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CONGRESS OF THE UNITED STATES

HOUSE OF REPRESENTATIVES

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
SUBCOMMITTEE ON ENERGY AND POWER
WASHINGTON, D.C. 20515

August 19, 1975

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The Honorable Harley O. Staggers
U.S. House of Representatives
Washington, D.C. 20515

Dear Harley:

I have today asked that all concerned Americans join me in supporting a vigorous effort to prevent the sudden, catastrophic decontrol of domestic old oil prices by opposing the anticipated veto of S. 1849, the six-month extension of the Emergency Petroleum Allocation Act.

I thought you might be interested in the statement I issued on the subject, which contains a brief summary of several studies that have been undertaken on the economic impacts of sudden decontrol.

With every good wish.

Sincerely,

John D. Dingell
Chairman

JDD:ch
Enclosure

PRESS CONFERENCE

CONGRESSMAN JOHN D. DINGELL, D-MICHIGAN,
CHAIRMAN, ENERGY AND POWER SUBCOMMITTEE
HOUSE INTERSTATE AND FOREIGN COMMERCE
COMMITTEE

AUGUST 20, 1975
WEDNESDAY, 10:30 A.M.
2322 RAYBURN BUILDING
WASHINGTON, D.C.

ON THE SUBJECT OF: The President's Announcement To Veto S. 1849, To Extend The Emergency Petroleum Allocation Act of 1973 And The Disastrous Effects Expiration Of The Act Would Have On The Economy.

LADIES AND GENTLEMEN OF THE PRESS: I am asking Americans to join with me and other Members of Congress in making a vigorous effort to prevent sudden decontrol of domestic old oil prices and to continue petroleum allocation regulations. This appeal must reach all Americans---all energy consumers---so they can insist that their Senators and Congressmen vote to override the veto promised by President Ford on the bill, S. 1849, which would extend needed price controls and allocation.

I anticipated the President's announcement that he would veto the extension of the Emergency Petroleum Allocation Act, the law which contains price controls and allocation regulations for six months beyond its expiration date of August 31, a few days hence.

I regret the President has decided to veto that bill. He and his energy advisors are wrong. The Act must be extended for several reasons.

It is the last major protection for American energy consumers against precipitous price increases for petroleum products in the United States and is the only assurance this Nation has for equitable distribution of petroleum products.

The President is well aware that a major oil policy and energy conservation measure, H.R. 7014, is nearing final action in the House of Representatives and there are other important energy measures under consideration by the Congress.

The Congressional record on energy legislation is good. Twice the Congress has properly disposed of poorly framed, Administration-sponsored oil price decontrol plans.

Only the 39-month plan was close to being right. We have twice saved Americans from a fate worse than bankruptcy.

I have mentioned H.R. 7014, which will go a long way toward helping this Nation meet its energy commitments. It is nearing completion, as is H.R. 6860, the Ways and Means bill, regarding energy taxation methods to stimulate conservation and oil production. The Congress is in conference on the important Elk Hills legislation to open two Naval reserves for commercial production and to allow exploration in yet another. This includes provisions relating to financing strategic energy reserves.

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Research into new energy resources for the U.S. is provided for with the $5.8 billion energy research and development program, $1 billion of this for fiscal year 1976.

Also on the current Congressional schedule are Outer Continental Shelf development and coal leasing legislation.

Many of these vital energy measures are omnibus in nature. They can't be written overnight. Congress has the duty to build into each safeguards for the consumers and to provide assurance that these programs will indeed produce needed energy supplies and reserves.

The progress Congress has made on energy legislation---very technical and complex legislation---compels me to condemn the entire Administration for their obvious lack of information as to the breadth of energy policy and conservation legislation that Congress has enacted and other measures under Congressional consideration.

I believe the American public sees through hogwash emanating from the Administration with its statements to the effect that Congress has done nothing to produce energy policy measures. The public is not being hoodwinked by that political poppycock, nor is it buying the Administration line that sudden decontrol of domestic old oil will result in only minor or insignificant adverse effects on our damaged economy.

Americans do not want energy legislation written without careful and prudent consideration. The Congress is now writing major energy legislation that will have most significant effects on American business and the consumer, effects that will be lasting. Great care, consideration, balance, fairness, and time are essential elements of any comprehensive energy policy to be proposed or adopted within the Congress.

I stress the urgent need for Congress to override the veto. While the public is becoming aware of the impact on the economy if sudden decontrol of old oil prices occurs, the President, the Federal Energy Administration, and White House spokesmen have not addressed other equally serious impacts on the economy from the expiration of the allocation programs contained in the Emergency Petroleum Allocation Act.

