

**7/3/79**

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THE WHITE HOUSE  
WASHINGTON  
03 Jul 79

Frank Moore

The attached was returned in  
the President's outbox today  
and is forwarded to you for  
appropriate handling.

Rick Hutcheson

The Vice President  
Hamilton Jordan  
Stu Eizenstat  
Jack Watson

ADMINISTRATIVELY  
CONFIDENTIAL.

THE WHITE HOUSE  
WASHINGTON

Frank  
J

June 30, 1979

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE

SUBJECT: Weekly Legislative Report

I. DOMESTIC POLICY ISSUES

1. Energy

Windfall Profits Tax

Thursday the House passed the windfall profits tax by voice vote after (1) adopting the Committee amendments 230-185; (2) adopting the Moore-Jones substitute 241-172; (3) rejecting the Shannon-Gephardt Amendment 186-229; and (4) rejecting a motion to recommit the bill.

The Jones Amendment reduces the tax rate from 70 to 60 percent; taxes marginal wells at the upper, rather than lower tier; taxes incremental tertiary wells as newly discovered oil; and terminates the tax for newly discovered oil and incremental tertiary in 1990. While the amendments weakened the Committee bill, it raises more revenue than the Administration bill (through 1984) and, according to its authors, gets more production response from newly discovered oil.

Moorhead Bill, Jackson-Johnston

After accepting the Wright amendment increasing the goals to 2,000,000 barrels per day the House passed the Moorhead bill by a vote of 363-25. An attempt was made to get Congressional passage before the recess by attaching the Moorhead Bill to the Senate-passed Defense Production Act amendments. However, the Senate refused to appoint conferees and referred the Moorhead Bill to Jackson's Committee.

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Jackson will take the Moorhead bill under advisement until the Senate can deal with the Jackson-Johnston proposal. He does not want Moorhead or the House stealing his initiative on energy.

Obviously this will have the effect of slowing down both bills considerably. The House is likely to take its time with the Jackson-Johnston proposal in retaliation.

*This may be good -*

This does give the Administration more time to present its Energy Security Fund program. However, time is still of the essence.

## 2. Anti-Inflation Congressional Working Group

The first meeting of the inflation working group was a success. All Senators and House members showed up, except for Muskie who was out of town. This first meeting was devoted to establishing a schedule and agenda for future meetings and updating the Congressional members of the group about where we stand now.

Fred Kahn did an excellent job leading the discussion and should continue to play that role. Charlie Schultze gave a superb 15-minute summary of the current inflation picture. Jim McIntyre clearly explained your intent to keep open the option of a balanced FY 81 budget. All speakers emphasized that you will not accept mandatory controls as a means of fighting inflation.

The next meeting of the working group is July 11. Staff will meet in the interim.

## 3. Health Planning

June 25, the House suspended the rules and passed H.R. 4556, State Health Planning Agencies Extension Amendments. The legislation amends the Public Health Service Act to permit the Secretary to extend the conditional designation of State health planning and development agencies if the designated State Agency "is making a good faith effort" to comply with statutory requirements.

Under existing law, the Secretary must terminate the conditional designation of any agencies which after 36 months have not met the prescribed requirements. Several states face loss of funding when their 36-month conditional designation period expires on June 30 unless the time is extended.

Wednesday, June 27, the Senate approved granting a one-month extension period for full designation, and Thursday the House concurred with the Senate's action, thus clearing the measure for your approval.

Still awaiting House consideration is H.R. 3917, the Health Planning and Resources Development Amendments of 1979.

#### 4. Hospital Cost Containmentment

We had expected the Senate Finance Committee to vote on the Nelson amendment and report our bill to the full Senate this week. The vote was postponed, however, due to a lack of sufficient votes for passage. Eight to ten members were absent. Our HCC proposal is now tentatively scheduled to be taken up on July 12. Assuming we report the bill out of the Finance Committee on the 12th, we would have a good chance of a floor vote in the Senate before the August recess. We are currently planning an HCC East Room briefing targeted at those states with Senators who are undecided or leaning on this issue.

In the House Ways and Means Committee, we are still awaiting the remaining votes to report our bill out of the full Committee. We hope to be able to schedule the Committee vote soon after the Fourth of July recess.

#### 5. National Health Plan

There have been several days of mark-up in the full Senate Finance Committee on national health insurance. However, the Committee has been bogged down with Medicare/Medicaid reform and hospital cost containment. Further consideration of NHP might slip until after the August recess.

Senator Kennedy has tentatively decided not to take up health insurance legislation in his Health Subcommittee of Labor and Human Resources until after the August recess.

In the House, Charlie Rangel does not anticipate Ways and Means Health Subcommittee hearings until after the August recess. At this point, it looks as if we would carry Rangel's Health Subcommittee. The full Ways and Means Committee is, however, much less certain. The Waxman Commerce Health Subcommittee will not hold health insurance hearings until fall. The Waxman Subcommittee does not look very encouraging at this point.

## 6. Appropriations

### Schedule

July 10	--	Conference on supplemental
July 11	--	House floor: rule for State-Justice bill
July 11 and 12	--	Senate Appropriations Committee: Energy & Water Development, Agriculture, and Labor-HEW bills
July 12	--	House floor: State-Justice and Treasury-Postal Service bills
Week of July 16	--	House floor: Transportation and Foreign Assistance bills
		House Appropriations Committee: Interior

### Labor-HEW

Last Wednesday, the House passed this bill (327-84) after consideration of about 35 amendments. The Administration's strategy to support Chairman Natcher on the floor was successful. Amendments to further increase the bill's add-ons for NIH and education programs were defeated with Natcher's help. No one offered an amendment to delete the impact aid savings already in the bill. Amendments to cut CETA below our budget also were defeated.

One amendment that was adopted (306-101) prohibits the use of funds to implement the SHUR system, a system for hospital reporting. The Congress also approved a Michel amendment to reduce HEW appropriations by \$500 million for fraud abuse and waste. This is similar to the 1979 language, which has caused so much trouble in the last two weeks.

Our strategy for full committee in the Senate is to keep discretionary increases to a minimum, with particular emphasis on maximizing the savings for impact aid.

#### HUD-Independent Agencies

The House completed floor action on this bill last Wednesday. Senate subcommittee action has not yet been scheduled.

	<u>Budget Authority</u> ( <u>\$ in millions</u> )
Request.....	72,723
Changes not affecting 1980 programs..	-475
Policy changes.....	-282
Housing & Urban Development.....	(+168)
Veterans Administration.....	(+ 73)
Environmental Protection Agency....	(-468)
National Aeronautics and	
Space Administration.....	(- 34)
Other.....	(- 21)
	<hr/>
Total change.....	-757
	<hr/>
Congressional level.....	71,966

A point of order based on the lack of authorizing legislation was raised and sustained against language in the bill that provided, as requested, \$675 million for HUD's UDAG program. An amendment was then passed to restore \$400 million -- the maximum amount authorized under current law. The reduction of \$275 million is likely to be restored at some point since Administration-supported authorization language permitting a \$675 million level was recently passed by the House and is now awaiting Senate action.

A Roybal amendment added an unrequested \$10 million to HUD's congregate housing program.

## Energy and Water Development

The Senate held subcommittee mark-up on the Energy and Water Development bill last Wednesday. They did not take a vote on the Tellico issue for strategic reasons, and it will be deferred to either full committee or floor action. A floor vote will be very close.

The subcommittee did not add any funding for CRBR, pending enactment of authorizing legislation. Water Resources Council funding was reduced to conform to the Senate authorization bill, which so far has deleted funds for the independent water review process.

On new starts, our information is incomplete, but we believe the subcommittee concurred with the House's restrained approach. On Friday Jim McIntyre sent Chairman Johnston a strong letter, stating he would recommend vetoing the bill if Johnston added money for Yatesville and Bayou Bodcau before full committee action.

For energy programs, there were some budget increases, in part spurred by the Administration's recent solar initiative. OMB will provide more complete analysis next week.

## Interior

OMB is extremely concerned about the discretionary increases in the House subcommittee version of this bill totaling about \$300 million above our \$8.4 billion request. We expect that the bill will grow larger in House full committee with the addition of a new title for synthetic fuels tied to the Moorhead bill.

## 1979 Supplemental

The Senate completed action on this bill on Tuesday. Conference action is scheduled for Tuesday, July 10.

Budget Authority  
( \$ in millions)

	<u>House</u>	<u>Senate</u>
Request.....	15,269	16,900
Changes not		
affecting 1979 programs.....	-473	-473
Policy changes.....	-3,386	-2,561
Defense-Military.....	(-1,455)	(-451)
Home ownership assistance...	(-985)	(-985)
Energy programs.....	(-159)	(-148)
HEW programs.....	(-168)	(-345)
Increased pay costs.....	(-223)	(-179)
Other.....	(-396)	(-453)
Total change.....	<u>-3,859</u>	<u>-3,034</u>
Congressional level.....	11,410	13,866

The Senate agreed to the following major changes to the bill as reported:

- .. A Boschwitz amendment deleting \$27.7 million in UN technical assistance funds -- provided by the House and requested to restore a reduction made in the regular 1979 appropriations bill -- and adding an unrequested \$15.6 million to finance refugee programs.
- .. A Javits amendment providing an unrequested \$2.5 million to enable Energy to hire outside auditors to investigate and report on all aspects of energy supply and distribution.
- .. A "sense of the Congress" provision offered by Senator Jepsen to allow HEW to borrow against their FY 1980 appropriations in order to comply with the Michel amendment to the regular 1979 Labor-HEW bill, which required a reduction of \$1 billion from programs subject to fraud, waste, and abuse.
- .. A DeConcini amendment adding language to limit the compensation and restrict the GS level of employees of the National Commission of the International Year of the Child.

- .. A Stennis amendment to provide small domestic loans under the SBA disaster loan program at a three-percent interest rate. This provision is consistent with the Administration's support of the disaster loan provision in the House-passed version of S. 918.

Rapid enactment of the supplemental is extremely important in order to continue work on the Sinai airfields and to avoid interrupting benefit payments for entitlement programs. Black lung payments will terminate on July 16 if the supplemental is not enacted by then.

#### 7. Department of Education

The House will resume consideration of the Department of Education bill on July 10 and we expect a vote on final passage that week. Our headcount remains stable with 219 "yes" or "leaning yes", 200 "no" or "leaning no" and 15 "undecided". In our judgment, the headcount is too close to predict the outcome.

