credits, of financing.

There may be cases where a buyer is interested in financing, but there may be cases where a seller could be interested in financing.

Here, in the United States, we have a temporary Purchasing Commission on the Kama Track Factory. This could be sort of depicted as the Soviet Union wishing to have a temporary Purchasing Commission here. This could be an attitude.

But in France, there is a Temporary Purchasing Commission, and no discussion has ever been held around that subject.

Take, for instance, the case of the passenger car factory at Tagliati in the Soviet Union, built in cooperation with the Fiat of Italy. For that purpose, a Temporary Purchasing Commission was set up in the City of Turin, and has been functioning for the last five years, and no problem has ever arisen in connection with that.

Perhaps I was not exact in my statement, and it is difficult to say who is more interested in the existence of that Temporary Purchasing Commission; ourselves, or the other side.

Perhaps I am not very exact in my statement. Evidently, both sides are very much interested in that.

I could have given you examples of that sort by dozens which have not been in discussion for the past fifteen years altogether.

But we have been facing these problems here while discussing matters relating to economic cooperation, of course. To put a question -- perhaps it is not put while discussing these problems altogether. Perhaps the time has arrived in the United States to discuss these things.

Would it be right for us to assume such an approach since dozens of American businessmen come to Moscow, and go back home with concluded deals and agreements?

Evidently, there is sort of a traffic one way, and a sort of traffic the other way. I do not think I will say anything new if I refer to one statement made by our General

Secretary, Leonid Brezhnev.

He said that the United States was able to survive on its own, and the Soviet Union could go on surviving on its own, and that was, in fact, the case in the past.

In that connection, I want to say that I belong to a generation, and my colleagues sitting here may be in that category, too, although I may be a bit elder than them.

Speaking of my generation, we have come through all the disasters that could be imagined in a lifetime, and we are prepared to say to anyone that some sort of discrimination or limitation with respect to the Soviet Union may stop its movement forward. We can tell that gentleman that this is his utter delusion.

Still, we think that this process that is going on should lead to positive results here in the United States. But perhaps we have more right than others to know what the war is like and how dear a peace can be.

Perhaps we have a little more motivation than could be found anywhere for a detente. And on our part, we will be doing everything that we can to boost this process.

We have been also motivated by another circumstance, and that is you may agree or disagree with your partner, but you have to listen to what he has to say.

How can you disagree with a partner when you did not have enough time to listen to him and to see his point of view?

That is why we are so eager to explain our point of view.

Today, I all ready made a speech at one social occasion, and, particularly, I made the following statement. The statement was the fact that when people ask me back home how I was going to explain our position here, I said that I would try to explain the way we would do things back home because we also have our own Parliament, and we have also our own internal regulations. That is what I answered them, how we are going to do it.

So I can assure you here that we will do our best so that our Parliament adopts a legislation that would not in any way be discriminatory in terms of trade to the United States.

We would supply enough arguments for the Supreme Soviet to support us; to put forward enough arguments, political, economical, military. In a word, enough arguments for the Soviet people to support us.

Some people say that it is only the Soviet Union which is interested in developing trade, and not the United States.

I think those gentlemen delude themselves. The Soviet Union has enough scientific and technological potential to be able to produce anything to be self-sufficient in everything or almost everything.

When some people say that we are interested in purchasing more than technology, they are wrong.

You see, our vodka did not strengthen your military potential like Pepsi Cola ours.

As to the desire to buy something which is up to date, it is a natural desire of everyone going to buy. We are not inferior to others to have a different approach and to accept anything being offered to us.

Everyone is trying to buy what is best, and why should we be accused of doing it? We do not understand that.

At any rate, many of the U. S. Congressmen visiting our country, and many of the representatives of the business community here were meeting at high levels in our country, and particularly with the General Secretary, who took time to explain in detail the attitude of the Soviet Union to these sorts of things.

Although this is an internal affair, we think that for those willing to discuss these things with us, we would be readily available at all times, and would be prepared to argue and listen to counterarguments, and so on.

In conclusion, what can I say? I am not a politician or a diplomat. I am a young salesman.

(General laughter.)

MINISTER PATOLICHEV: I want to develop trade with you, and it can be quite substantial. The two biggest and most developed countries in the world, and what we have done are the first steps.

Tomorrow, we are going to have the first meeting of the recently-established Soviet-American Trade and Economic Council, and one of the organizations in a trading mechanism that could be very conducive to trade.

But any mechanism could run idle if no appropriate conditions are created for this. It does happen in life sometimes.

You start on a hiking trip with a friend, but after five miles, he says, "That is enough for me. I cannot go any farther."

The other one walks farther. He may encounter winds, but he is still walking along, and walking along, and walking along.

(Applause.)

MINISTER PATOLICHEV: In conclusion, dear gentlemen, I want to raise my glass to the development of trading, economic and political relations, good relations between our two countries.

On behalf of all of the Soviet colleagues here, I suggest a toast to all the Americans present in this room, and, personally, to my colleague [Secretary Shultz], because without his invitation, my presence here would not have been possible.

We wish everyone of you health, happiness and success.

(A toast.)

(Applause.)

SECRETARY SHULTZ: Is Mr. Collins here?

Would you stand up, please?

Mr. Collins has two very special attributes that I know of personally; one is that he is the only man in this room who has been to the moon; and the other is that he has a museum next door that chronicles all sorts of things about flight and space, and so on.

He stands ready to show anyone here who wants to see this. It will not take lone to go with him, and he will give you a guided tour through a moon capsule, and tell you exactly how it worked, and so on.

Anyone who wants to do that is welcome to follow Mr. Collins. Of course, we live here in a voluntary society --

(General laughter.)

SECRETARY SHULTZ: -- so those who do not want to go, do not have to.

Mr. Collins, if you will come out here where everyone can see where you are.

If anyone wants to go on this tour, if you will follow Mr. Collins, he will be delighted to escort you.

For all of those who want to go on the tour, you can go. For those who want to sit around and talk, that is fine; and for the others, the meeting is adjourned.

(Applause.)

(Whereupon, at 9:32 o'clock p.m., the dinner was concluded.)

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IMMEDIATE RELEASE FEBRUARY 25, 1974

SIMON ANNOUNCES REFINERY SHIFT TO INCREASE GASOLINE PRODUCTION

The Federal Energy Office will allow refiners to raise gasoline prices one cent a gallon, and require them to lower distillate fuel prices two cents a gallon, to encourage increased production of gasoline, Administrator William E. Simon said today.

The price changes will be reflected in refiners' March 1 price adjustments, as allowed by FEO cost pass-through regulations, and will affect consumers a few days after that.

Distillate fuels are used to heat homes and factories, as diesel fuel for trucks and farm tractors, and for other purposes. High-grade distillate (kerosene) is used for jet fuel.

The action supersedes pricing steps taken December 5 and December 28, 1973, when refiners were being encouraged to increase distillate production to ensure that ample supplies of home heating oil would be available during the winter.

"We have had excellent cooperation from the public and refiners this winter," Simon said, "so that we are coming to the end of the heating season with good stocks of distillate on hand.

"A generally mild winter also helped, but I can't stress enough the public and industry cooperation which we received. People did turn their thermostats down and the refiners did respond to public needs."

E-74-84 (more)

Stocks of distillate fuel for the week ending February 15 were up 46 million barrels from the same week of 1973, and 37 million barrels above the same week two years ago. Consumption for the week was down 20.9 percent, and for the latest four-week period -- usually the heaviest heating period of the year -- consumption was down 19.3 percent.

The price changes will have virtually no effect upon refiners' profits, since the decrease in distillate price essentially balances the increase in gasoline prices.

Domestic refiners can usually convert on the average about 42 percent of the crude oil to gasoline in the fall and winter season, and 48 percent in the spring and summer when demand for gasoline is greater.

Conversely, distillate ouput usually averages 22 percent in the summer and 28 percent in the winter when demand for this fuel is greatest.

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STATEMENT BY THE HONORABLE WILLIAM E. SIMON
ADMINISTRATOR, FEDERAL ENERGY OFFICE
BEFORE THE WASHINGTON ENERGY CONFERENCE
WASHINGTON, D. C., FEBRUARY 11, 1974

The world economy is undergoing a period of rapid change and growth. Decisions made in one country effect the patterns of life for the rest of the world. Such decisions demand not only the collective wisdom of world leadership but also a continuing spirit of cooperation among the countries of the world. By building an international framework of cooperation among nations, I am convinced that we can overcome the problems that face all of us in the energy area today, and can establish a permanent structure for world-wide economic development. The explanation of our current problems lies in ourselves - in our own failure to acknowledge our interdependence and plan for it. There are several areas in which we have failed. On an individual basis, we in the United States and other individual industrialized nations have misued our energy resources, and failed to gain control over the rate of growth of energy demand, largely because our shortsightedness has lulled us into believing that abundant and cheap energy supplies could continue

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indefinitely. Further, we have failed to develop available domestic energy resources adequately. As a group, all of the major consuming countries have failed to develop and agree upon allocation programs to meet emergency shortage situations. Further, we have failed to coordinate our national energy policies or even to adequately discuss their interrelations at a high political level. In fact, we do not have an adequate supply of information and data on world demand and supply, oil supply arrangements between consumer and producer nations, and future prospective resources in order to adopt realistic energy policies. Because of these failures, we now find ourselves at a cross-roads faced with a choice which will influence the history of future generations of the modern world. We can ignore the lessons of the past and be doomed to relive them; or we can learn from them and forge together a new atmosphere for orderly world economic growth.