Sudden decontrol is an unmitigated disaster, but the sudden end of the allocation program also is an unmitigated disaster that would occur if the Act expires. Congress, I repeat, must override.

The Administration has said nothing on this most important point, the expiration of the vital allocation and distribution program.

I will be apprising the Administration of this in hearings to be held shortly. I will be directing the following questions to Frank Zarb of FEA, regarding the expiration of allocation programs under the Act.

Totally unexplained at this time are the consequences of sudden termination of the allocation features of the law to all parts of the American economy and all of our public.

For example, what will happen to American industry, to rural Americans, and to agriculture with the termination of allocation of propane, butane and natural gas liquids?

What will happen to the hundreds of thousands of supply relationships involving delivery of petroleum products to oil jobbers, wholesalers and retailers in all parts of the country?

What will happen to rents, prices and provisions for adequate supply of petroleum products to retailers, jobbers, commission agents, and others in wholesale and retail petroleum sales?

What will happen to the independent refiners and marketers when the allocation act expires? Where will they get their supply of crude and product? What mechanism will equalize their prices?

What will happen to electric utilities using residual petroleum fuel and other petroleum products to generate electricity? Where will they get their supply; from whom; and at which price?

What mechanism will equalize prices to different parts of the country?

What will happen to the hospitals, orphanages, nursing homes, and schools whose supplies of petroleum products may be cut off without notice?

What will happen to state and municipal governments? What will befall oil allocation for public safety. What will happen with regard to supply for fire, police and medical emergency units?

Are the rumored withdrawals of the major oil companies from certain areas of the country to be realized? If so, what can be done to protect consumers, small businessmen and householders from the consequences of this kind of event, not the least of which are serious anti-competitive effects under the antitrust laws?

What will the consequences be to the public transportation and shipping industry; to airlines, mass transit, buses, and trucks?

What assurances do we have that these industries will get needed supplies and at what price?

Unless the Administration can present adequate answers to these questions, issues which the Administration is apparently ignoring, we can anticipate catastrophic impacts to a still-staggering American economy---unmitigated disaster---as I termed it a moment ago.

The President is acting in a totally irresponsible fashion on the oil price and fuel allocation confrontation.

I understand that the President is telling Senators and Congressmen from agricultural states that he will produce a "special" propane and butane allocation program just for that industry after the allocation program expires. He is telling them a "special" allocation program will begin if they vote to sustain his veto of the Emergency Petroleum Allocation Act. There will be no "special" program. Congress will not allow it. Congress will not allow one industry to be so favored over others.

The President also says if Congress sustains his veto of the extension of the Emergency Petroleum Allocation Act, he will remove the previously imposed $2 tariff on imported crude oil. Big deal. No bargain here for energy consumers. The courts have already held that tariff to be illegal and beyond the President's powers.

If the $2 tariff were to come off on imported crude, the Organization of Petroleum Exporting Countries will put it, or most of it, right back in increased prices. The major U.S. oil companies will wash their hands and say, "Sorry folks, because of OPEC's action, we've got to raise all of our oil prices!"

I find it preposterous that the Ford Administration requested the major oil companies not to raise their prices as the result of sudden decontrol. That's just like the Mayor of Amity in the movie "Jaws" announcing that the great white shark would not bite swimmers.

While the 39-month gradual decontrol plan that the President proposed late in July was close to the mark, it still did not include the very necessary windfall profits taxes on major oil companies, nor did it include a rebate system for consumers.

And now, contrary to what Administration spokesmen would like the American people and Congress to believe, there is no ready "cushion" in the Ford sudden decontrol plan now to soften its severe economic impact upon our staggering economy.

Where is the Ford windfall profits tax? He called for one earlier this year, yet his monetary and tax experts in the Administration never produced a package or even guidelines for such a package. Also, there is no indication of serious intent by the Ford Administration to produce a new tax rebate system for consumers. This is supposed to be, we are told, part of his decontrol plan to soften the impact on the economy.

While I strongly feel such steps are necessary, Congress is entitled to ask: Where is the Administration's windfall profits tax and rebate plan?

The steps taken by the President and his energy advisors serve only to comfort the close-knit major oil companies and the OPEC cartel in this decontrol action---not the American consumers upon whom grossly burdensome costs will fall.

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So, if Congress doesn't override the veto, the oil companies will get excessive profits and we will have no guarantee that big oil will plow back its profits into domestic exploration or development of petroleum for the benefit of the American people.

The veto by the President of the extension bill has to be rejected. Congress has to override. Congress must stop the Ford Administration from contributing so greatly to the economic recession, inflation, and to the profitability of the major oil companies.