Most of the supportive interest groups will initiate activities in the Congressional districts during the 4th of July recess in an effort to demonstrate to Members that there is local support among teachers and other groups for the creation of a separate department. The opposition has also structured an intensive effort over the recess to pull supporters off the bill.

The Vice President has called Vernon Jordan and Carl Holzman who have threatened to desert the bill. We will be asking you to talk to the Speaker briefly following the Leadership breakfast July 10 to persuade him to be more active on behalf of the bill.

#### 8. Alaska National Interest Lands

Chairman Henry Jackson of the Senate Energy Committee has announced his intentions to complete Committee action on the Alaska lands legislation without further hearings during the month of July; he hopes for Senate floor action in September.

It is anticipated that the Senate Committee will report S. 9 (identical to last year's committee bill) to the floor with few changes, and that the major battles for strengthening amendments sought by the Administration will occur on the floor.

Critical to gaining Majority Leader Byrd's cooperation is his perception that the bill will not be unduly controversial. In line with that, we intend to seek only 2 or 3 major amendments on the Senate Floor, hoping to resolve further differences in House/Senate Conference.

#### 9. Trucking Deregulation

Secretary Adams, Fred Kahn, Charlie Schultze, and Senator Kennedy all testified in support of the Administration's trucking regulatory reform legislation (S. 1300) in hearings before the Senate Commerce Committee Tuesday.

Senator Cannon indicated that he does not feel a bill can be passed this year. He did explore with several witnesses the possibilities of removing some of the operating restrictions administered by the Interstate Commerce Commission in an effort to reduce fuel consumption and increase operating efficiency in the trucking industry.

In the House, the Transportation Subcommittee, chaired by Rep. Howard, is reluctant to hold hearings before the August recess. The trucking task force is mounting an effort with outside supporting groups, to encourage earlier hearings.

#### 10. Targeted Fiscal Assistance

The House Government Operations Subcommittee (chaired by Congressman Fountain) began hearings Wednesday on Targeted Fiscal Assistance. The Subcommittee is divided on the program -- five supporters (Moorhead, Weiss, Horton, Wydler, and Snowe), five likely opponents (Brooks, Fountain, Synar, English, and Brown), and Les Aspin. The supporters are pressing Chairman Fountain to proceed to mark-up as soon as hearings are completed the week of July 9.

Scheduling in the Senate Finance Committee is still uncertain.

#### 11. Executive Pay

OPM and OMB advise that the primary reason for their quiet support for a 5.5% pay increase for Executive Level personnel has been to preserve an incentive for people to join the Senior Executive Service.

## II. FOREIGN POLICY ISSUES

### 1. Rhodesia

*Good*

Late Thursday night the House voted 350-37 on the Solarz Bill which would lift sanctions against Rhodesia by October 15 unless you determine that it is not in the national interest to do so. The victory resulted from a number of factors including: (a) the weight of the national interest argument; (b) the argument that the British should have the responsibility of acting first; (c) the support of the Leadership; and (d) (and perhaps most effective) Member to Member lobbying -- Bill Gray (D-Pa.) was a vigorous fighter as were Solarz, Erlenborn, Collins, McCloskey.

Although we won, the message from the Hill was that the moral arguments were not helpful and may have been counter-productive. We should not misinterpret the size of the vote as an endorsement of our policy. We must use the time between now and October 15 as constructively as possible to show some progress toward a solution.

The House has not acted on the Defense Authorization Bill, the Senate version of which carries the sanctions lifting language.

### 2. Panama

The Senate Armed Services Committee held two days of hearings on the Panama legislation June 26 and 27. The Committee staff is now drafting a new bill which will not differ substantially from the Administration's bill. It is likely that markup will take place during the week of July 9-13. Majority Leader Byrd has told the Committee that he will call up the bill as soon after markup as Chairman Stennis wishes which could well be the week of July 16-20.

There is some sympathy for provisions of the House-passed Murphy bill; but Levin appears to have the complete support of Stennis in trying to keep the Senate bill free of treaty violations. Stennis seems unimpressed with Hansen and Bauman's presentations to the Committee. He gave a polite lecture on the legislative process and the Senate's role in developing legislation.

*oh*

We are working the Committee with State and DOD CL. State is briefing a dozen freshman Senators on our bill. We have indicated to Senator Stennis and Levin that you would personally contact Senators prior to the markup if that appears necessary.

3. SALT

*we'll go all out*

This has been the week of amendments; more will come. It is important that the Administration continue to insist that amendments which alter the basic terms of the Treaty are not acceptable. It is even more important at this stage to point out promptly why specific amendments are unacceptable. If we respond quickly, we can regain the momentum and counter efforts to get Senators committed to specific amendments.

*ok*

General advice from our friends on the Hill is to avoid a frontal attack on Baker. Culver and Hart have been talking to the press, pointing out mistakes in Baker's press statement.

4. International Development Cooperation Agency Reorganization Plan

The Resolution of Disapproval for the IDCA Reorganization Plan will be taken to a vote on the Senate floor July 9 by Senators Percy and Pell who want to kill IDCA. A "Dear Colleague" signed by Percy, Pell, Cohen and Durenberger will be countered by a pro-IDCA letter from Ribicoff, Church, Javits and others. Our initial vote count shows roughly a 54-44 breakdown in favor of IDCA. The Resolution may also come to a vote on the House floor July 9.

5. Development Assistance Authorization Conference

*Important - work for it →*

The House-Senate Conference on Development Assistance has been postponed until July 24. One reason for the delay is that the House conferees want to know the outcome of the IDCA Senate vote before conference. The most controversial issues between the House and the Senate bill are ISTC and Peace Corps. Although ISTC was defeated on the Senate floor, the Senate conferees favor the Institute but want the Peace Corps to remain in ACTION. Zablocki also favors the ISTC but supports the IDCA even more strongly and wants the Peace Corps under it.

Other differences between the two bills include:

funding levels (Senate is low); where to place the Economic Support Fund (House-Development Bill, Senate-Security Bill), and the prohibition on aid to Panama (House Bill - should not be a problem).

6. Security Assistance Authorization Conference

The House-Senate Security Assistance Authorization Conference, originally scheduled for June 25, was

postponed at the last minute because of unresolvable House-Senate differences over Turkish aid. The conference has been rescheduled for July 13.

7. Foreign Assistance Appropriation Bill

The FY 1980 foreign aid appropriation bill is now scheduled for July 17 on the House floor. Although the bill may still slip, the Committee will not hold it up until the authorization process is finished.

8. China Trade Trouble

Representative Charles Vanik (D-Ohio) has indicated that he will oppose a China trade agreement unless there is parallel movement with the Soviets. He claims that some 35 "important" House Members support his position. We are now trying to verify the solidity of Vanik's opposition, which could mean a tough, uphill House fight. Disapproval by either House would, of course, sink the agreement.

9. FY 79 Defense Supplemental Appropriations Bill

On Tuesday the Senate passed the FY 79 Supplemental Appropriations Bill intact except for a Committee amendment by John Stennis to delete \$7.2 million in operations and maintenance funds to implement the Panama Canal Treaty. DOD had no notice of his intentions and understood he took action in order to avoid a possible controversy during floor action. The Conference is now scheduled to begin on July 10. The major Conference issue will be the number of Iranian destroyers to be included in the bill.

III. MISCELLANEOUS

Chairman Rosenthal of the Commerce Subcommittee of the Government Operations Committee has announced that he will hold hearings next month on OPEC investments in the U.S. His subcommittee has been investigating various aspects of OPEC investment for several months and has requested and obtained large amounts of documents from Treasury, State, and other agencies, including the CIA.

For reasons similar to those given in opposition to the Machinists' anti-trust suit, Treasury has resisted Rosenthal's demand for a breakdown of OPEC investments on a country-by-country basis. Instead, Treasury has offered investment data with sources identified on a regional basis. Rosenthal wants very detailed information about OPEC investments, particularly those of Middle East OPEC nations.

Good news for trucking deregulation -- John Breaux has agreed to sponsor the Administration's bill.

### SCHEDULES

#### House

Congress has recessed until July 9. When they return the House will take up MTN Tuesday, with final passage scheduled for vote Wednesday; they will conclude the Department of Education bill Wednesday or Thursday and will rapidly finish the Appropriations bills that are now 4 weeks behind schedule.

Our pressure on the House to deal with DoEd, Panama, Rhodesia, and WPT has contributed substantially to the fracturing of the Appropriations schedule.

Following is the House schedule for the week of July 9:

#### Monday, July 9

H.R. 4249	Surface Transportation Technical Amendments
H.R. 2814	Coosa River Bank Erosion Control
H.R. 2043	Water Bank Authorizations
H.R. 3292	Fish and Wildlife Conservation Act of 1979
H.R. 3504	Smithsonian South Quadrangle Planning Authorization
H.R. 1825	Archeological Resources Protection Act of 1979
H.R. 827	U.S. Postal Service Dispute Resolution Procedures
H.R. 3978	FTC Act Provision Exemptions for Savings and Loan Banks
H. Con. Res. 10	United Nations Commission on MIA's
H.R. 3821	Intelligence and Intelligence-Related Activities Authorizations, FY '80

10:00 AM

THE WHITE HOUSE

WASHINGTON

July 3, 1979

MEETING WITH EPG STEERING GROUP

July 3, 1979  
10:00 a.m. (50 minutes)  
Roosevelt Room

From: Stu Eizenstat

*Stu*

I. PURPOSE

To discuss with your economic advisers:

- a. The economic outlook in light of the OPEC decision
  - what forecast we will publish in mid-July
  - what stand you should take publicly with respect to the likely recession
- b. The progress being made in consultations with Congress, business and labor.