As such, we must commit ourselves to work against unconstrained bilateral deals which will be counter-productive to all of our goals. In fact, we must seek to redefine bilateralism so that bilateral arrangements only occur within the umbrella of international cooperation.

Today, I would like to present to you our views on how we can do this. At a time when the energy shortage has caused

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a sense of paralysis that grips many people of the world, we must calmly place the issues in the proper perspective. We must ring the emotions out of our considerations of these issues, and carefully assess where we are and where we must go from here.

In order to understand the nature of the problem we now face and how we can overcome it, I think it is important to review the world energy situation, in particular with respect to production, consumption and energy prices, as well as the impact which these factors have on balance of payments, on employment and on the world economy.

<u>Production and Consumption</u>

First of all, let us review the world production-consumption picture. During September 1973, free world petroleum production averaged 47.8 million barrels per day.

In the subsequent months, after the outbreak of war in the Middle East, production declined as a result of intentional cutbacks by a few of the oil producing countries bordering on the Persian Gulf. The low point in production was reached in November when free world production was estimated to be only

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43.2 million barrels per day. By January 1974 production had increased to an estimated 46.2 million barrels per day, a level about eight percent below pre-war estimates of the level of January production.

Consumption in January was probably about equal to January production. There had been some drawdown in stocks of crude and petroleum products, but the cumulative reduction by the end of January is estimated to have been only on the order of magnitude of 100 million barrels.

For the calendar year 1974 as a whole it is estimated that through responsible and efficient use of existing and planned facilities the free world could produce about 51.4 million barrels per day. Whether conditions in 1974 will be such that producers will choose to produce that much and consumers will consume and add to inventories that much oil is very difficult to predict.

Prices

In September 1973 the arms-length open-market FOB price for a new short-duration sale of a cargo of Arabian light crude was on the order of $2.12 per barrel. In November some crude sales apparently were at prices in excess of the equivalent of $15 per barrel for Arabian light. By the end of January the comparable spot market price had apparently fallen to the $10 to $11 per barrel range.

In light of continuing efforts to reduce consumption around the world, the potential clearly exists for spot market prices to continue to decline. There can be no certainty how greatly consumers -- and their governments -- will be inclined to reduce their consumption below the pre-war forecast of about 51.4 million barrels per day in consumption plus normal inventory build-up in 1974.

A rough estimate now would be for free world 1974 consumption of about 46.4 million barrels per day if oil prices around the world average in 1974 a level consistent with an Arabian light FOB price of $8.50 per barrel. On a comparable basis estimated consumption would be on the order of 50.3 million barrels per day with an Arabian light price of $4.50 per barrel.

To these consumption estimates must be added estimates for the build-up of inventories. Companies and governments will undoubtedly wish over coming months to add to their inventories, not only to return to levels considered normal in the past, but also to provide greater security against the demonstrated insecurity of imported supplies. Ultimate objectives for inventories will probably be considerably in excess of targets to be reached by the end of 1974. A reasonable estimate of targets for year-end 1974 might be levels five percent above what would have been considered normal in pre-war days. On that basis it can be roughly estimated that 200 million barrels will need to be added to inventories in 1974, to build up from present levels to the year-end target. That addition to inventory would increase 1974 total demand to 48.8 million barrels per day at the $8.50 price and 50.8 million barrels per day at the $4.50 price.

Spare Capacity

At either of these illustrative combinations of price and oil use in 1974 the world's forecast "normal" oil production capacity would not be fully employed during the year. Whether some oil producing nations will choose to allow some of their "normal" production capacity to lie idle, with accompanying loss of revenue, is, of course, problematical. Assuming as at present, most producers wish to maintain production, relatively sharp cutbacks would be necessary by the remaining producers at the $8.50 price. For instance, if only Saudi Arabia restrained its production, then for the year Saudi production would average only 3.6 million barrels per day, only about 44 percent of its potential output.

If 1974 production restraint were borne on an equal percentage basis by Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar, then the production for each would be about sixty-seven percent of capacity. At the $4.50 price on these assumptions, there would still be a margin of excess capacity in these countries.

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Certainly at the higher of the two illustrative price levels, and quite possibly at the lower level as well, production in other oil countries would grow faster than world demand over the years after 1974, so that the relative production restraint would need to be increased over time to maintain those prices.

Balance of Payments Impacts

The impact of such higher costs of imported oil will be severe upon the economies of many oil-consuming nations. The increased costs in 1974 for the less developed nations alone would be on the order of $9 billion at the $8.50 price and approaching $5 billion at the $4.50 price. As a consequence of these changes in oil payments, the projected 1974 current account deficit for the LDCs would be estimated at about $22 billion at the $8.50 price and on the order of $18 billion at the $4.50 price.

The incidence of the higher oil prices among individual LDC's will vary widely. Some of the hardest hit countries such as India, Bangladesh, and the draught-ridden regions of Western Africa not only face a significant increase in their import bill but their low per capita incomes and slow rates of growth of output and of exports will make it difficult to finance anything approaching the same volume of imports as in 1973. Other countries -- such as Brazil, Korea, Taiwan, and Turkey -- while facing a significant increase in their import

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bill will have a greater capacity to finance increased oil payments in the short run with their relatively high level of reserves.

Employment and Inflation

These large increases in payments will worsen both the employment and inflation situation in oil importing countries. Even after adjustment in monetary and fiscal policies, these increased import bills will have a deflationary impact on demand for domestic production, as purchasing power is diverted from domestically produced goods and services in order to meet increased oil import payments.

At the same time that demand for domestic production is being decreased, cost push inflationary pressures will be increased as a result of the direct impact of oil price rises on price indexes and possibly also as a result of intensified labor pressures attempting to secure a wage increase sufficient to offset the decrease in the standard of living implied by the increased price of oil.

There is also likely to be a temporary increase in unemployment and decline in output as patterns of consumption and production are readjusted to the levels of energy costs. Particularly hard hit will be such products as automobiles, plastics, fertilizers, and boating and camping equipment.

It is estimated that for a number of the large industrial countries these factors, even after appropriate adjustments

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in fiscal and monetary policies, could combine to reduce rates of real economic growth by one to one and one-half percent during 1974, if an $8.50 level of prices prevailed. There could be two to three percent additional upward pressure on prices in many countries. At a $4.50 level of prices these impacts would be considerably less.

The Economic Impact of Higher Oil Prices

In general, then, projections of the economic impact for 1974 of higher price levels for oil indicate that oil-consuming nations will experience lower rates of growth, higher rates of inflation, higher levels of unemployment, lower levels of real income, and notably less favorable trade balances than previously anticipated. The economic impact of higher oil prices will vary widely among countries reflecting not only differing degrees of dependence on imported oil, but also differing degrees of financial strength and economic adaptability. All industrial nations, with the possible exception of Canada, could experience serious economic difficulties, as will many LDCs. For LDCs with inadequate reserves, low per capita incomes, and slow rates of output and export growth, the economic impact of higher oil prices could be extremely severe.

For the developed countries -- which in recent years have typically run current account surpluses in the order of

$10 billion per year -- the increased oil costs at the $8.50 per barrel price would mean a current account deficit of more than $30 billion. At the $4.50 price, the deficit for the developed countries would still be in the range of 5 to 10 billion dollars. For the OPEC producers, even after taking into account an assumed increase in their imports, an $8.50 price would yield a current account surplus in the order of $55 billion. The $4.50 price would still yield a surplus in excess of the $20 billion range. The corresponding increases during 1974 in the foreign asset holdings of the producing countries, while large, will still be equal to only a small fraction of the assets traded in the financial markets of the OECD countries.

The incidence among the developed countries is relatively evenly spread, with projections of increased oil payments as a percent of total imports falling in the range of 10 to 20 percent for most countries. Japan will be particularly hard hit with a projected increase in oil payments approaching one-third of total 1973 imports. Canada, on the other hand, with oil exports of roughly the same magnitude as imports, should feel virtually no net balance of payments impact from the changes.

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Project Independence

At this point, I think it is important to carefully assess these projections of energy production, consumption and prices and recognize that they are flashing warning signals to which we must respond. We must realize that these projections depend upon the basic assumption that recent trends in world demand for energy, in the sources of energy, and in the form in which energy is supplied, will continue largely unchanged. Together, we can prevent this from happening.

The projections do show -- clearly and vividly -- that we face far-reaching changes in our energy balances. We must accept that the rising demand for energy will lead to a substantial increase in real costs. We cannot be blind to the concentrated location of the existing resources which can be made available for the years immediately ahead.

But, there is another side. These projections show us what needs to be done. If we approach it bilaterally, a potential crisis will become a reality. However, if we make the commitment to join together, a potential crisis may be translated into a real opportunity. In essence, the energy problem is the most infinitely solvable one we have -- but we must approach it together. Action by consuming countries, with a long view of their best interest, is required now.

