3/4/80

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United States
Environmental Protection Agency
Washington, D.C. 20460

February 29, 1980

The Administrator

REPORT TO THE PRESIDENT

FROM: Douglas M. Costle

Your Administration has mounted a major effort addressing the problem of hazardous industrial wastes, which emerged as a top environmental concern at the time of the Love Canal catastrophe. Our strategy is twofold:

1. Identify and clean up existing waste dumpsites. Hundreds of dumps posing potential health threats have been discovered and the number eventually may reach 4,000. So far, we have inspected 644 sites and taken emergency action at over 280 sites.

Whenever possible, we are going to court to force those companies responsible to pay the cost. (In December, we filed two well publicized suits against Hooker Chemical seeking damages of more than $130 million to clean Love Canal and a site in California.) We still need the Congress to enact the "superfund" legislation which you proposed last summer to increase our resources to clean problem sites before time consuming litigation is completed and to clean up abandoned sites.

2. Prevent development of future problems. Today, 750,000 generators produce 57 million tons of hazardous waste and 90 percent of it is disposed of by environmentally unsound methods. Last Tuesday, we announced a manifest system, mandated by the Resource Conservation and Recovery Act to track these wastes from production to disposal.

By fixing responsibility now, this system will prevent "midnight dumping." By April, EPA will define what wastes are hazardous and set forth new operating standards for treatment, storage, and disposal facilities. By July, all businesses which handle hazardous waste will be required to notify EPA, giving us for the first time a national inventory. By October, all firms that store, treat, or dispose of hazardous wastes will be required to apply for a permit.

You should be aware of another growing problem. Existing dump sites are filling up, and increasingly, communities are blocking the creation of new sites. The problem is similar to the difficulties with disposal of nuclear wastes, but is much larger in scale (5,000 tons of nuclear waste). It is possible that Federal legislation eventually will be needed. In the interim, we will work to develop procedures to apply the safest possible technologies for site selection and control.

Doug

THE WHITE HOUSE
WASHINGTON

04 Mar 80

Secretary Brown

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

Rick Hutcheson

cc: Zbig Brzezinski

Harold - See Comments
J

THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

FEB 29 1980

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Physical Fitness in the Department of Defense

In response to your request for an assessment of military and civilian physical fitness, I have examined current DoD programs and ways to improve them. Although there is clearly room for improvement, particularly among non-combat units, overall physical fitness is at a significantly higher level than it has been in previous years. This improvement has resulted from Service programs to enhance fitness as well as from the heightened national awareness of the health benefits of physical exercise.

My assessment of the military programs in DoD shows a need for more uniformity and aggressive leadership by commanders. We are also looking into how the Services test for physical fitness to include frequency, individual selection criteria, and performance standards. A fact sheet outlining the physical conditioning requirements of the military services is attached. With respect to recent initiatives, the Army and the Air Force have already included auditing of physical fitness programs during visits by Inspector General teams and the Army has also begun to include physical fitness assessment on individual officer and enlisted evaluation reports. The Navy now makes allowances for physical conditioning equipment on all new ships and has allocated funds to retrofit existing ships.

I expect that added emphasis on military physical fitness by commanders will have an equally positive effect on DoD civilians. DoD programs for civilians will encourage use of physical conditioning facilities, equipment, and programs whenever available and feasible. Any formal policy for civilian fitness standards would probably have to be established in the Office of Personnel Management, to the extent that such a policy is legally feasible.

I continue to be a strong advocate (and occasional practitioner) of physical fitness and am convinced that current programs can be further modified to improve fitness of Defense Department personnel. In this regard, I have asked my Assistant Secretaries for Health Affairs and for Manpower, Reserve Affairs, and Logistics to develop new incentives and to assist in designing more uniform fitness programs throughout the Department. In addition, we will sponsor a "Military Symposium on Fitness" in conjunction with National Fitness Week in May. This forum will be used to investigate and evaluate innovations and initiatives.

Harold Brown

Attachment

Physical Conditioning and Training Requirements

of the Military Services

ARMY: Annual test.

- Test events vary in intensity according to unit mission.
- Each test has five events -- all tests include running.
- Tests vary for males and females.
- No testing required for personnel over 40 -- physical fitness program encouraged.
- Remedial conditioning programs for personnel who fail to attain minimum scores -- comments may be made on officer and enlisted efficiency reports.
- Service will field new program in July 1980 -- same events for males/females -- standards adjusted for physiological differences -- tougher standards -- more frequent testing.
- Commanders schedule physical conditioning and training consistent with their mission.

?

Should be included

NAVY: No annual test required.