II. PARTICIPANTS

Mike Blumenthal  
Charles Schultze  
Jim McIntyre  
Fred Kahn

Stu Eizenstat  
John Farmer  
Curt Hessler

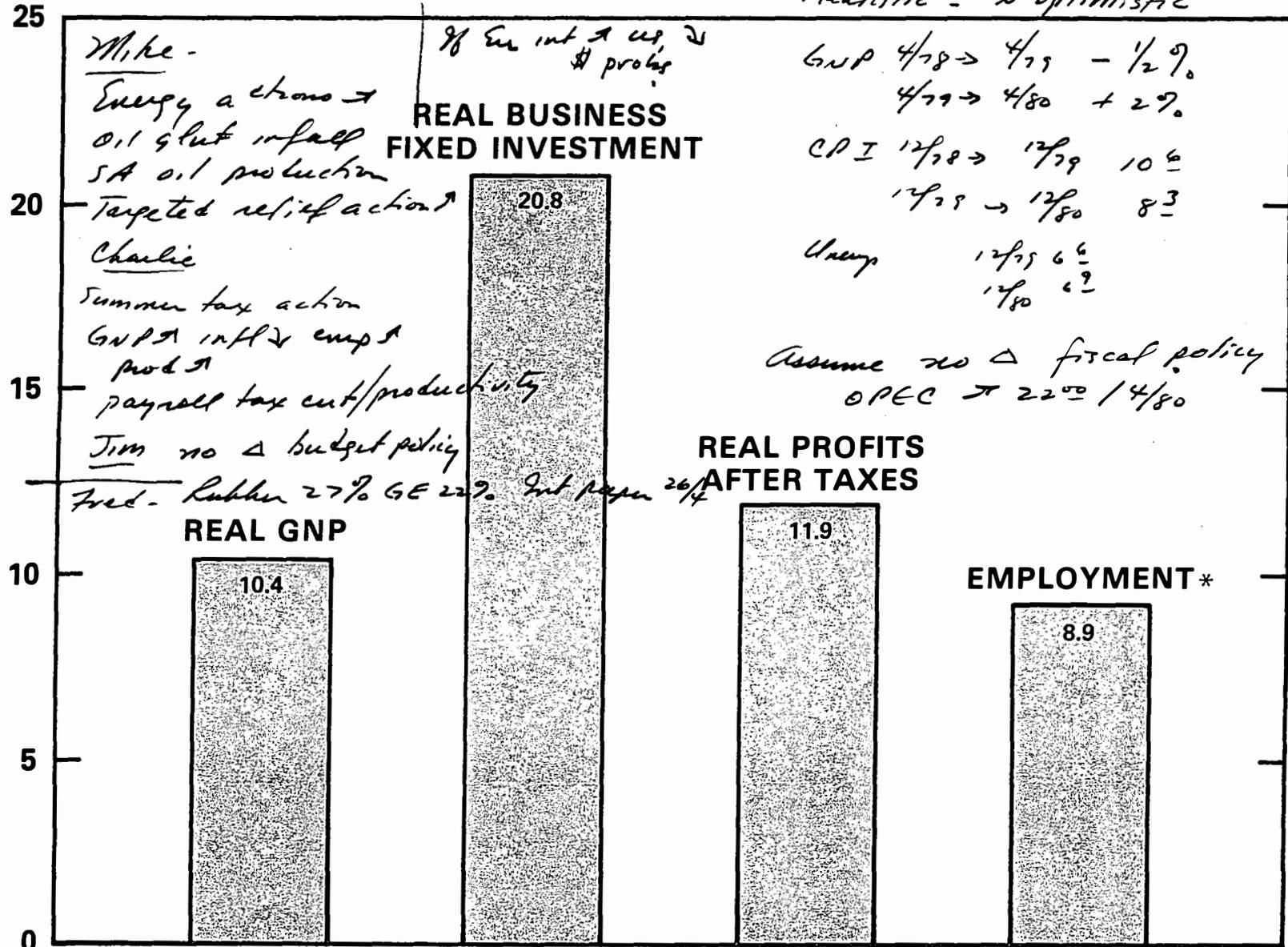
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# ECONOMIC GAINS, 1977 - '979

PERCENT CHANGE,  
1976 Q4 TO 1979 Q1

*Constitution is Comp excellent*

*Realistic - optimistic*

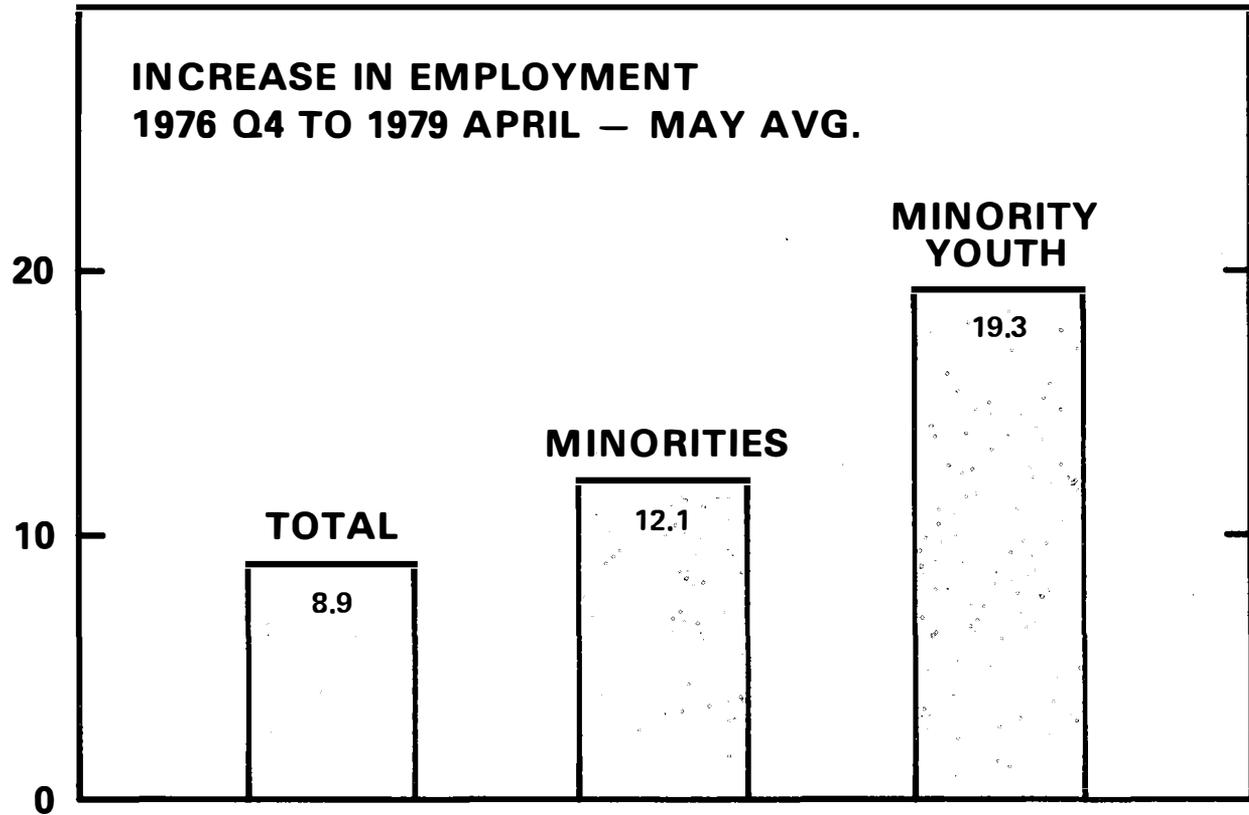


\* PERCENT CHANGE FROM 1976 Q4 TO 1979 APRIL - MAY AVERAGE

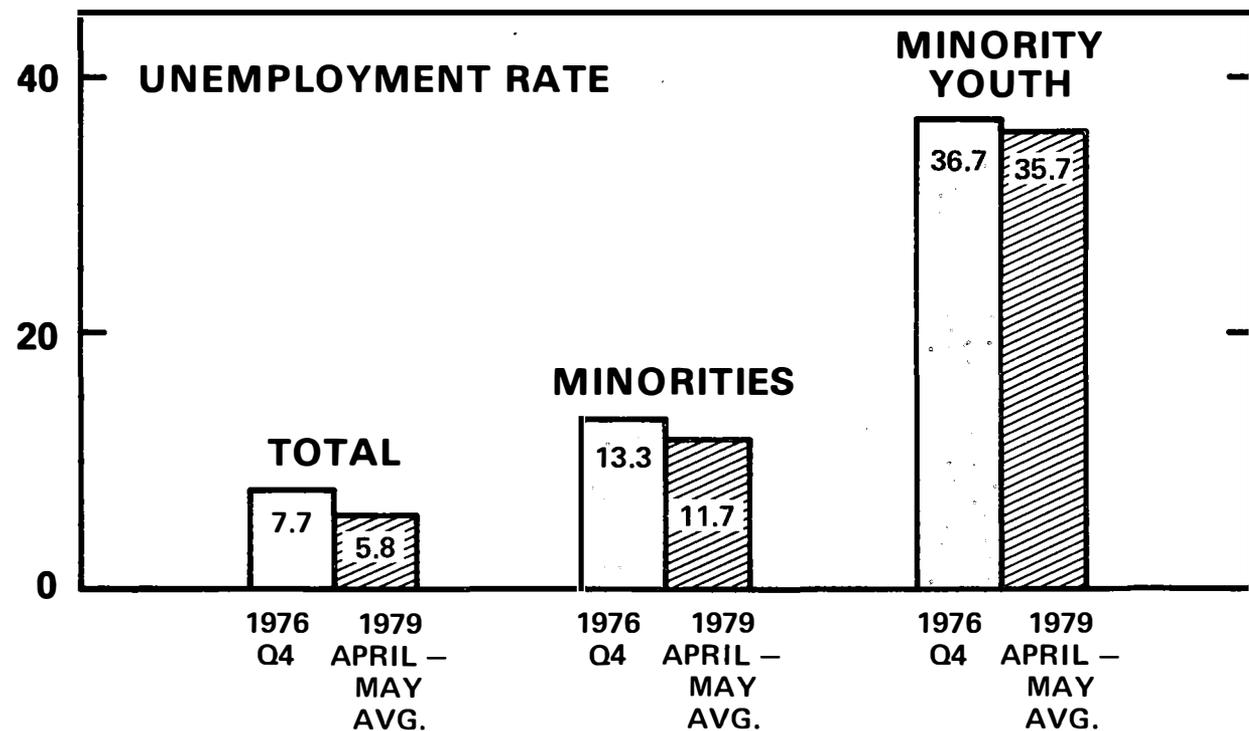
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# EMPLOYMENT AND UNEMPLOYMENT