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We, in the United States -- in our actions and in our planning -- are participating in this process with the greatest sense of urgency.

In November 1973, the President of the United States inaugurated Project Independence, designed to ensure an expansion in domestic energy production so that our Nation would no longer be subject to economic disruption, or the threat of such disruption, from a sudden curtailment of vital energy supplies.

Project Independence is designed:

(1) To conserve energy - to establish a new energy ethic that will greatly reduce our growing demand for energy;

(2) To increase production of all forms of energy in the United States; and

(3) To meet our energy needs at the lowest cost consistent with the protection of both national security and environment.

As we begin this Conference, we must not view Project Independence as a move toward autarchy but rather we must see it as part of a world-wide effort to bring greater balance to world energy supply and demand. Our current energy problems magnify the fact that we live in an interdependent world. We in the United States view Project Independence as a means for

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us to reduce our call on oil available to the international market. Moreover, it is our way to become exporters of energy by 1985. Seen in this way, this effort will be our contribution to the rest of the world. Let us now look carefully at Project Independence and relate this initiative to what we all can and must do together.

The first major thrust of U.S. energy policy is to eliminate waste and conserve energy resources. The United States is the largest energy consumer, using one-third of the world's energy. Our pattern of energy consumption has in part, resulted from the relatively low cost of energy in the past. As prices rise, normal market forces will result in a reduction in demand. The problem, however, is that we cannot wait for these forces to operate. We must force adoption of energy conservation and demand curtailment as an individual and collective ethic now. In turn, efficient energy utilization will become a national "way of life" and not simply a temporary expedient to be followed during this period of acute shortage.

Our objectives are to eliminate waste, husband our scarce resources, and extend the available supplies to insure that essential needs are fully met. In this way a "less is better" ethic can cushion the impact of energy shortfalls on the economy and yield an improved quality of life. This means less weight and horsepower in our automobiles; less speed on our highways; less heat and heat loss in our homes; less empty seats on our planes,

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trains, and buses; less waste in our industrial processes and powerplants; less throwaway containers. All of these will enhance rather than detract from our economic well being and living standard. With such a program, our goal is to cut our annual growth rate in energy consumption from the present 4 to 5 percent down to 2 or 3 percent by 1980. If we can do this, our estimates show that we could save as much as 7 million barrels of oil per day. Although much of the expected 7 million barrels per day saving can result from adherence with current conservation policies. There is considerable research we plan to do which is aimed at permanent reducing consumption of energy. For example, better insulation of houses, more efficient automobile engines, and more efficient power cycles can save energy without causing economic or social dislocation. Thus, our research program will concentrate on these areas.

The second major thrust of Project Independence is to stimulate the development and production of domestic energy resources and to develop alternative new energy sources. Specifically, our program will include the following:

-- Developing our coal reserves more effectively. We have 1 trillion, 500 billion tons of identifiable coal reserves, or half of the non-Communist world's reserves, 425 billion tons of which are economically recoverable now. We must develop ways to utilize this abundant resource. We must mount major research and development efforts in gasification and liquefaction of coal. Further, we must develop techniques for mining surface coal that do not destroy the landscape permanently. We must also develop ways to deep mine coal that protect the health and safety of miners.

-- We have talked for years about the production of oil from our oil shale. There are an estimated 1 trillion, 800 billion barrels of oil in the shale resources in the U.S., and just those reserves that we presently know are exploitable could satisfy our needs for oil for over one hundred years. We need an increased effort by both the Federal government and private industry to develop this potentially productive resource. I am especially encouraged by recent progress in the in situ processes for extracting shale oil. This process suggests that it may be possible to produce shale oil at much less than the current cost of Persian Gulf crude. In situ extraction should also have minimal impact on the environment and its development must be expedited.

-- We also have to push forward in the development and utilization of nuclear power. Currently, nuclear power provides only one percent of our energy needs after 30 years of development. It could easily provide 10 percent by 1985. We will take every step to expedite the licensing and construction of nuclear power plants, which are an essential part of our program for achieving energy self-sufficiency. We will also develop a broad nuclear program which looks toward liquid metal and other breeder reactors. In addition, top priority

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will continue to be given to assuring that nuclear powerplants are built and operated safely with acceptable environmental impact.

-- We have also talked for years about development of such relatively distant alternatives to fossil fuels as fusion, geothermal and solar energy. For the next decade these alternatives are still very much in the research and development stage of growth and they could not come into widespread use until after 1990. Nevertheless, although we will invest in the development of these alternatives, at the same time we must focus now on nearer term measures for expanding energy supplies.

With this overall approach in mind, let us examine in more detail now the specifics of Project Independence.

We have tried to visualize our policy in terms of what must be done in the relatively short range -- up to the mid-1980's; and what must be done in the long term beyond the 1980's. The strategies appropriate for dealing with the short range are in general not the same as those appropriate for the long range, and so I will discuss them separately.

<u>SHORT RANGE</u>

In the short range our efforts must be toward development of the existing state of the art and in addition to our conservation efforts, our underlying strategy will be:

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(1) To increase our domestic supply of gas and oil, including development of the Outer Continental Shelf, our resources in Alaska as well as our large gas reserves.

(2) To supplement this development of oil and gas with expanded use of alternative energy, mainly coal and nuclear power and oil shale.

Research can make some contribution toward implementing these short-range strategies, but the real rewards from research will come in the next decade. Our progress between now and 1980 will depend, for the most part, on our ability to implement existing technology rather than on the results of new research.

1. <u>Increase domestic supply of gas and oil.</u>

To increase our domestic supply of gas and oil involves both the application of existing technology and the creation of new technology. Application of existing technology would include such techniques as secondary and tertiary recovery from existing oil fields and greatly expanded exploration for new oil and gas reservoirs, particularly on the Outer Continental Shelf.

The undiscovered oil and gas on Federal lands and beneath our Outer Continental Shelf can provide a significant portion of the energy necessary to make us self-sufficient. The total U.S. offshore lands, including the Outer Continental Shelf, are estimated to contain 42 percent (160 billion barrels of oil equivalent) of the remaining discoverable oil and gas reserves in the United States.

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We are now increasing the acreage leased on the Outer Continental Shelf to 10 million acres beginning in 1975, more than ten-fold what had been planned two years ago. In later years, the amount of acreage to be leased will be based on market needs and on industry's record of performance in exploring and developing leases.

In addition to the Outer Continental Shelf program, we will move rapidly to exploit our resources in Alaska. The Alaskan pipeline, when completed, will result in more than two million barrels of oil a day by 1980. This is equal to one-third of current U.S. oil imports. As important, approval of the Alaskan pipeline will encourage additional development of Alaskan fields. Projections indicate that the North Slope has potential reserves of as much as 80 billion barrels. Thus, eventually, we could achieve an Alaska production of between five and six million barrels a day.

Further, it has long been clear that while an Alaskan oil pipeline was needed, it alone will not be enough. In addition to the huge oil reserves in the North Slope of Alaska, there are also gas reserves there of at least 26 trillion cubic feet -- enough to heat 10 million homes for 20 years. We are now working to determine the need for future Alaska oil and gas pipeline capacity including the best routes.

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2. Supplement oil and gas through development of coal and nuclear energy.

In addition to these increased efforts in the oil and gas areas, we will move to develop coal and nuclear energy as alternatives. We can identify two separate approaches - direct substitution and coal conversion.

a. Direct use of coal for oil and gas in industrial and utility applications. Substitution requires research since the main problem in burning coal is the environmental impact. We have a large program devoted to stack gas clean-up and there is every reason to expect this program will be successful, thus allowing us to substitute coal for a substantial amount of the oil and gas we now burn. Some have estimated that by 1985 we might save as much as 6 million barrels per day through through direct substitution - 2 million barrels per day through direct replacement of oil under utility boilers, 1 million barrels per day in residential and commercial space heating (primarily through heat pumps) and 3 million barrels per day in industrial processes.

b. Conversion of coal into liquids and gasses. Techniques for liquifying and gasifying coal are fairly well known. However, in general these methods are expensive and will require further development before they become commercially feasible. We are undertaking a crash program now and we estimate that we might be able to replace as much as 3 million barrels per day of oil with synthetic fuels made from coal.

We thus visualize coal emerging as a very central element in our energy picture by 1985. There are some estimates that suggest that by then we shall have to mine as much as 1500 or even 1800 million tons of coal per year. This represents a tripling of our coal production.

c. Expanding the use of nuclear energy requires research on nuclear safety, waste disposal, siting of nuclear reactors, and thorium systems, as well as providing additional separative work capacity. Siting is also an important element of our nuclear strategy since, in the absence of a rational siting policy for nuclear reactors, the nuclear option may be jeopardized.

LONG RANGE

All of these developments can take place in a relatively short-range time frame. Long-range our goal is to gradually transform the base of our energy system from the non-renewable fossil fuels to non-fossil fuels, mainly nuclear, geothermal, and solar.