- General policy encourages personnel to be physically fit.
- The aerobics program by Dr. Cooper is stressed.
- Commanders make appropriate remarks on fitness reports and enlisted performance evaluations for personnel who do not maintain fitness.
- Physical fitness is assessed during command inspections.
- Physical conditioning may be included as part of normal work day.

Very poor

MARINE CORPS: Individuals tested quarterly if on an individual program -- and semi-annually if on unit-directed program.

- Three exercises -- includes 3 mile run.
- Minimum pass/fail points for each exercise.
- Results included on fitness reports.
- Tests vary for males and females.
- No testing required for personnel over 46 -- physical fitness program encouraged.
- Failures are placed in remedial program until successful.
- Commanders will schedule 3-5 hours per week of rigorous physical fitness activity -- scheduled during normal duty day.

overall, good

Why not?

<u>AIR FORCE</u>: Annual test for <u>all</u> personnel. good, if true

- Test consists of 1 1/2 mile run or 3 mile walk or running in place.
- The aerobics program by Dr. Cooper is stressed.
- Tests vary for males and females.
- Test minimums vary by age.
- Individuals who fail minimums are counseled, checked medically, and, if appropriate, placed in 60-day remedial conditioning program.
- Commanders may authorize conditioning during duty hours when practical.

Each Service participates in programs designed by the President's Council on Physical Fitness.

- Installation sports directors or recreation officers provide assistance in completing requirements for patches, certificates, etc., for sports awards.

THE WHITE HOUSE
WASHINGTON

2-1-80

To Harold Brown

Please assess for me among the services what can be done to improve physical fitness among military & other DoD personnel -

Jimmy Carter

THE WHITE HOUSE
WASHINGTON

04 Mar 80

The Vice President
Hamilton Jordan
Jody Powell
Al McDonald
Stu Eizenstat
Sarah Weddington
Anne Wexler
Lloyd Cutler
Frank Moore
Hedley Donovan
Jack Watson
Jim McIntyre
Charlie Schultze
Alfred Kahn

The attached was returned in the President's outbox today and is forwarded to you for your personal information.

Rick Hutcheson

EYES ONLY

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

February 29, 1980

MEMORANDUM FOR THE PRESIDENT

Subject: Highlights of Treasury Activities

1. FINANCIAL MARKETS

- The expectation of an Administration announcement of anti-inflation measures has impacted the financial markets.

  - .. All money and capital markets are anticipating very strong measures in such a program. Intermediate and longer term fixed income securities have shown rather dramatic improvement in the last two days, particularly from their distressed levels of late last week and early this week.

  - .. The stock market is unsettled; prices declined 5.63 points over the week.

  - .. Citibank has raised its prime rate 1/2 percentage point to 16-3/4 percent; most other major banks have followed suit.

- Internationally, the dollar has shown unexpected firmness. Sharp price increases and worsening foreign trade accounts in other major countries, including Germany, Japan, France and the U.K. as well as relatively high U.S. interest rates, have tended to strengthen the dollar.

2. MULTILATERAL DEVELOPMENT BANKS

- General debate in the House on the FY-1980 authorization legislation for the MDB's has been delayed until Wednesday, March 5.

- The FY-1980 MDB appropriation, as contained in the Foreign Assistance Conference Report, is scheduled for House action on Tuesday, March 4 and Senate action on Wednesday, March 5.

- The FY-1981 authorization bill containing funding for IDA VI ($3.24 billion over three years) and funding for our entry into the African Development Bank ($90 million over five years) was transmitted to Congress on Wednesday, February 27. We expect the Gonzales Subcommittee of the House Banking Committee to hold hearings in mid-March and to report the bill by the end of March.

3. <u>WINDFALL PROFITS TAX</u>

- Conferees have given final approval to a $227.7 billion windfall profits bill after dropping the home heating oil credit and approving a delicately-balanced low income energy assistance package.

- Conferees approved the following informal allocation of the tax:

60%	($136 billion)	-- tax reductions
15%	($ 34 billion)	-- energy programs and transportation
25%	($ 57 billion)	-- low income energy assistance

- Conferees also approved $9.2 billion in tax credits, mostly to spur energy conservation and alternative energy production. And the cost of the Energy Security Corporation would be funded from general revenues as would energy credits.

- March 6 is the target for the final draft of the bill and the conference report; possible floor action in the House on March 12 and Senate action on March 13. The optimal timetable shows a bill for your signature in the week of March 17.

4. <u>CHRYSLER UPDATE</u>

- We are studying Chrysler's revised operating and financing plans, submitted this week. Analysis of these plans should be completed in the near future.

Bill

G. William Miller

THE SECRETARY OF COMMERCE

WASHINGTON, D.C. 20230

C

FYI

February 29, 1980

REPORT TO THE PRESIDENT

Export Control Policy: Consultations with our allies have been delayed. The delay was occasioned by the complexity of the technology-related aspects of the analyses being conducted by the Departments of State and Defense. I shall report formally to you next week on the results of our internal review.