PERCENT

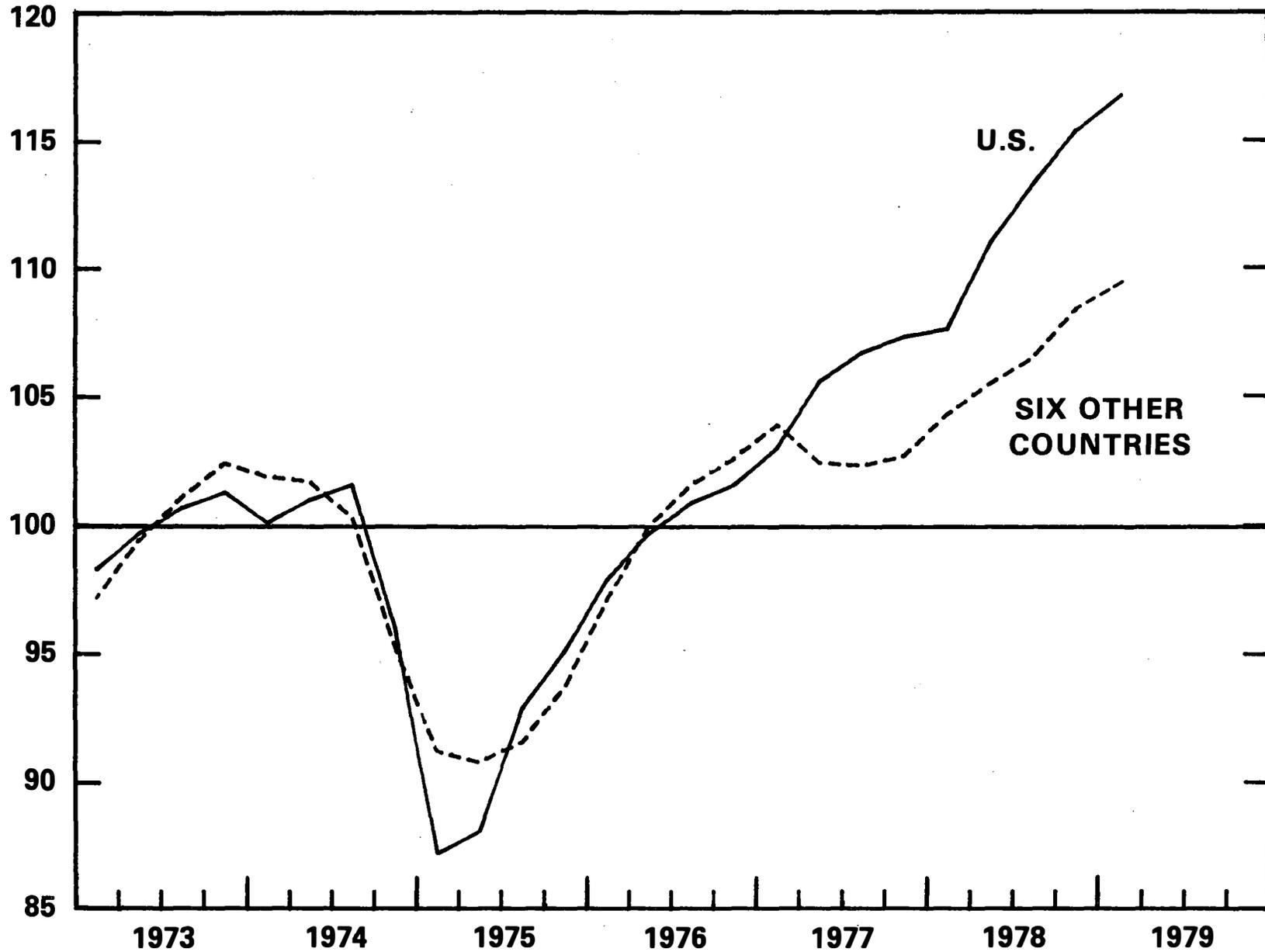


PERCENT

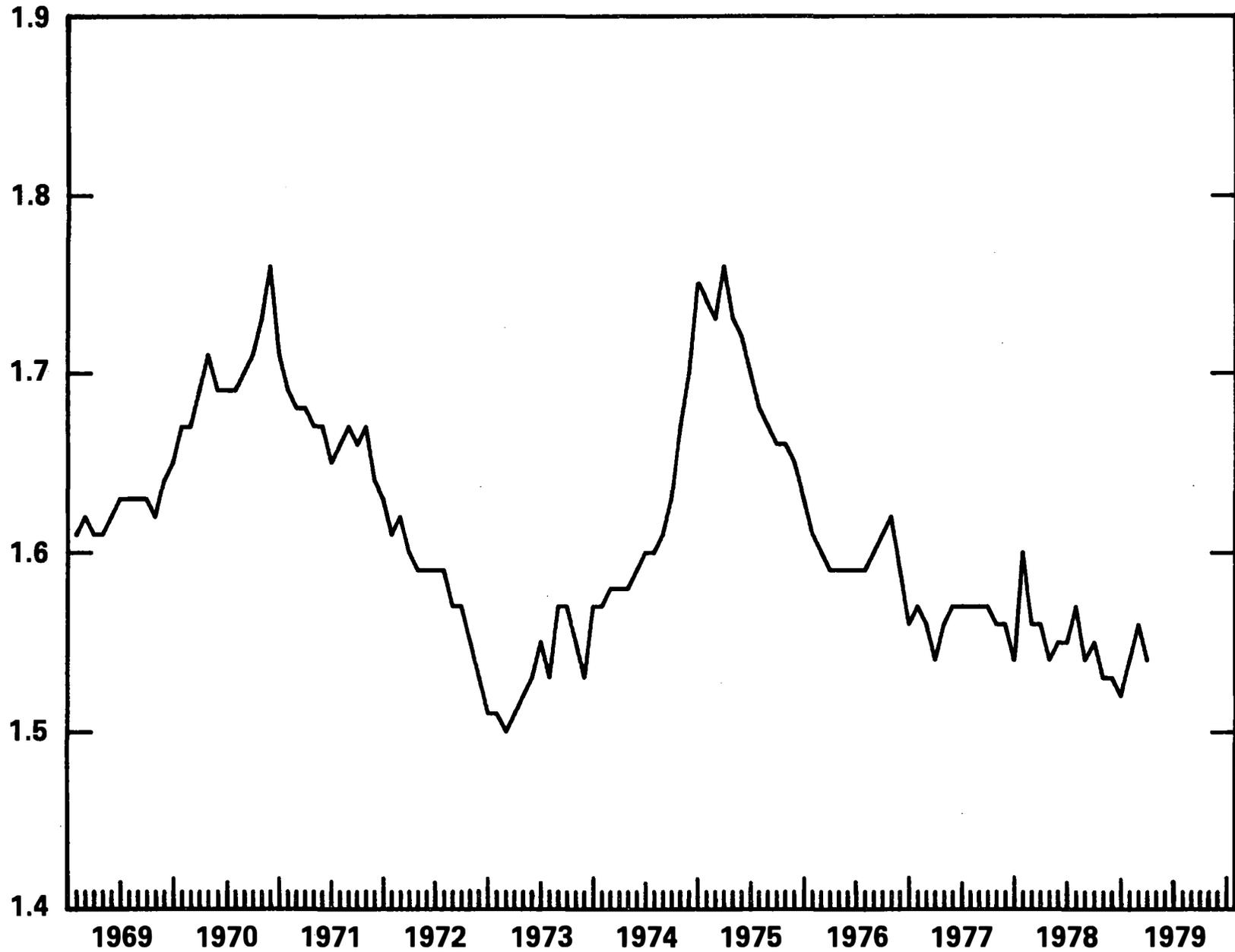


# INDUSTRIAL PRODUCTION, U.S. AND OTHER LARGE INDUSTRIAL COUNTRIES

INDEX, 1973 = 100

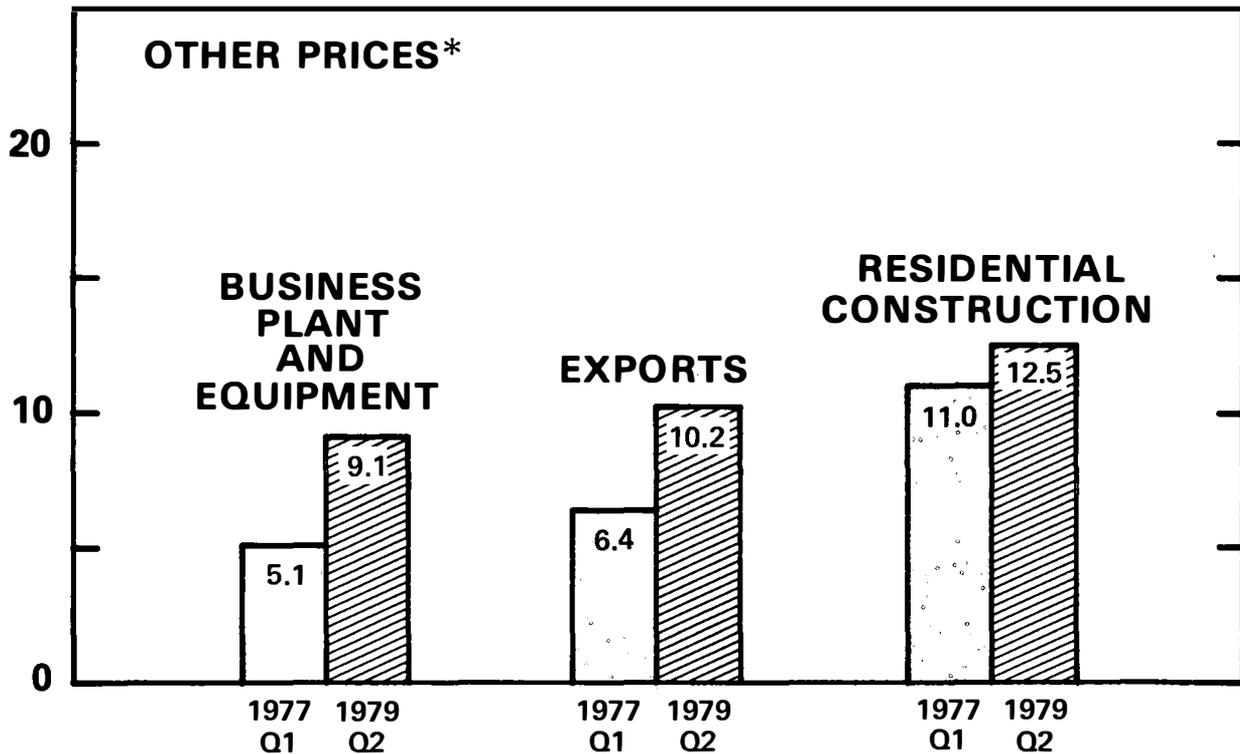
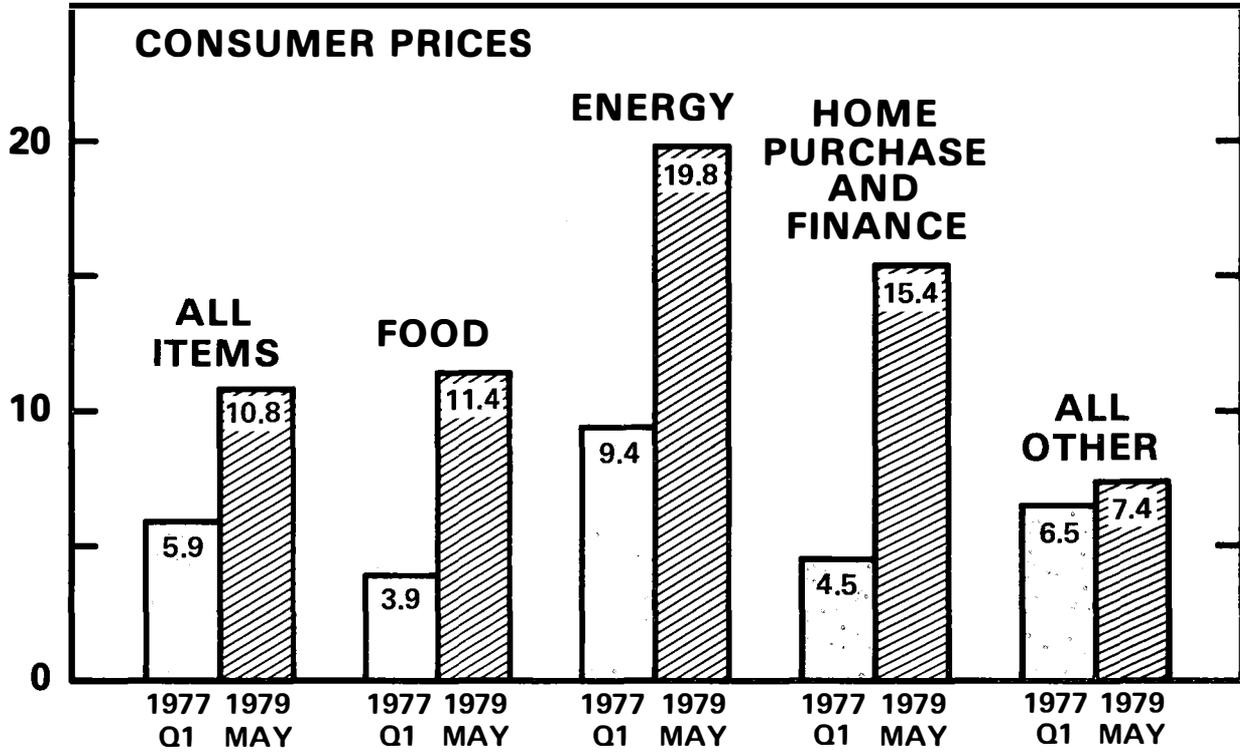