To accomplish this, we have provided substantial funds for energy research and development. Last June the President announced a $10 billion Federal program over the next five years, but he stressed that we would spend whatever additional sums that could reasonably be spent to accomplish our task. Last month, the President announced that in fiscal year 1975--the first year of the five year energy R&D program--total Federal commitment

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direct energy research and development will be increased to $1.8 billion, almost double the level of a year ago.

Our research will retain as much flexibility as possible: In the coal area, the challenge is to learn how to transform our different types of coal through a variety of processes into acceptable gaseous and liquid fuels suitable as substitutes and replacements for dwindling supplies of petroleum and gas. Thus, low-BTU gas, which is probably marginal in the short-range looms with high priority in the long-range. And perfection of processes for coal hydrogenation leading to production of syncrude and syngas will be supported to the limit of scientific creativity.

Finally, nuclear energy holds the most importance for the long-range, primarily because it gives mankind an essentially inexhaustible energy source, one that is relatively independent of mineral resource costs. At the present time the breeder reactor is the only nuclear technology that can be counted upon today to achieve the nuclear promise. Thus, research and development on other breeder reactor concepts (light water breeder, gas cooled fast breeder, and molten salt breeder) will be supported and expanded to retain them as viable alternatives.

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THE NEED FOR A WORLD RESPONSE

All of this is however, really only a part of Project Independence - it is our part. What we need now is to transform a United States commitment into a world response. What can we do together? As major consuming countries, we share the common problem of being dependent upon oil imports and of being concerned about the impact of rising costs of such imports. If we join together, however, we can reduce our dependence upon one set of suppliers and stabilize the price that we pay for our oil.

Here is what we can do:

Development of New Energy Sources

1. The first thing that we should consider are ways in which, cooperatively, we can develop alternative energy supplies. I have already described to you what we, in the United States, are doing. We must commence discussing immediately on a program for cooperation in such fields as nuclear technology, coal extraction, liquification and gasification, production of oil from shale and tar sands, development of solar and geothermal energy, and other fields. This program should explore the potential for sharing information, patents, and technical information. We should use this Conference as the first step toward developing a program for doing this. Together, we can achieve more rapid development of alternative energy sources for each one of our countries. For instance:

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a. Nuclear Energy. We are rapidly reaching the stage where we could be mass producing floating nuclear power plants. Such power plants can be produced in quantity and floated to locations throughout the world to produce power rapidly. This is not a long-range concept, but something which could be initiated immediately. The technology, ideas, and production facilities of many nations can be combined in developing these plants. The technology of breeder reactors, for instance, appears to be more advanced in France and Britain since they are constructing prototype breeder reactor powered generating stations. Germany, Italy and Japan have undertaken ambitious reactor development programs. All would benefit from an exchange of information. Certainly all countries should have a vital interest in pooling technical information which concerns the safety and environmental impact of reactor operation.

b. In addition, we should work together to encourage development of these relatively untapped but enormous sources of hydrocarbons: U.S. oil shale and the tar sands of Canada and Venezuela. All together, these three sources alone provide an enormous potential for recoverable oil. It is possible that by pooling our technical resources we can produce new energy from these three relatively untapped sources beginning in 1980.

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c. Coal. Development of newer and better processes for coal conversion are in progress in a number of countries, especially in West Germany, England, and France. We all could benefit from this technology and we should explore how we can pool our thinking and technology in this area as well as participate in joint cooperative programs.

Conservation

In addition to these joint efforts to develop energy supplies, we must work together to curb the explosive growth of energy demand. Conservation efforts and sacrifices must be shared equitably by all of us. We must pledge ourselves to a new world conservation ethic -- to the adoption of parallel vigorous programs to conserve energy and promote its more efficient use. What I urge is that energy consumption in one country not simply be governed by the ability to obtain additional supplies, at the cost to other consumer countries. Rather, there must be a basic commitment to share internationally available supplies at a reasonable level of consumption for all.

World Energy Data Bank

Finally, energy policy can only be adequately formulated if sufficient accurate data is available to each country. We must develop a world energy data bank and information sharing arrangement to enable individual nations to set sound policy as we as full coordination of world energy policy. This would serve as a repository for public data now available, but scattered and serve as a focal point for efforts to coordinate our respective national energy policies and adhere to a new code of market conduct.

CONCLUSION

In closing, let us use this Conference as the touchstone for a future of increased cooperation. Let us work toward an open system in which all those capable of finding, developing and marketing energy resources can have an opportunity to do so. Nationalization without prompt adequate and effective compensation by producing nations or unconstrained bilateral deals between producing and consuming governments will be counterproductive to all. Such bilateral arrangements will result in divisive competition which will inevitably work to the detriment of each individual buyer as well as the entire world.

We are facing a dramatically changing situation in the world energy scene.

The present unstable situation is not in the long-term interest of current oil exporters, although the short-term flow of wealth and political power may make it hard for them to see the long-term disadvantages. The world is reacting to high prices by reducing demand and will develop alternate sources of energy which in turn will lead to lower prices in the world market. Moreover, the short-run actions

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of the oil exporters have made oil in the ground a relatively poor investment because its value will fall over the next decade. For example, using an 8 percent rate of return and a price of $10.00 per barrel in 1974, the price of a barrel of oil would have to rise to $21.59 by 1984 to produce the same rate of return. The present price levels present grave potential problems for all consuming nations. The oil producing nations cannot benefit from price levels which result in unemployment and inflation in Europe and Japan, and damage to the world economy as a whole. It is clearly in the best interests of the oil producers that the world economy maintain sound growth.

In the near term prices lower than those being charged at present would be in the economic interest of both producers and consumers, particularly if consumers had confidence in the stability of supply. High cost alternative sources would not then be encouraged to so great an extent, and producers could expect continued gradual increases in their national incomes as their economies developed the capacity to absorb increasing imports of capital and technology. Consumers now suffer from the effects of the sharp and sudden upswing in prices. Producers are likely to suffer at some later time from the downswing in prices caused by the market's strong reactions to present high prices.

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Ideally, what is needed is a diversity of consumers and producers operating in a cooperative international framework. Recently, we have seen some hopeful signs that oil producers are also interested in adjusting oil prices to assure a stable world economy. We should work cooperatively to see that this is done.

Together, we can prevent unemployment. Together, we can prevent a worldwide monetary crises. Together, we can maintain economic progress.

I believe there is reason for optimism. We have the capacity and resources to meet our energy needs, and the United States stands ready and willing to help build a structure of international cooperation with producers and consumers alike.

Thank you.

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Department of the TREASURY NEWS

ASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE February 26, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 7, 1974, in the amount of $4,320,325,000 as follows:

91-day bills (to maturity date) to be issued March 7, 1974, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated December 6, 1973, and to mature June 6, 1974 (CUSIP No. 912793 TQ9) originally issued in the amount of $1,800,735,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated March 7, 1974, and to mature September 5, 1974 (CUSIP No. 912793 UN4).

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, March 4, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own

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account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on **March 7, 1974** in cash or other immediately available funds or in a like face amount of Treasury bills maturing **March 7, 1974.** Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE February 26, 1974

TREASURY ISSUES DUMPING FINDING WITH RESPECT TO RACING PLATES (ALUMINUM HORSESHOES) FROM CANADA

The Treasury Department announced today that it has issued a dumping finding with respect to racing plates (aluminum horseshoes) from Canada. The finding will be published in the Federal Register of February 27, 1974.

Racing plates (aluminum horseshoes) are used on race horses, polo, jumping, hunting, and other performing horses as differentiated from pleasure and work horses.

On October 23, 1973, the Treasury Department determinted that racing plates from Canada were being sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

On January 31, 1974, the Tariff Commission advised the Secretary of the Treasury that an industry in the United States was being injured by reason of the importation of racing plates from Canada sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

After these two determinations, the finding of dumping automatically follows as the final administrative requirement in antidumping investigations.

During the period of January through October 1973, imports of racing plates from Canada were valued at approximately $99,000.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE 10:00 A.M.
WEDNESDAY, FEBRUARY 27, 1974

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
BEFORE
THE SENATE APPROPRIATIONS COMMITTEE
WEDNESDAY, FEBRUARY 27, 1974
AT 10:00 A.M.

Mr. Chairman and Members of this Committee, I am pleased to be with you this morning to discuss the budgetary outlook for the coming fiscal year.

The revenue estimates included in the budget are for total receipts of $270 billion in fiscal year 1974 and $295 billion in fiscal year 1975. Because of the difficulties of estimating revenues -- difficulties that are compounded this year by the uncertainties of the energy situation -- our receipts estimates are presented in round numbers. Indeed, these figures should be thought of as indicative of a range of estimates extending a minimum of one percent on either side.

Outlays, over which we have greater control, are projected at $274.7 billion in fiscal year 1974 and $304.4 billion in fiscal year 1975. The result is moderate budget deficits in both years -- $4.7 billion in 1974 and $9.4 billion in 1975.