Just Monday of this week, the FEA again tried to dupe the American people by saying that Ford's sudden decontrol plan would be an increase of, and I quote, "no more than three (3) cents", end quote, on gasoline.

To expose the truth, decontrol will raise the price of gasoline and other refined products by twice this amount, about 6¢ a gallon -- not 3¢. The fact that product prices may only rise 3¢ a gallon is a function of a 3¢ offset resulting from the Court's decision that the Administration's imposed tariffs were illegal. These are separate actions and the Administration can claim no credit for the Court's decision.

Now, as in the President's first proposal, immediate decontrol will cost the U.S. consumer 6¢ a gallon for the fuel he burns and roughly twice that much again in food, clothing and other products he buys to sustain his family.

Now, I foresee several other disasters which could fall on major sectors and indicators of the economy if sudden decontrol of domestic old oil prices occurs:

Should sudden decontrol occur on September 1, 1975, some negative economic effects will be visible almost immediately. The greatest impacts will have worked their way into the economy by the third or fourth quarter of 1976, substantially retarding economic recovery. But we will still be feeling the effects of the energy price shock in late 1977.

Sudden decontrol will cause the 5.4 million barrels per day currently produced as old oil to rise in price from $5.25 to $13.00. With a $2.00 tariff in place, the landed cost of imported crude is $14.00. Domestic uncontrolled prices are rising toward the import price, and are now as high as $13.00 a barrel. On an annual basis, the U.S. will therefore be paying an additional (5.4 million x 365 x $13.00 - $5.25) $15.3 billion for its crude oil. Our current total expenditure on crude oil (including imports) is about $46 billion per year, so decontrol will cause a sudden 30% increase (15.3/46) in refiner acquisition costs.

The cost of decontrol would be mitigated somewhat if the $2.00 import tariff is removed. Old oil would rise only to about $11.50 a barrel. (The $2.00 tariff has caused about a $1.50 increase in uncontrolled prices, removing the tariff will reduce uncontrolled prices from $13.00 a barrel to $11.50). Crude oil costs would therefore rise by 5.4 million x 365 x ($11.50-$5.25) or $12.3 billion per year. This represents a (12.3/46) or 26% increase in refiner acquisition costs with decontrol after removal of import tariffs.

Studies on the effects of sudden decontrol have been performed by the Congressional Budget Office, House Budget Committee, Senate Budget Committee, Joint Economic Committee and our own Subcommittee and, independently, by Data Resources, Inc., Wharton and Chase Econometrics. These studies yield a range of estimates as to the degree to which our overall economy will be affected. They all point consistently, however, toward severe setbacks in 1976. I have reviewed the above studies and offer this brief summary:

1. Consumer prices will be between 1% and 2% higher than they would be without decontrol;

2. GNP (in '58 dollars) will be 2% to 3% lower;

3. Unemployment will be .4% to .8% worse. This means between 400,000 and 800,000 additional unemployed;

4. Housing starts will be down by 100,000 to 150,000, or as much as 10¢; and

5. Auto sales will also be off by about 10%, a loss of about 1,000,000 on an annual basis.

This synopsis of these factual details of the effects of Ford's sudden decontrol plan, by his veto of the extension act, are the product of a thorough study conducted and completed by the staff of the Energy and Power Subcommittee, of the Interstate and Foreign Commerce Committee.

Where else in our lethargic U.S. economy would disaster occur? I have already talked of the economic problems in the recession if sudden decontrol happens. The inflationary aspects are self-explanatory.

1. Sudden decontrol would severely damage the petroleum industry at the marketing and refining end;

2. Sudden decontrol would destroy many of the independent refiners. There would be little or no product for independent marketers;

3. Sudden decontrol means higher and higher prices for transportation and for innumerable petroleum-based products: fertilizer, plastics, paints, tires, textiles, clothes, containers, insulating materials and electrical insulation. The list is virtually infinite.

4. Sudden decontrol means a loss of opportunity for economic growth at a time when economic growth is urgently needed to abate the worst recession in our history since World War II; and

5. Consumers will first feel the effects of sudden decontrol in higher prices for gasoline. Gasoline will go up six or seven cents a gallon at the retail pumps, according to the Administration's analysis of sudden decontrol. That represents a 14% increase in all petroleum costs. I want to stress that is 14% of <u>all</u> petroleum product costs.

This means that gasoline at the pumps will come close to 75¢ per gallon now, and may cost Americans 90¢ a gallon by the end of this year. That is what I expect from increases by the American oil companies, which will probably be hidden in OPEC raises on imported crude by as much as $1.50 to $2 per barrel in October.

If we lose control over domestic energy prices, as we would do if this basic legislation is allowed to expire, we will simply abdicate our abilities to direct our own future.