# **RATIO, BUSINESS INVENTORIES TO SALES (1972 DOLLARS)**



# PRICES

PERCENT CHANGE FROM  
SAME PERIOD A YEAR EARLIER



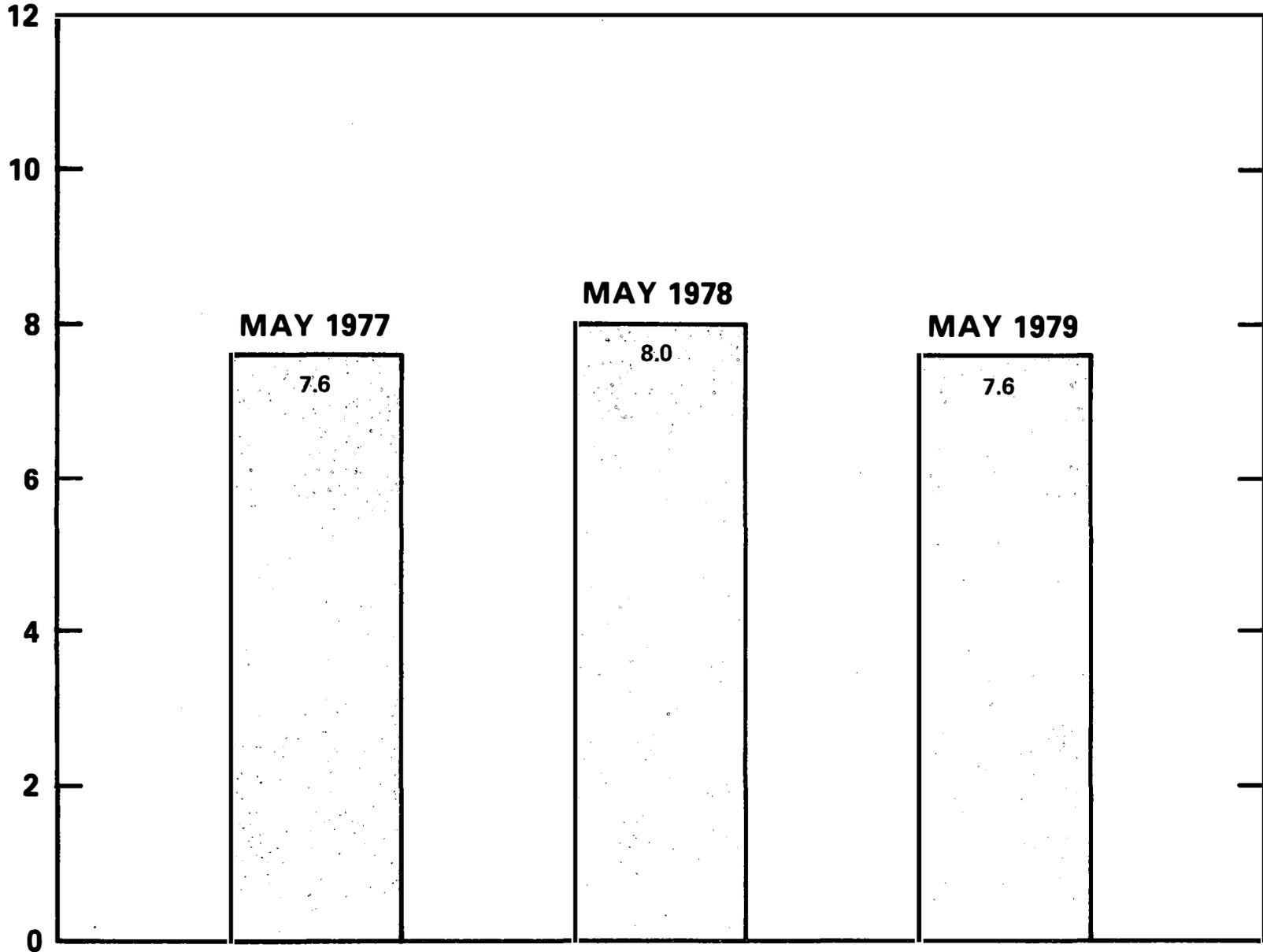
\* GNP FIXED-WEIGHT DEFLATORS.

# **CHANGES IN CONSUMER PRICES (PERCENT CHANGE, ANNUAL RATE)**

	<b>DEC 1978 TO MAY 1979</b>
<b>ALL ITEMS</b>	<b>13.4</b>
<b>FOOD</b>	<b>14.7</b>
<b>ENERGY</b>	<b>37.4</b>
<b>HOME PURCHASE AND FINANCE</b>	<b>18.4</b>
<b>ALL OTHER</b>	<b>7.5</b>

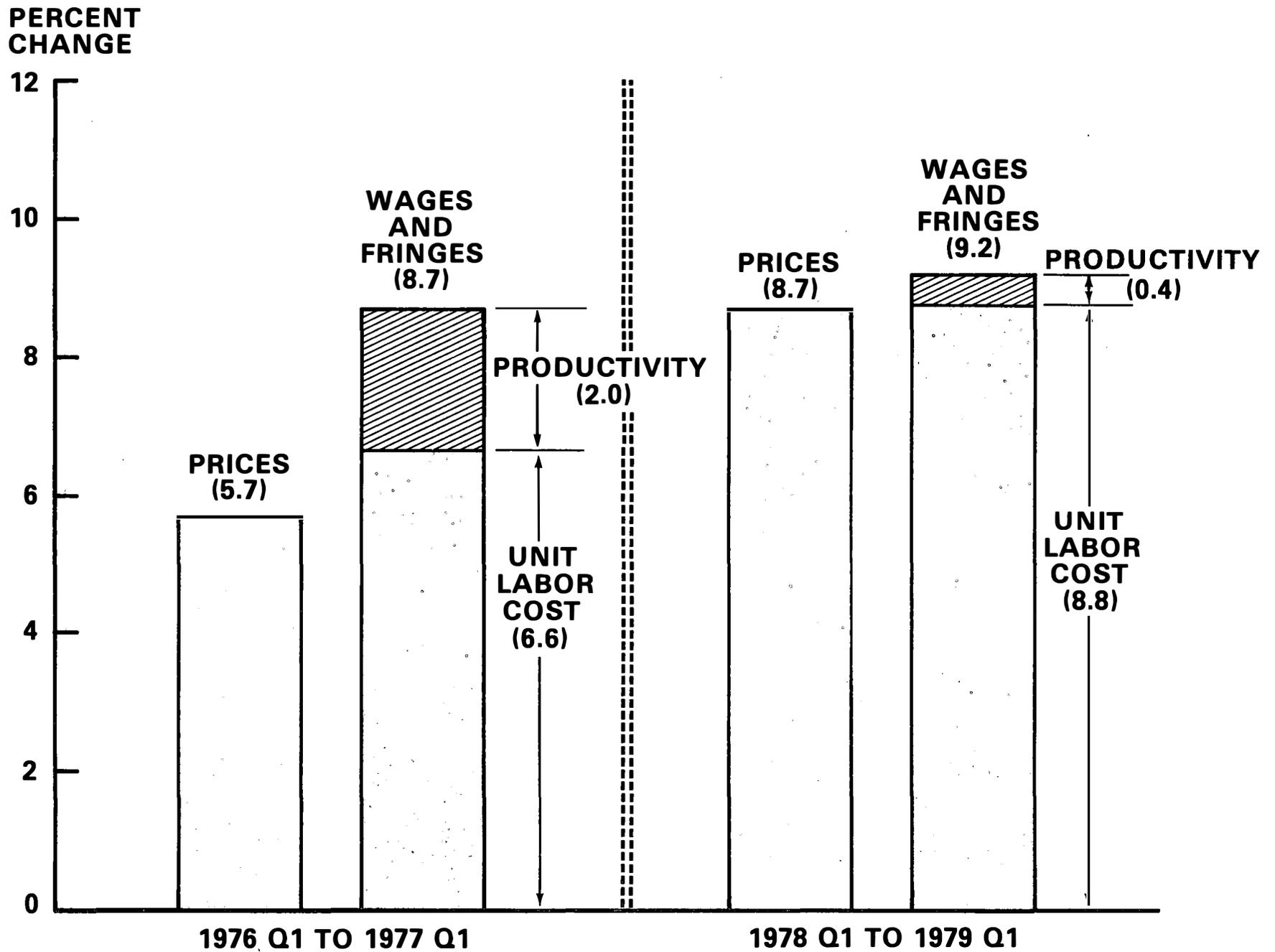
# AVERAGE HOURLY EARNINGS\*

PERCENT CHANGE  
FROM YEAR EARLIER



\* ADJUSTED HOURLY EARNINGS INDEX.