Tables attached to this statement provide details of the receipts estimates in the budget. Receipts are expected to rise by about $38 billion, or 16 percent, in fiscal year 1974 and $25 billion, or 9 percent, in 1975. Economic expansion lies behind most of the rise in receipts, although recently-legislated changes in social security taxes are important and account for about $8-1/2 billion of receipts in 1974 and an additional $5-1/2 billion in 1975. The proposed windfall profits tax on crude oil would raise an estimated $1 billion net in fiscal 1974 and an additional $2 billion net (for a total of $3 billion) in fiscal 1975. Following the usual practice, these receipts from proposed legislation are included in the budget.

This budget, from the standpoint of fiscal policy, continues about the same posture as in the past two years. In present circumstances, with the economy experiencing some shortages and an unacceptable rate of inflation, on the one hand, and some slowing of economic growth on the other hand, this appears to be the prudent course for policy to take.

The economic forecast for this calendar year calls for a slowdown in the first half of the year followed by a fairly strong recovery in the second half. Given the present uncertainties, however, economic policy must be especially flexible and ready to adapt promptly to changing circumstances. We stand ready to cooperate with your Committee and with the Congress generally to achieve the fiscal flexibility that our economic situation may prove to require.

Our first line of defense, should the economy slow down more than expected, is our system of automatic economic stabilizers such as unemployment insurance. I want to stress the need for prompt Congressional action on our proposal in this area, both the underlying reform first sent to Congress by the President last spring and the new measures designed to deal with the special needs of some labor market areas. Beyond this, however, I believe we should be cautious in applying stimulative policy. Since it is generally easier to expand than to contract the budget, a shift to budget ease -- should it turn out to be premature -- would be very unfortunate at a time like the present, when inflationary pressures are so strong. Unless and until the economic outlook departs significantly from current expectations, I believe we should maintain the present budget stance.

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It is encouraging that the Congress is moving to develop its own mechanisms to coordinate individual spending decisions within the total budget framework. Your Committee has played an important role through the years in the search for better control over the Federal budget. The Administration supports the efforts of your Committee and others in the Congress to improve the budget process and to make it a more effective instrument of economic policy.

Attachments

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Budget Receipts

Under Legislation Proposed in Fiscal 1975 Budget Document

(Billions of Dollars)

	1973 actual	1974 estimate	1975 estimate
Individual income taxes	103.2	118.0	129.0
Corporation income taxes	36.2	43.0	48.0
Social insurance taxes and contributions:			
Employment taxes and contributions	54.9	67.7	75.3
Unemployment insurance	6.1	6.2	6.0
Contributions for other insurance and retirement	3.6	4.0	4.3
Excise taxes	16.3	17.1	17.4
Estate and gift taxes	4.9	5.4	6.0
Customs duties	3.2	3.5	3.8
Miscellaneous receipts	3.9	5.0	5.2
Unified budget receipts	232.2	270.0	295.0
Deduct:			
Trust fund receipts	92.2	105.5	115.8
Interfund transactions	-21.3	-21.1	-23.6
Federal Funds receipts	161.4	185.6	202.8

Underlying Economic Assumptions

	Calendar years 1972 actual	1973 estimate	1974 estimate
Gross national product	1155	1288	1390
Personal income	939	1035	1135
Corporate profits before tax	98	126	124

Office of the Secretary of the Treasury
Office of Tax Analysis

February 14, 1974

Projected Changes in Budget Receipts

Fiscal Years 1974 and 1975

($ billions)

	Fiscal 1974 from Fiscal 1973	Fiscal 1975 from Fiscal 1974
Revenue changes traceable to:		
Economic growth	+28.4	+19.8
Windfall profits tax	+1.0	+2.0
Tax reform and simplification	--	-1.9
Social security changes	+8.4	+5.5
Other changes	--	-0.4
Total	+37.8	+25.0

Office of the Secretary of the Treasury
Office of Tax Analysis

January 24, 1974

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE 6:30 P.M. February 26, 1974

RESULTS OF TREASURY'S 46-DAY TAX ANTICIPATION BILL AUCTION

Tenders for $1.5 billion of 46-day Treasury Tax Anticipation bills to be issued March 4, 1974, and to mature April 19, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

High -	99.106	Equivalent annual rate 6.997%	
Low -	99.027	Equivalent annual rate 7.615%	
Average -	99.048	Equivalent annual rate 7.450%	1/

Tenders at the low price were allotted 24%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 167,090,000	$140,090,000
New York	1,867,855,000	265,575,000
Philadelphia	76,210,000	26,210,000
Cleveland	91,280,000	64,930,000
Richmond	33,275,000	29,475,000
Atlanta	14,515,000	14,015,000
Chicago	441,480,000	231,580,000
St. Louis	36,690,000	28,690,000
Minneapolis	554,030,000	465,280,000
Kansas City	181,545,000	180,545,000
Dallas	26,805,000	26,805,000
San Francisco	266,950,000	26,950,000
TOTALS	$3,757,725,000	$1,500,145,000

1/ This is on a bank discount basis. The equivalent coupon issue yield is 7.63%.

2/ Includes $214,825,000 noncompetitive tenders accepted at the average price.

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January 31, 1974

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH

(Dollar amounts in millions – rounded and will not necessarily add to totals)

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5,003	4,999	4	.08
Series F and G-1941 thru 1952	29,521	29,500	20	.07
Series J and K-1952 thru 1957	3,754	3,747	6	.16
UNMATURED				
Series E 3/:				
1941	1,929	1,747	182	9.43
1942	8,515	7,696	819	9.62
1943	13,690	12,395	1,295	9.46
1944	15,980	14,393	1,587	9.93
1945	12,586	11,197	1,389	11.04
1946	5,744	4,960	784	13.65
1947	5,479	4,603	876	15.99
1948	5,683	4,698	985	17.33
1949	5,643	4,588	1,054	18.68
1950	4,955	3,977	978	19.74
1951	4,286	3,440	845	19.72
1952	4,493	3,583	910	20.25
1953	5,151	4,030	1,120	21.74
1954	5,256	4,055	1,201	22.85
1955	5,476	4,189	1,286	23.48
1956	5,294	4,019	1,275	24.08
1957	4,995	3,747	1,248	24.98
1958	4,891	3,577	1,315	26.89
1959	4,591	3,322	1,269	27.64
1960	4,621	3,255	1,366	29.56
1961	4,717	3,206	1,511	32.03
1962	4,594	3,042	1,552	33.78
1963	5,170	3,237	1,933	37.39
1964	5,038	3,159	1,880	37.32
1965	4,932	3,066	1,866	37.83
1966	5,338	3,171	2,167	40.60
1967	5,244	3,095	2,148	40.96
1968	4,975	2,888	2,087	41.95
1969	4,686	2,629	2,057	43.90
1970	4,910	2,462	2,448	49.86
1971	5,655	2,438	3,218	56.91
1972	6,234	2,207	4,028	64.61
1973	5,465	1,212	4,253	77.82
Unclassified	572	624	-52	-
Total Series E	196,789	143,908	52,881	26.87
Series H (1952 thru May, 1959) 3/	5,485	4,051	1,434	26.14
H (June, 1959 thru 1974)	9,444	3,263	6,181	65.45
Total Series H	14,929	7,314	7,615	51.01
Total Series E and H	211,718	151,222	60,496	28.57
All Series – Total matured	38,278	38,246	30	.08
All Series – Total unmatured	211,718	151,222	60,496	28.57
All Series – Grand Total	249,996	189,468	60,526	24.21

1/ Includes accrued discount.

2/ Current redemption value.

3/ At option of owner bonds may be held and will earn interest for additional periods after original maturity dates.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE ON DELIVERY (ESTIMATED AT 2:00 PM CDT)

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
37TH ANNUAL WORLD TRADE CONFERENCE
CHICAGO, ILLINOIS
~~THURSDA~~Y, FEBRUARY 27, 1974

INTERNATIONAL ECONOMIC OUTLOOK

Ladies and Gentlemen:

As much as I liked the idea of addressing this audience, I must admit to having some misgivings about the invitation. As I looked over the Conference agenda, I was struck by the expertise and erudition brought by others to the program. Then -- taking account of the enormity of the problems we face and the healthy skepticism in these environs about the competence of bureaucrats who have spent too much time in Washington -- it occurred to me I may have been invited more to listen than to speak.

At any rate, I want to stick today to some relatively simple points concerning the international economic scene --

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without pretending that solutions to the problems we face are equally simple. I don't want to be left in the position of the fellow who talked a blue streak to a friend when he suddenly stopped and said, "Well, I won't bore you with any more details. The fact is, I've already told you more than I know."

I don't have to remind you, who are on the front line in the international economic world, that we have been through a turbulent time the past several years.

Our chronic balance of payments problems were climaxed by our first trade deficits in this century. Under that pressure, we needed to seek more realistic currency alignments, and -- given the importance of the dollar in the scheme of things -- this brought to a head what was necessary anyway: a thoroughgoing "new look" at the international monetary system.

However necessary, the process of achieving a new exchange rate pattern was psychologically disturbing. Many were surprised when business, in a period of boom, adjusted to the present transitional regime of floating exchange rates with remarkable facility. But it is safe to say nearly everyone would be happier with more stability in exchange rates than in the past year!