There is not in existence, and has not been for almost two years, that goal of the conservative economist: a free energy market. Energy prices are controlled today by the United States government; with decontrol they will be controlled by OPEC. To give up the energy field to a foreign cartel is to allow these matters -- matters of urgent national economic and social policy -- to be dictated by the oil companies and the Arab nations. I simply cannot accept this course of action, and I do not believe that the people of this country will do so either.

Our only recourse is to block sudden decontrol, override the veto, and to go on to forge a rational energy policy for the Nation. Let us get on with the job.

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ATTACHMENT A

IMPACTS

Action

1. Removal of Tariff - (Court of Appeals)

-$2.00 x 60% (uncontrolled) = $1.20/Bbl

Price Drop of $1.20/Bbl ÷ 42 gal/Bbl = -2.857¢/gal

2. Decontrol - (Administration)

$11.50 - $5.25 = +$6.25/Bbl price increase

$6.25 x 40% (controlled) = $2.50/Bbl price increase

$2.50/Bbl ÷ 42 gal/Bbl = +5.952¢/gal

Net of Tariff Removal & Decontrol

Decontrol Price	+6¢/gal
Tariff Removal Price	-3¢/gal
Net Impact	+3¢/gal

ATTACHMENT B

Economic Impacts of Decontrol and Subsequent OPEC Price Increases

Projected changes in annual rates as of:

	'75:4	'76:2	'76:4	'77:2	'77:4
Real GNP (billions of $ '58)					
Sudden Decontrol, no Tariff	-2.4	-11.5	-14.8	-16.0	-15.9
$2.50/Bbl OPEC Increase	-4.1	-22.4	-28.0	-26.0	-24.8
Number of Unemployed (,000's)					
Sudden Decontrol, no Tariff	+20	+210	+340	+320	+260
$2.50/Bbl OPEC Increase	+30	+380	+640	+610	+490
Consumer Price Index (%)					
Sudden Decontrol, no Tariff	+0.7	+1.5	+1.8	+1.9	+2.2
$2.50/Bbl OPEC Increase	+1.0	+2.3	+2.7	+2.9	+3.1
Wholesale Price Index (%)					
Sudden Decontrol, no Tariff	+3.2	+6.4	+6.8	+7.4	+7.5
$2.50/Bbl OPEC Increase	+4.0	+8.4	+9.0	+9.4	+9.9
Housing Starts (,000's units)					
Sudden Decontrol, no Tariff	-70	-180	-220	-220	-250
$2.50/Bbl OPEC Increase	-90	-280	-280	-260	-280
Automobile Sales (,000's units)					
Sudden Decontrol, no Tariff	-280	-550	-540	-350	-240
$2.50/Bbl OPEC Increase	-360	-1,000	-950	-610	-380

These figures were derived from simulations performed on the Chase Econometrics quarterly forecasting model. The base case assumes continued controls and removal of the $2.00 import tariff. "Sudden Decontrol, no Tariff" incorporates the effect of old oil rising to $11.50 per barrel and resultant moderate price increases in coal and natural gas. "$2.50/Bbl OPEC Increase" corresponds to a $2.50 per barrel increase in crude oil price subsequent to decontrol and the removal of tariffs. Both scenarios are relative to the base case.

ATTACHMENT C

EFFECTS OF SUDDEN DECONTROL ON SPECIFIC INDUSTRIES

Projected percentage changes in before tax profits as of:

	1976	1977
ALL INDUSTRIES	+2.2	+2.8
Agric, Forestry and Fisheries	-2.5	-1.0
Mining (includes crude oil production)	+60	+23
DURABLE GOODS, all	-3.7	-1.7
Primary metals	-13.3	-3.9
Electrical machinery	-2.3	-3.4
Nonelectrical machinery	-4.7	-2.3
Motor vehicles	-2.2	-1.8
Nonauto trans equip. & misc. mfg.	-8.7	-8.0
Stone, clay, glass	0	0
Fabricated metal products	-4.5	-3.6
Lumber	0	0
Furniture	0	-8.3
Instruments	-3.8	-2.9
NONDURABLE GOODS, all	-2.4	-1.2
Food & Beverage	0	- .8
Textiles	-25	-6.7
Paper	-6.7	0
Chemicals	-1.5	-1.1
Rubber	0	-2.6
Tobacco	-2.5	0
Apparel	0	-4.4
Leather	0	-14.2
Printing and Publishing	-3.1	-2.3
TRANSPORTATION	-5.5	-1.8
UTILITIES	-1.0	0
COMMUNICATIONS	-2.0	-5.1
COMMERCIAL AND OTHER	-7.3	-0.4