# COSTS AND PRICES <sup>1/</sup>



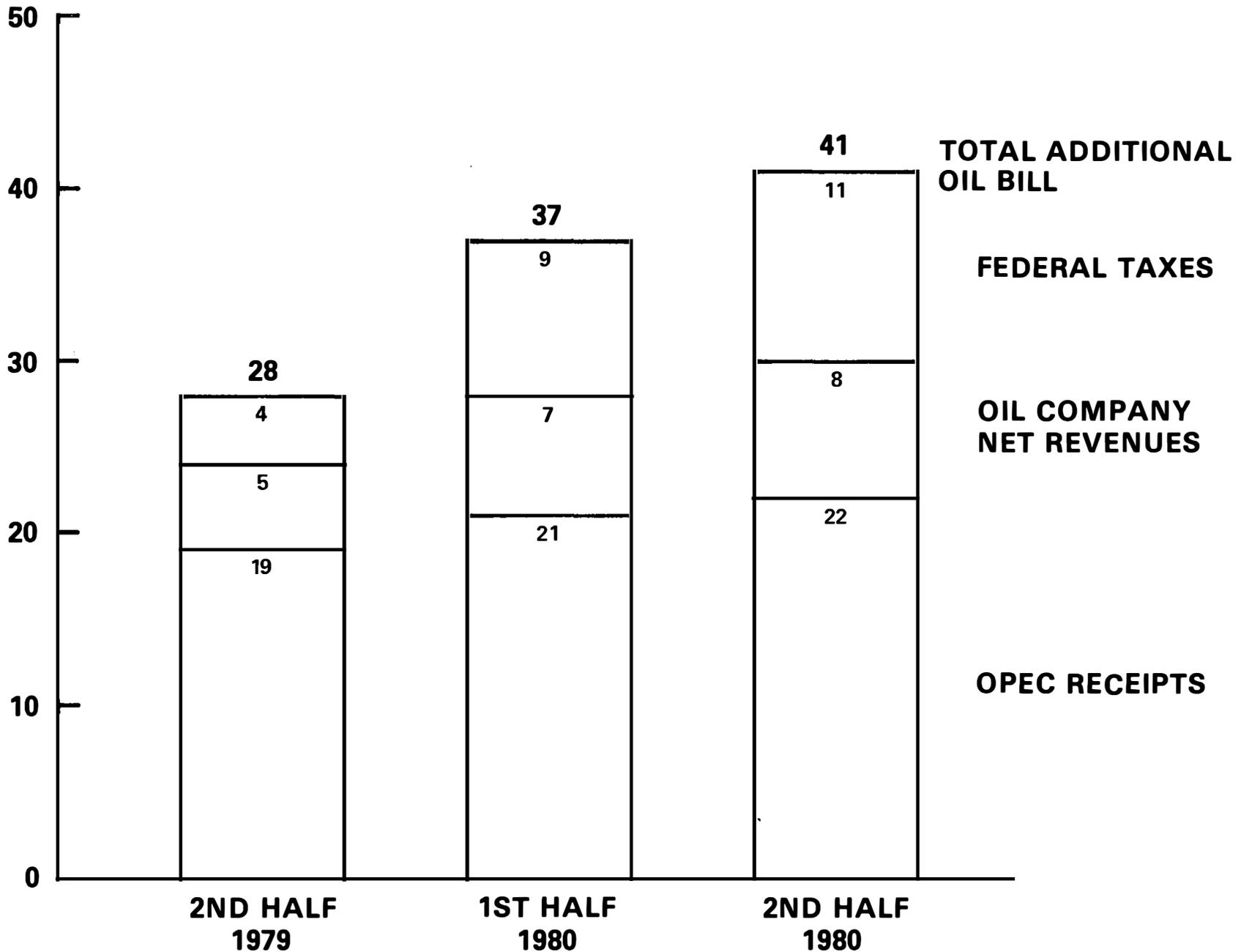
<sup>1/</sup> NONFARM BUSINESS.

# RECENT CHANGES IN SELECTED PRICES (PERCENT CHANGE, ANNUAL RATE)

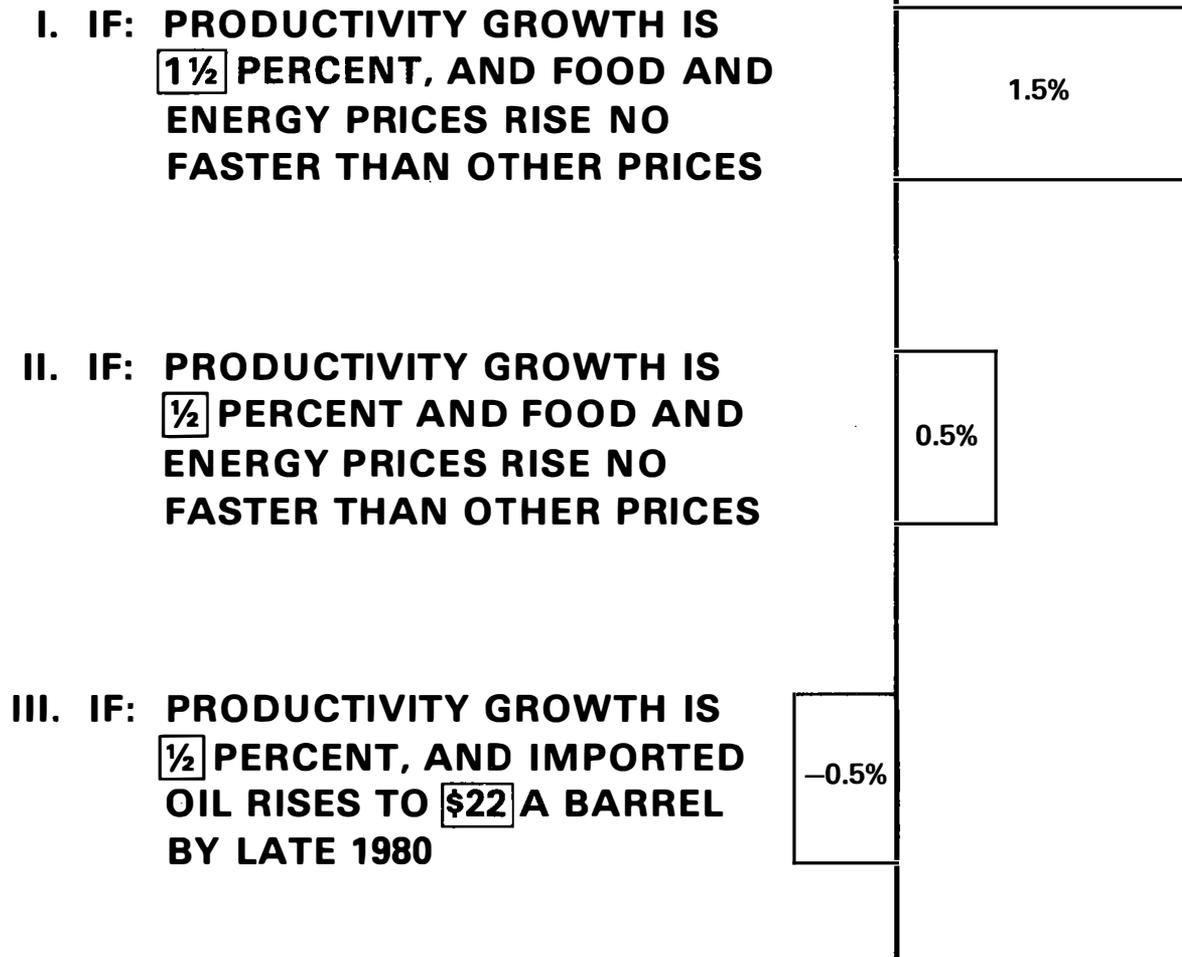
	SEPT 78 TO DEC 78	DEC 78 TO MAR 79	MAR 79 TO MAY 79
<b>FOOD</b>			
WHOLESALE	15.3	20.1	- 8.9
RETAIL	10.2	17.7	10.3
<b>RAW MATERIALS</b>			
COPPER	21.3	159.6	- 14.9
STEEL SCRAP	102.3	81.2	- 67.3
CONSTRUCTION MATERIALS	10.9	11.6	7.2
WASTE PAPER	32.9	24.3	- 1.7
<b>ENERGY</b>			
WHOLESALE, REFINED PRODUCTS	21.9	30.0	86.5
RETAIL:			
GASOLINE	18.2	35.6	89.7
HEATING OIL	17.9	44.3	74.8

# DRAIN OF PURCHASING POWER BECAUSE OF HIGHER OPEC PRICES

BILLIONS OF DOLLARS,  
ANNUAL RATE



# CHANGES IN REAL WAGES IN THE YEAR AHEAD <sup>1/</sup>



<sup>1/</sup> ASSUMES CONSTANT PROFIT MARGINS FOR COMPANIES OTHER THAN OIL COMPANIES.

THE WHITE HOUSE  
WASHINGTON  
03 Jul 79

Esther Peterson

The attached was returned in  
the President's outbox today  
and is forwarded to you for  
appropriate handling.