Meanwhile, essential support for the liberal trading practices built up since World War II seemed to be eroding here and elsewhere -- so far as the United States was concerned, in part because of the competitive pressures related to an overvalued dollar prior to 1971. More recent events -- spotlighted by, but not confined to, the oil situation -- emphasize that the traditional concern about fair access to foreign markets needs to be accompanied by concern over access to foreign supplies. The combination of a worldwide economic boom with bad harvests and man-made supply bottlenecks has been reflected in world shortages of raw materials.

Just when we seemed to be moving through the worst of some of these problems -- with both financial markets and commodity markets settling down -- the Middle East fighting suddenly brought front and center an energy problem that had been brewing for several years. Problems associated with trade patterns, balance of payments trends, monetary and trade negotiations all suddenly took on new -- and not fully known -- dimensions.

Obviously, we are in a stage of rapid change, of transition. And one characteristic of rapid change is uncertainty. Some of the old moorings, for better or for worse, have been lost. In mid-stream on monetary negotiations -- in the preliminary phases of trade negotiations -- and still organizing means of dealing with the energy problem on an international level -- we have hard work to do before new moorings are firmly established.

The common strand in all these efforts is that they require for real success a common effort and a common approach among nations -- in other words, international cooperation.

Now, cooperation is one of those nice words in the international jargon. In my line of business, I must have heard hundreds of toasts -- including a few I have delivered myself -- to monetary cooperation in the past five years. As enlightened men, we are quick to see the prosperity and development of each nation interwoven with the well-being of the rest of the world.

But the first point I would make is that cooperation depends on much more than toasts, and on more than recognition of broad principles, however valid. Cooperation must

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be practiced, and it must be a two-way street. It requires a long view of the national interest, and sometimes poses hard questions in the short-run.

With considerable justice, it's easy for an American to have a complacent feeling about our contributions to cooperation. After all, didn't we do our part in reconstruction and aid after World War II? To take a current example, aren't we the ones that called an Energy Conference, and pushed it through despite some suspicion and concern? Certainly I know from the most intimate, personal experience that our monetary initiatives have been motivated by pure hearts and dispassionate judgment! I am sure our trade negotiators would claim no less -- we never look for more than a fair advantage!

But a moment ago I differentiated between the principle and the practice. And we need to recognize that the practice of cooperation requires continuing hard decisions. And those decisions in turn must rest on a broad stratum of public understanding and consensus.

For instance, the higher oil prices will pose large problems for all consuming nations, whatever their stage of economic development. But for a group of poor countries with large populations at subsistence levels and little or no borrowing capacity, the problems are particularly excruciating. Not only can higher costs for oil threaten bankruptcy, but there is an ominous chain leading to shortages of fertilizer, to short crops, and potential starvation. We and others have pointed out that producing-countries with enormous new revenues have a particular responsibility to deal with these new problems. Obviously, drawing these countries in a large way into the business of providing aid would, viewed in a world perspective, be an act of constructive cooperation.

At the same time, it is apparent to me full cooperation from producer countries in meeting the <u>added</u> burden on the poorest countries cannot substitute for our own efforts and those of other relatively rich industrial countries, which have been carried on over a long period of years. Yet, just a few days before the Energy Conference, while we were calling for world cooperation, the House of Representatives voted down a $1.5 billion U.S. contribution spread over three years to the World Bank's International

Development Association, which provides "soft loans" to the neediest nations for projects sorely needed by the poorest people in the world: projects like irrigation, education and public health. If that vote were to represent the last word of the Congress -- if we were to appear to turn our backs on those most in need -- the repercussions would be widespread.

It was the United States that fifteen years ago proposed the establishment of this soft-loan facility so that countries too poor to borrow on conventional terms would not be stymied in their desire for progress. In earlier years, our contribution amounted to 40% or more of the total subscriptions. Last Fall in Nairobi, after hard negotiation, we reached agreement with other donor countries that our portion of the next replenishment of funds would be reduced to one-third. That change fully recognizes the increased wealth and financial capacity of other donors. I should note, in that connection, that the United States still accounts for over 40% of the Gross National Product of industrialized countries.

We are in full agreement with the broad goals of IDA to attack directly the problem of absolute poverty among the poorest people in the world. It is generally agreed that the lending procedures and standards of IDA are well tested and effective. It is a mutual venture, in which one nation's contribution is dependent on another's. In our direct self-interest, we have an enormous stake in the stability and growth of developing countries that we must increasingly look to as a source of raw materials.

Are we to turn our backs and run? I am sensitive to our budget problems and our balance of payments problems. They are certainly important elements in Congressional concern -- as they concerned us in our negotiations with other countries. But I am convinced that the contribution involved -- we have the option of paying either $375 million a year for four years, or $500 million for three years -- is supportable in a $300 billion budget.

Can we expect others to work with us in a cooperative spirit on money, trade, and oil if we blithely shuck off our responsibilities in this area to a world order?

These are the reasons the House vote was so disturbing to us; and why it should not be permitted to stand, unchallenged. As we approach this matter again in the Senate and the House, we should recognize the issue for what it is: A test of our own willingness -- in our long-term self-interest -- to maintain in place a building block in world cooperation.

Other tests of our will to work with others will arise. For instance, as oil producers become richer -- as they hopefully face up to their own responsibilities for aid -- we must be willing to provide opportunities for them to assume a larger role and voice in our international financial institutions.

If we urge upon them the need to act as responsible suppliers of a crucial raw material, we must continue to recognize our responsibility as suppliers to the world of commodities at least as vital -- feed and food grains.

The fact is that we can take considerable pride in our performance as the world's breadbasket. It has not been cost-free -- the strain shows at the supermarket counter and the Chicago wheat pits. With normal weather, we should be through the worst of it in a matter of months as new bumper crops come in. Certainly, we need to think

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hard about the lessons of recent food shortages as we plan ahead, and enter into negotiations with our trading partners.

Precisely which negotiating approaches will be most successful is not immediately apparent, but about the principle underlying them there can be little doubt: those who produce must accept the responsibility of not arbitrarily closing markets to those dependent upon them even if it causes some short-term pain. For those who consume, hoarding foodstuffs when there is great need elsewhere, for example, is no more an acceptable principle of international commerce than is price gouging or unwarranted export control.

This situation respecting access to supply is not basically different from the traditional concern about access to markets. One can't expect to sell to another market without being willing to concede access to his own.

At a time of sudden change and turmoil -- with national leaders forced to deal with domestic repercussions on a daily basis -- there is always the danger that these underlying truths are forgotten -- that some will seek relief at the potential expense of their trading partners,

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and the progress of decades unravelled. This is the reason Secretary Shultz suggested, at the Energy Meeting, that the major countries add force to their expressed concern over "beggar-my-neighbor" policies by more specifically pledging that they would forego trade restrictive measures for balance of payments purposes during this period of uncertainty, and that we examine new international procedures, perhaps in the IMF, to help enforce this intent.

You are aware the financial repercussions of the oil situation pose formidable new problems of their own which will challenge our capacity to cooperate. In the circumstances, I believe we are fortunate that we can operate in the context of some flexibility of exchange rates. But floating rates are by themselves no panacea; without established codes of conduct, they are at least as subject to predatory practices as other systems.

So far, I see no evidence that floating rates have been used for that purpose. What everyone does see is huge new deficits in the current accounts of almost all countries, developed and developing alike. A handful of oil producers will, in contrast, have tens of billions to invest. In logic, those investments will flow back to the consuming countries, offsetting their current deficits. But no logic tells us to what country, when.

I want to emphasize two points in this connection. No purely financial arrangements can hope to deal with the problem of lack of energy supply or excessive prices. But given progress in these areas, I do believe that our financial institutions, private and public, are capable of evolving rapidly to the point they can handle very large new flows of international investment, channelling the funds relatively smoothly to the points of maximum need.

But that optimistic view rests upon another, to me absolutely crucial, assumption. In a world of accelerating inflation, international financial stability can only be a dream. More than that, inflation strikes at the entire fabric of cooperation internationally, even as it generates tensions at home.

For too long, many here and abroad have had the attitude inflation is something with which we can live. Others, however unhappily, are beginning to feel they must reconcile themselves to it.

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Well, I am not here to lecture you. I simply want to say I don't believe it.

Sooner or later, in a society like that of the United States, the strain and tensions associated with inflation of present dimensions will be intolerable economically, financially, and socially. The question is how and when it will be brought to an end.

I believe after mid-year, with new crops available, with adjustments in oil prices digested, with a tempering of the earlier boom in world economic conditions, we have a good chance to see the tide begin to turn. Responsible financial policies now can help set the stage.

No larger challenge lies before us than to seize that chance. We can make no larger contribution to the kind of world economic order toward which we are working.

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REMARKS BY THE HONORABLE JOHN M. PORGES
U.S. EXECUTIVE DIRECTOR OF THE
INTER-AMERICAN DEVELOPMENT BANK
AT THE PINNACLE CLUB, NEW YORK, NEW YORK,
BEFORE THE INTERCOM CLUB, WEDNESDAY, FEBRUARY 27, 1974

I am very pleased to be in New York with the Intercom Club in my capacity as the U.S. Executive Director of the Inter-American Development Bank at a time when recent meetings in Mexico have indicated a closer commonality of interest between the United States and Latin America.

While the commercial aspects of these relations are very important, we must also keep in mind the human element. Latin America needs help to develop its resources so that its people can enjoy a higher standard of living which many of us take for granted. As we look south at Latin America, we see a vast continent buffeted by the forces of political, economic and social change. These forces are not unique to Latin America, they are paralleled in all developing areas of the world.

In turn, the international economic order of the world has been in unusual ferment in the 1970's and the changes that have been and are being wrought in the international economic system will have profound implications not only for our own economy but also for our future relations with Latin America.

Clearly President Nixon's dramatic announcement of August 15, 1971 gave public acknowledgment to the new economic situation in the world. Implicit in his statement was the recognition that the United States, while remaining a big, powerful, and rich economy, no longer was the only country in this position. This announcement in turn pinpointed the urgent need to examine the existing monetary rules, trade rules and aid arrangements towards the end of adjusting these to the new realities of the 1970's. This process has been difficult and has required difficult adjustments in our domestic economy as well as in the international economy.

The agenda before the United States remains full. Nairobi was the scene of the International Monetary Fund's and World Bank's annual meeting, where the delegates continued to concentrate on the extremely important and delicate effort to construct a new and viable international monetary system.

The Nairobi meeting also considered the major concern of promoting the economic growth of the developing world, and I will return to this subject in greater detail in a few minutes.

These international meetings have a highly important domestic counterpart. New authorizing legislation is needed from the U.S. Congress to allow our negotiators to conduct meaningful trade talks in the years ahead. Clearly the funding of our bilateral and multilateral aid programs also require authorization and appropriation by the U.S. Congress. Major funding bills towards this end will be before the Congress this session.

These funding bills are designed to provide operating monies for the multilateral institutions working in the aid field, including the International Development Association (IDA), the International Bank for

Reconstruction and Development (commonly known as the World Bank), and the Inter-American Development Bank. The activities of these institutions -- on which little public attention has been focused -- are rather closely coordinated with our bilateral assistance program.

Secretary Shultz has recently made the following statement about these international financial institutions:

"The third part of our foreign economic policy, to which the President is deeply committed, concerns our relations with the developing countries. He feels strongly that the programs of the international financial institutions, which are of vital importance to those countries, are an integral part of a cooperative international economic system.

"To encourage and sustain this move towards global cooperation, it is essential that the United States maintain its fair share of these programs. Our active role ensures a beneficial effect on the world system in general, and, in particular, on developing countries, as well as for ourselves. These multilateral programs constitute part of a balanced development assistance program and are a complement to our bilateral programs. They represent shared responsibility and leadership."

I would like to emphasize the point the Secretary made regarding shared responsibility and shared leadership. In these multilateral development institutions we have been joining with other nations in providing the capital and expertise which will assist the economic development of the poorer nations of the world and better integrate these nations into the mainstream of the international economic system. Our financial contribution to these institutions is carefully determined and in these negotiations cognizance is given to the changing economic realities. For example, developed nations such as Japan and West Germany, which have experienced a more rapid economic growth than the United States over the past decade, are now carrying a heavier financial responsibility -- as they should. In turn, in percentage terms, the U.S. financial share of the total package contribution has been reduced.

In looking at the activities of the international financial institutions, there are certain facts that deserve greater public attention -- facts which indicate that there is more than do-goodism involved in our support of these institutions. These include:

1. The economic expansion of the countries of the developing world encourages growth in world export and import markets and this provides opportunities for U.S. suppliers. Opportunities for U.S. suppliers in turn create jobs for the American worker.

2. In these times of inflation, developing countries which are a prime source of raw materials and semimanufactured products, help augment supplies of a wide variety of products which are in short supply. In the years ahead, as the U.S. increasingly becomes a have-not nation in many essential minerals and metals, our need for these goods from the developing world will grow.

3. The international financial institutions promote participation by the private sector in the financing of development assistance through the sale of their bonds in the private capital markets. In turn, both domestic and foreign private investment in the less developed countries increases when the banks finance infrastructure and other important economic development projects.

4. The hard loan operations of the international financial institutions have had a major positive impact on the United States balance of payments. This positive contribution reflects procurement in the United States and investments in the United States pending loan disbursement. And even while the soft loan operations of the international financial institutions have had a moderately negative impact on the U.S. balance of payments, the overall balance of payments effect from total international financial institutions operations has been favorable to the U.S.

For example, in 1972 the positive balance of payments effect of the international financial institutions was approximately $400 million.

Procurement deserves special mention. While there have been continuing claims that U.S. producers are discriminated against or are not given suitable advantages, empirical evidence clearly indicates that on an overall basis, such claims are not justified. And I can assure you that the U.S. Government has established procedures whereby U.S. business is informed about procurement opportunities. Naturally my office seeks to point them out whenever possible. Perhaps heightened aggressiveness

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on the part of the private sector is needed to exploit such opportunities. With additional price advantages due to devaluation of the dollar, U.S. industry will be in a much more competitive position to bid on procurement.

Let me now make some observations about the institution to which I have been appointed by the President of the United States as the U.S. Executive Director. The Inter-American Development Bank will be 15 years old at the end of this year and throughout its short life it has played an important role in promoting the overall economic growth of Latin America. Up through December 31, 1973 the Bank's cumulative lending reached $6.3 billion, net of cancellations and exchange adjustments, distributed in 771 individual loans. The Bank's lending volume of $884 million in 1973 represented a broad advance in the Bank's objectives of achieving a lending level of approximately $1 billion yearly over the next five years, compared with the $600 million level which characterized its annual operations over the past three years. The Bank has become the largest lender to Latin America. The Bank has played an important part in the recent impressive performance of the Brazilian economy, in Colombia's recent substantial achievements, and in helping to lay the conditions for the present dynamism found in Caracas and Mexico City. In general terms it can be doubted whether the overall economic growth rate of Latin America would have reached 5.6 per cent in the decade of the 1960's without the efforts of the Bank and its sister institutions.

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The question has been asked and will continue to be asked -- where have all the monies gone, and what good have they done? The President of the Bank, Mr. Antonio Ortiz Mena, the distinguished Mexican statesman who served his country as Secretary of the Treasury for some 12 years before joining the Bank as its chief executive officer, answered this question in a recent speech. I would like to quote him:

"They have gone principally to make the agricultural and industrial sectors of our Latin American members viable in both economic and social efforts, with pure water and proper sanitation facilities, with decent housing and other urban and rural community facilities, and with improved educational facilities required in today's technological world. More specifically, improving and bringing into production 6.5 million acres of land, making 730,000 credits through Latin American development institutions to improve output and productivity on small and medium scale farms and ranches; building or expanding more than 4,000 industrial enterprises; constructing or improving 4,500 miles of main highways and building 17,000 miles of farm to market roads; modernization of 14 ports and grain elevator facilities; installation of 6.7 million kilowatts of electric power generating facilities; stringing 4,000 miles of transmission lines; building 330,000 housing units for low income families; and modernizing or expanding 560 learning centers composed of 95 universities and 465 technical institutes."

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Even if I weren't connected with the Bank, I would judge this a rather impressive list comprising the type of infrastructure and economic and social development projects needed to spur the long-term development of the countries of Latin America.

I had the opportunity to visit some of the Bank's projects in Bolivia, Brazil and Venezuela in August of last year. It was gratifying to see how much has been accomplished in providing potable water and sewage facilities in those countries, as well as seeing a peasant colonization project in Venezuela whose purpose is to give people a stake in their community and keep them from migrating to the cities.

Finally, let me turn from the past record and look briefly to the future. Canada became a full-fledged member of the Bank last year and we are now looking to the prompt accession of some fourteen non-regional members to the Bank, including Japan and the countries of Western Europe. Intensive negotiations have been underway for some time towards this end and we are hopeful of their success in the period ahead. This expansion of the Bank's membership to include non-regional "contributor" nations as members is an important forward-looking step.

Another major policy initiative that is being carried forward is that of increasingly giving preferential treatment in lending policy and technical assistance to the growth of its least developed member countries. In 1973, 49.9 per cent of the Bank's total lending and some 67.1 per cent of its

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concessional lending in soft loans went to the poorer countries of Latin America. This trend and emphasis will continue in the months and years ahead. This policy is consistent with U.S. policy and interest in encouraging the richer countries of Latin America, such as Mexico and Brazil, to provide increasing flows of economic aid and technical assistance to the poorer nations of Latin America.

The last point I wish to mention in this view of the future is the Bank's desire to act more and more as a catalyst in projects of broad economic impact in the region. Under this policy the Bank increasingly will continue to exercise leadership in attracting capital to finance projects of a magnitude that require much larger resources than those the Bank could provide. In turn, the Bank will continue to associate itself with other financial agencies and with bilateral aid agencies and private sources of capital in financing major projects.

Hopefully, as integration efforts in Latin America become increasingly vigorous, additional projects whose scope includes more than one country will become feasible and viable. This would give additional impetus to the Bank's lending program in support of projects designed to further the eventual economic integration of Latin America.

In the years ahead these activities of the Inter-American Development Bank will require the support of the business community, the academic community, civic leaders and our elected representatives. I do feel they are worthy of your continued support.