Rick Hutcheson

Stu Eizenstat  
Frank Moore  
Jack Watson  
Anne Wexler

2860



THE WHITE HOUSE

WASHINGTON

Date:

MEMORANDUM

FOR ACTION:

FOR INFORMATION:

The Vice President  
Stu Eizenstat  
Jack Watson

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Peterson Memo Re Energy Conservation Program

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME:

DAY:

DATE:

ACTION REQUESTED:

Other:  Your comments

STAFF RESPONSE:

I concur.  No comment.  
*Please note other comments below:*

**PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.**

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

FOR ACTION  
FYI

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION

	VICE PRESIDENT
	JORDAN
X	EIZENSTAT
	KRAFT
	LIPSHUTZ
X	MOORE/ks
	POWELL
	RAFSHOON
X	WATSON
X	WEXLER
	BRZEZINSKI
	MCINTYRE
	SCHULTZE
	ADAMS
	ANDRUS
	BELL
	BERGLAND
	BLUMENTHAL
	BROWN
	CALIFANO
	HARRIS
	KREPS
	MARSHALL
	SCHLESINGER
	STRAUSS
	VANCE

	ARONSON
	BUTLER
	H. CARTER
	CLOUGH
	CRUIKSHANK
	FIRST LADY
	HARDEN
	HERNANDEZ
	HUTCHESON
	KAHN
	LINDER
	MARTIN
	MILLER
X	MOE
X	PETERSON
	PETTIGREW
	PRESS
	SANDERS
	WARREN
	WEDDINGTON
	WISE
	VOORDE
	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

THE WHITE HOUSE  
WASHINGTON

June 28, 1979

*Esther -  
I agree  
J*

MEMORANDUM FOR: THE PRESIDENT  
FROM: ESTHER PETERSON  
SUBJECT: Energy Conservation Program

We need an energy conservation program which consumers will support, and one potential answer is to resubmit our gas rationing plan to Congress.

When Congress rejected the original rationing plan, it did so at a time when no one had tangible evidence that the gas shortage is real. While Americans are still skeptical about the shortage, the simple truth is that gasoline and home heating oil will be in short supply for years to come. With the prospect of long gas lines and cold winters staring consumers in the face, an equitable rationing may now be a more attractive alternative.

Reintroduction of the rationing plan has several positive consequences:

1. It conveys to the public a sense that you are taking decisive action to assure order and an equitable distribution of the petroleum supplies that we have. In so doing, it also puts the onus on Congress' back.
2. Rationing would immediately reduce gas consumption and perhaps diminish the threat of a recession in the U.S.
3. It would demonstrate to the world, on the heels of the Tokyo Summit, that you are taking decisive action to assure that the United States is fulfilling its international responsibilities.
4. It would lessen the inevitable adverse impact on our balance of payments that will result from the OPEC price increases.

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Given the public's skepticism about the origin of the shortages, other voluntary conservation measures are not likely to result in significant fuel savings. Rapidly escalating fuel prices have not diminished consumers' thirst for gasoline and a "me first" attitude for the supplies that are available is prevalent within each sector of the economy. While it may not be popular, the general equity inherent in rationing may be more preferable than the general disorder that now prevails. I urge you to resubmit the rationing proposal to Congress.

THE WHITE HOUSE  
WASHINGTON  
03 July 79

Bob Lipshutz

The attached was returned in  
the President's outbox today  
and is forwarded to you for  
appropriate handling.

Rick Hutcheson



FOR ACTION  
FYI

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION

	VICE PRESIDENT
	JORDAN
	EIZENSTAT
	KRAFT
X	LIPSHUTZ
	MOORE
	POWELL
	RAFSHOON
	WATSON
	WEXLER
	BRZEZINSKI
	MCINTYRE
	SCHULTZE
	ADAMS
	ANDRUS
	BELL
	BERGLAND
	BLUMENTHAL
	BROWN
	CALIFANO
	HARRIS
	KREPS
	MARSHALL
	SCHLESINGER
	STRAUSS
	VANCE

	ARONSON
	BUTLER
	H. CARTER
	CLOUGH
	CRUIKSHANK
	FIRST LADY
	HARDEN
	HERNANDEZ
	HUTCHESON
	KAHN
	LINDER
	MARTIN
	MILLER
	MOE
	PETERSON
	PETTIGREW
	PRESS
	SANDERS
	WARREN
	WEDDINGTON
	WISE
	VOORDE
	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

THE WHITE HOUSE  
WASHINGTON

Bob  
J

June 29, 1979

MEMORANDUM TO THE PRESIDENT

FROM: BOB LIPSHUTZ *BL*  
RE: Suit filed by the Machinists Union against OPEC

Pursuant to your direction, the United States did not intervene in this law suit. The June 25 hearing was held in the United States District Court in Los Angeles, and the Justice Department had a knowledgeable attorney sitting in the audience as an observer; he made no comment whatsoever in the court proceedings.

The defendant OPEC nations did not file any pleadings or make any appearance in the suit.

Obviously, the judge had studied the matter quite thoroughly prior to the hearing, and he issued an interim order which did the following:

1. Declined at this time to issue any temporary restraining orders or injunctions;
2. "Because of the complexities of the within law suit, the difficulties in framing the issues therein contained, and the far reaching effects of judicial determination thereof, " set a new hearing for August 20, 1979, and set out a series of specific legal questions to be decided, and invited the United States of America and the States of the United States, et al., to participate in the proceedings by advising the court as to these specific questions.

I am continuing to work closely with the Department of Justice, the State Department, and the Treasury Department, for the purpose of coordinating the federal government's position, subject of course to your final direction. The Justice Department attorneys are now working on a memorandum which will be submitted to us, setting out the legal issues and analysis of them. We are advised that this memorandum will be completed by July 10. Justice Department will furnish us,

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along with the State Department and Treasury Department, this memorandum, after which all of us will meet to prepare a recommendation to you for the purpose of determining which, if any, of these issues should be addressed in a submission to the court, whether any submission at all should be made to the court, and if so, what form it should take.

In view of the fact that the written submissions to the court, in response to the judge's most recent order, need to be delivered by August 1, I will make certain that the matter is submitted to you well in advance of that date.

I already have a considerable amount of material relative to this situation, but unless you advise me otherwise, I will assume that you do not wish to go into further detail until we have completed the analysis which will be based upon the current research being done by the Department of Justice.

*Correct*

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THE WHITE HOUSE

WASHINGTON

Date:

MEMORANDUM

FOR ACTION:

FOR INFORMATION:

The Vice President  
STu Eizenstat  
Jody Powell  
Jerry Rafshoon

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: *Sa* Lipshutz memo re Suit Filed by Machinists Union  
Against OPEC

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME:

DAY:

DATE:

ACTION REQUESTED:

Other:  Your comments

STAFF RESPONSE:

I concur.  No comment.

*Please note other comments below:*

**PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.**

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE  
WASHINGTON  
03 Jul 79

Alfred Kahn

The attached was returned in  
the President's outbox today  
and is forwarded to you for  
appropriate handling.

Rick Hutcheson

LANDON BUTLER

2355



THE WHITE HOUSE  
WASHINGTON

7-3-79

To Fred Kahn

Do not be intimidated  
by Doug Fraser. Mini-  
mize UAW contract  
costs by fighting for  
our guidelines

JC

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THE WHITE HOUSE  
WASHINGTON

1

July 3, 1979

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MEMORANDUM FOR THE PRESIDENT

FROM: Frank Moore *FM*

SUBJECT: Energy Speech Consultation Calls

It is important for you to consult with the Congress prior to giving your energy speech on Thursday. You may pick-up some useful ideas as phrases for inclusion in the speech. At the very least, the consultations will preclude charges that Congress was ignored.

In the calls, you should indicate that you and your advisers will be consulting intensively with Congress in the weeks ahead to find solutions to our energy and inflation problems. However, you would like to get a preliminary assessment from them about our energy problem and possible solutions before you give your speech.

You might also outline the elements of your speech, but if you do so you should not give them any specifics regarding "new initiatives".

I suggest that you call the following in the order listed for each body of the Congress:

Senate

Russell Long  
Henry Jackson  
Bennett Johnston  
Lloyd Bentsen  
Mark Hatfield (ranking Republican on Energy and Natural Resources)

House

Speaker O'Neill  
Jim Wright  
John Dingell  
Bob Giaimo  
Lud Ashley

*✓ will assign calls you  
do NOT make to KAHN  
SCHULTZ.*

John D. Smith  
 5 Africa = \$32 bbl

Gas: CO<sub>2</sub> buildup  
 2x 2040 ad  
 + 2° → 10°C

BROAD OIL IMPORT REDUCTION OPTIONS

	<u>1990 Import Reduction (MB/D)</u>	<u>Approximate Cost per Barrel (Oil Equivalent)</u>
1. Unconventional gas <sup>heavy</sup> oil	0.75 to 1.0	\$25
<b>Electrostatic Copy Made for Preservation Purposes</b>		
2. Residential/commercial building gas conversion and conservation retrofit	0.5 to 1.0	\$6-15
3. Utility oil back-out through new coal plant construction	0.5 to 1.0	\$23
4. California heavy crude production	up to 0.7	\$24
5. Vanpool promotion	0.05	?
6. Synthetic Fuels		
- Oil shale	0.25 to 0.4	\$25-30
- Coal synthetics and biomass <sup>(methanol → liquid)</sup> 1 → 2 mbd 1990	0.75 to 1.6	\$35-40
SUBTOTAL	2.8 to 5.75	
2 mbd = 300,000 ac ft/yr      2000 mi <sup>2</sup> strip mining		
*7. Mexican gas	up to 0.4	?
**8. Alaskan gas	up to 0.4	\$28-32
	<u>6.55</u>	

Solar/Nuclear

\* Remains an import, though not oil and arguably more secure.  
 \*\* Included in DOE base projections, but without government subsidy.

Syn fuel 3.4  
 Coal = 2.5 CO<sub>2</sub>  
 Oil = 2.0  
 n gas = 1.0+

365 × 10<sup>6</sup> × 20 = \$ 7.3 Bil

7/3/79

## UNCONVENTIONAL GAS

"Unconventional Gas" is natural gas from Devonian shale in the Appalachians, from western tight sands, from geopressurized methane along the Gulf of Mexico, from coal seams in most regions, and from very deep wells. Limited production, chiefly from the tight sands region, has begun.

Assuming a price for gas equivalent to \$23.50 a barrel of oil, DOE consultants estimated recoverable reserves of unconventional gas as follows:

Recoverable Unconventional Gas Reserves  
(Assuming prices equivalent to \$23.50/Barrel)

Devonian Shale	20-60 quads
Tight Sands	30-170 quads
Geopressurized Methane	150-500 quads
Coal Seams	70-350 quads
Deep Gas	<u>250-350 quads</u>
<u>Total</u>	520-1420 quads

Source: METREK (Report for DOE, 1978)

NEP II was even more optimistic:

Devonian Shale	25-400 quads
Tight Sands	50-420 quads
Geopressurized Methane	5000-63,000 quads
Coal Seams	50-700 quads
Deep Gas	<u>No Estimate</u>
<u>Total</u>	5125-64,520 quads

Source: NEP II, Table IV-6

To put these figures in perspective, total U.S. energy use of all fuels is now roughly 75 quads per year.

From the tight sands area alone we should be able to get more energy by 1985 than from Synfuels:

Estimated Production From Western Tight Sands  
(Assuming prices equivalent to \$20.00/Barrel in 1979 dollars)

	<u>Existing Technology</u>	<u>Advanced Technology</u>
1985	800,000 B/D	1,850,000 B/D
1990	1,750,000 B/D	3,800,000 B/D
2000	2,100,000 B/D	3,350,000 B/D

Source: Lewin Associates (Report for DOE, 1978).

Our consultants feel these estimates are low.

In addition to providing more energy sooner, this new gas has a number of other advantages over synfuels:

- o It is dispersed throughout the country and in many cases is closer to where the gas would be used.
- o It can be developed via a large number of small investments (wells), rather than requiring billion dollar individual investments.
- o It is clean burning. (Synfuels pose serious environmental and health dangers; see synfuels fact sheet.)
- o It is considerably less expensive than most synfuel alternatives.

Because of these advantages, we must ensure that this resource is developed. The following steps need to be taken.

- o Unconventional gas must be included in the definition of alternate fuels eligible for inclusion in a Federal demand-pull program. This is not currently the case in the Moorhead bill.
- o FERC must use its authority under the Natural Gas Policy Act to set a price of between \$3 and \$4 per million btu (\$18-24 per barrel equivalent) as the generic price for tight sands gas. (Other unconventional gases will be deregulated).
- o DOE must change its Fuel Use Act regulations to include all unconventional gas, including tight sands gas and "deep" gas as alternate fuels exempt from the prohibition on gas use. If industry and utilities are prohibited from burning this gas, it will not be produced.

11:00 AM

THE WHITE HOUSE

WASHINGTON

July 3, 1979

C

MEETING WITH ENERGY ADVISORS

July 3, 1979

11:00 am; (60 minutes)

The Cabinet Room

From: Stu Eizenstat *Stu*  
Kitty Schirmer

I. PURPOSE

To meet with selected members of the Energy Task Force on three key energy issues: the import reduction program; gasoline allocation and price controls; and the distillate picture.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background

This meeting provides a follow-on discussion of issues raised briefly at the Monday session. We plan to center the discussion around three major issues which are of central importance either to your upcoming speech or to decisions which we will be asking you to make early next week. We do not recommend that this meeting be used for final decision-making, or at least not on all issues. In some cases, analysis is still in process and we will not be able to present you with a full picture until our decision memorandum is ready on July 8. In the following sections we will highlight the major issues which should be touched upon in the meeting.

Import Reduction Program/Synthetic Fuels (20 minutes)

As was mentioned Monday, we are analyzing three possible levels of import reductions for 1990: 2, 3, and 5 million barrels per day. These reductions would be achieved using a range of mechanisms including synthetic fuel development, unconventional oil and gas, Alaskan and/or Mexican

gas, conservation, fuel switching, direct coal burning, and solar. The Task Force is comparing the relative values of investments which could be made from the Energy Security Trust Fund to determine which mix of tools provides the best course of reaching the specific levels of reduction.

It is estimated that the cost of synthetic fuels will range from \$25 - \$40 per barrel in 1979 dollars. Other options such as unconventional gas, early retirement of oil burning power plants, or conservation may have lower per barrel costs. Clearly, the level of subsidy required to commercialize any of these technologies will vary with the price of OPEC oil.

There are a number of environmental and institutional barriers and impacts associated with development of synthetic and some unconventional fuel substitutes for oil. In the west, water is a constraint. Heavy reliance on coal or other fossil fuels increases the risks of CO<sub>2</sub> overloading in the atmosphere. On the other hand, conservation mechanisms which lean heavily on mandatory requirements also have their drawbacks in terms of government interference in the marketplace. These elements, as well as price and cost of development, will be important in deciding upon which particular mix of import reduction options should be pursued.

For the synthetic portion of this program, several tools are being considered to accelerate development. These are: federal buys or price guarantees, tax credits, or government owned-privately operated plants. These options could be used, either singly or in combination, for development of the most promising synthetic technologies.

If tax credits were used, no special federal mechanism would have to be established to implement the program. Either of the other mechanisms, however, contemplate some direct or indirect form of federal involvement in the selection and implementation of the program. Under one possible approach, DoE could administer the program directly, much as it now runs its R&D and commercialization activities. Alternatively, we have considered the concept of a corporation to take over the synthetics part of the import reduction program. Treasury and DoE will be prepared to speak to this issue.

The basic issues with respect to a corporation are: Should it be inside or outside DoE?; How should it relate to regular DoE R&D programs?; Should it

include activities other than synfuels, such as unconventional oil and gas?; and, What range or mix of tools should it have (e.g., federal buys, ownership authority, loan guarantees, etc.)?

*where? decide now?*

We, OMB, and Treasury favor an independent corporation and would like to see you announce the broad outlines of a corporation in your Thursday speech. DoE is less enthusiastic about this approach, though we have not had a chance to explore Secretary Schlesinger's views in detail. This issue warrants considerable attention at the meeting.

*No project by project  
Leave flexibility*

The other major issue related to synthetic fuel development, and to the additional import reduction initiatives, is whether and how the decision-making, permitting, and judicial review processes should be expedited. An Energy Mobilization Board, modelled after the War Production Board with broad authority to curtail normal decision making processes, is one approach. Less radical proposals have been put forth in the Congress which would give you authority to expedite decisions in the event that agencies failed to approve an eligible project in a timely way.

- The key issues here are: How much authority should be granted to the President (or the Secretary of Energy or a Board) to waive normal permitting or environmental review requirements?; Where should these decisions be made?; To what extent should authority be sought to curtail state or local level permitting and judicial procedures?; Should these procedures apply just to synthetics or to all import reduction programs?; and, Should authorities for expedited treatment extend just to procedural issues or to substantive questions as well? There are also several difficult questions regarding the extent to which Federal judicial review of decisions can or should be curtailed.

For the purposes of this meeting, we would like to familiarize you with some of the key views on these issues. In terms of the Thursday speech, we are looking principally for an OK on the principle of seeking expediting legislation, not final decisions on the mechanisms to be used.

Gasoline (20 minutes)

Several of your key economic advisors and Secretary Schlesinger believe that the fastest and perhaps

only way to eliminate gasoline lines is to decontrol fully, getting rid of both allocation and price controls. Decontrol, they argue, would permit the market to clear and stabilize in a way that no allocation system possibly can, no matter how well designed.

In a time of shortage, decontrol would cause prices to rise dramatically, at least in the near term. (Estimates range from \$1.20 to \$1.50 per gallon.) Some expect that this price would come back down to near current levels once production and demand were brought closer to equilibrium.

Charlie Schultze has argued in favor of decontrol, but only if some rationing or other conservation mechanism were available to dampen this price spike.

Others take a different view. It is not clear that decontrol would cause the lines to disappear. Diesel has been decontrolled for two years, yet shortages still exist in that fuel sector.

There are also serious political questions about decontrol. Summer is the heaviest driving season, and decontrol, even without a shortage, would be highly unpopular. In light of your decision to decontrol crude oil prices, there is a real question whether you should try to undertake what would be labelled as yet another "give-away" to the oil companies.

Even if decontrol is not adopted, there are serious questions about whether and how the current allocation and price regulations should be changed. The retail dealers argue that they are being squeezed by the current shortage, and that many will either have to break the law or go out of business. DoE now has a rulemaking underway to ascertain the validity of these claims. However, any changes to correct the system are bound to result in higher prices. DoE's tentative deadline for reaching a decision on the price rules is July 15.

DoE also has a proposal to change the existing allocation system to try to provide more gasoline to urban areas where supplies are more scarce than in rural parts of the country. At issue here is whether any change in the system, no matter how well founded, will confuse and complicate the system more than help it.

Finally, we should briefly discuss whether it would make sense for you to recommend now that Governors use the authority you have delegated to institute odd-even and tank topping systems as a precaution against future shortages. While this might help prevent lines, it could also have the reverse impact of creating panic where no real shortages exist.

Distillate Supplies (20 minutes)

You have set a goal of 240 million barrels of distillate stocks by October as a guarantee against home heating oil shortages this winter. CEA and Treasury have questioned the need for this high a level, especially given the recent OPEC price hike and the impact which that will have on growth. Also, we do not know whether secondary stocks are higher or lower than normal, and this has bearing on how high primary stocks should be.

DoE believes that the 240 million barrel goal is necessary, and feels that further steps should be taken to ensure that it is met. Among the actions they will recommend is waiving the Clean Air Act provisions which require utilities to burn low sulfur resid. If waivers were provided to permit use of higher sulfur resid, distillate which is now used to reduce the sulfur content of resid would be freed for other uses. Implementation of such a program would require Clean Air Act waivers under section 110(f) and simultaneous use of authorities under section 404 of the Fuel Use Act.

Major issues here are: Whether wavers should be authorized on a generic or a plant-by-plant basis?; Whether the distillate that is freed will actually come to the U.S. or whether it will flow instead to the higher-priced Rotterdam spot market?; What levels of savings can actually be achieved; What would the international impacts of such action be?; and, What are the environmental/public health trade-offs?

EPA feels strongly that other alternatives for saving distillate should be fully explored before a major 110(f) waiver program is adopted. They believe that use of DoE's mandatory powers to require natural gas substitution for oil and power wheeling would provide savings which are adequate to reach our targets. (DoE now has voluntary programs underway in both of these areas which are

now 70-80% wheeling

accomplishing significant savings.) DoE could move without additional legislative authority on mandatory power wheeling. Certain state and FERC barriers may inhibit further progress in the gas to oil switching program, though these might be corrected by new legislation.

B. Participants

Secretary Schlesinger  
Al Alm  
Les Goldman  
Secretary Blumenthal  
Robert Carswell  
Charlie Schultze  
George Eads  
Eliot Cutler

Gus Speth  
Barbara Blum  
Jack Watson  
Stu Eizenstat  
Kitty Schirmer  
Rick Hertzberg  
Richard Moe

C. Press Plan

To be worked out with Jody.

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THE WHITE HOUSE  
WASHINGTON  
03 Jul 79

Stu Eizenstat

The attached was returned in  
the President's outbox today  
and is forwarded to you for  
appropriate handling.

Rick Hutcheson

2856

THE WHITE HOUSE  
WASHINGTON

7-2-79

To Stu

What is the hold up  
on the Westinghouse  
contract for the  
Philippine nuclear  
power plant?

J

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