I thank you for your attention.

Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226

NEWS

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FOR IMMEDIATE RELEASE
March 1, 1974, E.D.T., A.M.

TREASURY'S OFFICE OF REVENUE SHARING ISSUES FIRST ANNUAL REPORT

A complete discussion of general revenue sharing in practice as well as in theory, is contained in the Office of Revenue Sharing's first Annual Report, issued today.

Transmitting the report to Congress, Secretary of the Treasury George P. Shultz explained that it contains the financial information required by law to be transmitted to the Congress by March 1, as well as "... a full description of the Treasury Department's administration of general revenue sharing."

General revenue sharing returns approximately $6 billion of federally-collected income tax receipts each year to states and local governments. All general-purpose units of government in the United States, almost 39,000 of them, are eligible to receive this form of federal financial assistance.

Until general revenue sharing was signed into law by President Nixon on October 20, 1972, federal financial aid was granted only to governments that were successful in the grantsmanship game. And yet, as the Annual Report points out:

> Eight out of ten of almost 39,000 general purpose units of government in the United States are places with populations of 2,500 or less. Virtually none of these could cope with complicated applications for federal categorical assistance. Yet these small governments must provide their citizens the same vital public services upon which we all depend.

Now all states and local general-purpose governments that wish to receive federal assistance get regularly-scheduled payments of shared revenues. The money is to be used to meet needs established by the communities themselves. Fewer than 100 small, local governments have declined to participate in the program.

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A cornerstone of the President's New Federalism, general revenue sharing is strengthening the decision-making process and use of authority at state and local levels of government.

The Office of Revenue Sharing's first Annual Report includes tabular information on:

- Cumulative disbursements of general revenue sharing funds to January 18, 1974
- The numbers of each type of government in the United States, by state
- Analysis of changes in the fund balance of the State and Local Fiscal Assistance Trust Fund for the year ended June 30, 1973
- Analysis of changes in the fund balance of the State and Local Fiscal Assistance Trust Fund from July 1, 1973 to January 18, 1974
- Actual Uses of all general revenue sharing funds expended through June 30, 1973, by category of expenditure

Detailed explanations of the procedure used to allocate shared revenues, procedures for collection and improvement of data used in the allocation process, and the administration of the program are included, along with a brief chronology of the implementation of the general revenue sharing law.

Secretary Shultz established the Office of Revenue Sharing shortly after the State and Local Fiscal Assistance Act was signed into law - in the fall of 1972. Graham W. Watt, former city manager, and Deputy Mayor of the District of Columbia, was named Director of the Office of Revenue Sharing on February 1, 1973.

The State and Local Fiscal Assistance Act of 1972 (P.L. 92-512), Title I of which authorized general revenue sharing, requires the Secretary of the Treasury to report to Congress annually by March 1 on the "... operation and status of the Trust Fund during the preceding fiscal year."

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FOR IMMEDIATE RELEASE
March 1, 1974, A.M.

FIRST REPORT ON ACTUAL USES OF GENERAL REVENUE SHARING FUNDS RELEASED TODAY

How 32,665 state and local governments spent their general revenue sharing funds through June 30, 1973 is the subject of a report released today by the Treasury Department's Office of Revenue Sharing.

In addition to its analysis of $2.8 billion of expended funds, the study compares recipient governments' reports on plans for uses of money distributed for the first six months of calendar year 1973 and for federal fiscal year 1974.

The major findings of the study are:

- As of June 30, 1973, most revenue sharing money had been spent for education (24%), public safety (23%), and public transportation (15%).

- State governments alone spent $664.3 million (65%) of their money on education.

- Cities spent 44% ($434 million) of their money in the field of public safety. Next in order of priority for cities' expenditures were public transportation (15% - $148.7 million) and environmental protection and conservation (13% - $126 million).

- Counties have spent $161.5 million, 25% of their shared revenues, to improve public transportation. The next greatest need for counties' support was public safety ($149.6 million - 23%).

- Indian tribes and Alaskan native villages spent the greatest proportion of their money for health programs.

- Recipient units of state and local government spent even more to operate and maintain programs than they had planned. Overall, 68% of the funds have been spent to pay current expenses of public services. State governments put 94% of their money into this type of expenditure.

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- The larger a jurisdiction's population, the more money its government tended to use to meet current expenses rather than to fund capital projects. Cities with populations greater than 250,000, for example, expended more than twice the proportion of their revenue sharing funds (79%) for operating and maintenance purposes than did cities with populations under 25,000 (33%). This trend is particularly apparent in the Northeastern states of the United States.

- General revenue sharing is helping to relieve pressures on state and local taxes. The proportion of governments reporting favorable impacts on their tax programs increased as the proportion of funds spent increased. Almost half (44.5%) of the respondent units of government stated that revenue sharing money enabled them to reduce tax rates, prevent or reduce the amount of an increase in tax rates, or prevent enactment of a major tax.

- One third of the responding units of government reported that general revenue sharing money helped them to avoid or lessen a debt increase.

- Larger units of government were more likely to concentrate their expenditure in fewer categories of activity. Expenditures by smaller units were more evenly distributed in the aggregate.

Actual uses were reported by states and local governments for funds they had received covering the period January 1,1972, through June 30, 1973. Of the $6.6 billion allocated for that period of time, slightly less than half (42.5%) actually had been spent at the time the reports were made.

"Actual uses of the remaining money will be reported next year. State and local governments will report their use of revenue sharing funds again in July(1974), and the summary and analysis of these reports will be published next winter" Graham W. Watt, Director of the Office of Revenue Sharing said in releasing the new report. "Governments have two years in which to spend this money," he added.

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According to the State and Local Fiscal Assistance Act of 1972 which established general revenue sharing, a state government may spend the money for any activities that are legal uses of its own funds. A local unit of government may use the money for any capital purpose or to meet operating and maintenance costs in any one or more of eight broad "priority expenditure" categories: public safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor or aged, and financial administration.

No revenue sharing money may be used to match other federal funds; nor may any of the money be used for a discriminatory activity. The Davis-Bacon Act relating to labor wage standards applies where 25% or more of shared revenues is used to finance a capital construction project costing over $2,000.00.

The State and Local Fiscal Assistance Act of 1972 requires that Secretary of the Treasury, George P. Shultz, obtain from each state and local government a periodic report on how it has used the shared revenues it has received. This information is collected on Actual Use Report forms provided by the Office of Revenue Sharing for that purpose.

Periodic reports on plans for uses of the money are also required by law. These are provided by recipient units of government on Planned Use Report forms distributed by the Office of Revenue Sharing in advance of each period for which funds are allocated. Reports on planned uses of funds to be distributed in fiscal year 1975 will be requested of states and local governments on forms to be distributed next month.

Since President Nixon signed the State and Local Fiscal Assistance Act on October 20, 1972, approximately $11.2 billion in shared revenues have been distributed to more than 38,000 states, counties, cities, towns, townships, Indian tribes and Alaskan native villages. The program is presently authorized for a five year period: from January 1972 through December 1976.

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MEMORANDUM FOR THE PRESS Feb. 28, 1974

Earlier today, President Nixon announced with ~~the~~ regret the resignation of William B. Dale as U.S. Executive Director of the International Monetary Fund.

The IMF has announced that Mr. Dale will become Deputy Managing Director of the Fund, effective tomorrow, March 1.

Attached is a letter Secretary of the Treasury Shultz sent to Mr. Dale, congratulating him on his service to the nation.

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FEB 20 1974

Dear Bill:

I have sent your letter of resignation along to the President. In doing so, I cannot fail to respond more personally.

In the quietest of times, the opportunity seldom arises for an individual to serve officially and simultaneously both his own Government and the international community over a long period. The mere fact that one could do it effectively for more than eleven years -- with all that implies for retaining the confidence of successive national Administrations and of your international colleagues -- would speak eloquently for itself.

But in your case, the challenge was all the greater. In these last years, you saw and acted upon the need to fight for a basic reform of the very institution and monetary system that had been your professional career. And, in the midst of a process that has inevitably been contentious at times, you have been asked, by general acclaim, to help lead the IMF itself!

All that I can add to the tribute implicit in that sequence is to wish you all success in the new position. I am conscious that, after March 1, we won't be able to claim you officially as one of our own. But we also know that your experience and knowledge, your diplomacy and your spirit will still be at work on the problems of the international monetary

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system. Saying that is the equivalent of saying you will still be deeply involved with us and our problems -- and I look forward to that prospect with confidence and pleasure.

Sincerely,

(Signed) George

The Honorable
William B. Dale
U. S. Executive Director
International Monetary Fund
Washington, D. C.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE February 28, 1974

TREASURY'S 52-WEEK BILL OFFERING

The Treasury Department, by this public notice, invites tenders for $1,800,000,000, or thereabouts, of 364-day Treasury bills for cash and in exchange for Treasury bills maturing March 12, 1974, in the amount of $1,790,265,000. The bills of this series will be dated March 12, 1974, and will mature March 11, 1975 (CUSIP No. 912793 VH6).

The bills will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Wednesday, March 6, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

(OVER)

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 12, 1974 , in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 12, 1974 . Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.