Budget: We are reviewing the budget and expect to achieve reasonable economies without unduly compromising our ability to provide essential services to the public or to carry out your high priority initiatives in the areas of trade and industrial innovation.

Steel: To date, no anti-dumping cases have been filed though authorized by boards of directors. We are continuing our negotiation with the involved firms. Prior to his representing the United States at the OECD steel symposium held this week in Paris, French and German officials expressed to Deputy Secretary Hodges their concern about the possibility that anti-dumping suits would be filed. The symposium focused on the need for greater consultation with the United States regarding the future of the steel industry.

Pacific Basin Development Conference: Deputy Secretary Hodges represented Commerce at this conference where Governors Ariyoshi of Hawaii, Calvo of Guam, Coleman of American Samoa, and Camacho of the Trust Territory of the Pacific Islands joined with the Administration in establishing the Pacific Basin Development Council, a new economic coordinating organization.

Philip M. Klutznick
Secretary of Commerce

THE SECRETARY OF EDUCATION
WASHINGTON, D.C. 20202

29 February 1980

MEMORANDUM FOR: The President
Attention: Rick Hutcheson,
Staff Secretary

SUBJECT: Weekly Report of Major Activities

Appointments

Earlier this week I sent to you my recommendations for four Principal Officer positions: Steven A. Minter, Under Secretary; Albert H. Bowker, Assistant Secretary for Postsecondary Education; Thomas K. Minter, Assistant Secretary for Elementary and Secondary Education; and F. James Rutherford, Assistant Secretary for Research and Improvement.

On February 28 the Senate confirmed by a voice vote Elizabeth Carpenter, Assistant Secretary for Public Affairs; C. William Fischer, Assistant Secretary for Planning and Budget; and John Gabusi, Assistant Secretary for Management.

I am very excited about the team that we have assembled to date and intend to complete the reviews of all of the candidates for the remaining Presidential appointment positions in the very near future.

Youth Employment Initiative

On February 27 I testified on the Youth Act of 1980 before the House Subcommittee on Elementary, Secondary, and Vocational Education. Several Subcommittee Members expressed reservations about the initiative, indicating that existing programs could be amended to achieve the same results. Chairman Carl Perkins continues to support the Administration's proposal.

I met with Congressman Hawkins to discuss his concerns regarding the Administration's proposal. I believe that he will support some type of youth employment bill.

The Administration's legislation will be sent to the Congress shortly. It is currently awaiting clearance in OMB. I am scheduled to testify on the proposal before the Senate Subcommittee on Education, Arts and the Humanities on March 7.

Institute of Museum Services

On Wednesday, March 5, I will testify before the House Subcommittee on Postsecondary Education on the reauthorization for the Institute of Museum Services.

Illinois Trip
On February 29 I will address the Illinois Education Association and the Chicago PTA. In addition, I will meet with representatives of the Chicago AFT. In the evening I will attend the Carter-Mondale Presidential Committee fundraiser in Elmhurst, Illinois.

Consultations
On February 24 I met with representatives of the major national organizations which encompass the State public officials with responsibility for education policy and governance, including the Education Committee of the State and the National Governors Association. I also had very useful meetings with the Texas Governor's Advisory Committee on Education (February 26) and the Chicano Education Project (February 28). In the last week I have also addressed meetings of the Black Women's Agenda and the Washington Press Club.

Shirley Hufstedler
Shirley M. Hufstedler

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

February 29, 1980

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Weekly Report of HEW Activities

Secretary Harris is Traveling to Liberia, Nigeria and Egypt. The Secretary will explore possibilities of cooperative health programs between the United States and Liberia and Nigeria and will review the status of ongoing programs with Egypt. Secretary Harris met with Liberian President William R. Tolbert, Jr. to discuss health and social programs and the relationship of these programs to overall economic development. The Secretary also thanked the President for his support in sending messages to Ayatollah Khomeini on behalf of the American hostages. The Secretary stopped in Rome en route to Cairo to meet with the Italian Health Minister. They discussed cooperative health programs between the two countries, particularly in the field of drug abuse.

Comptroller General Rules That the FY 1980 Continuing Resolution Provides Refugee Funding. On February 25 GAO issued an opinion supporting HEW and OMB's interpretation that the FY 1980 continuing resolution provides the funding necessary to aid the 14,000 refugees per month admitted into the United States through the end of the Fiscal Year. If the Refugee Assistance program had been limited to the FY 1979 appropriation, funds would have been exhausted by mid-March.

House and Senate Conferees Agree on H.R. 3919, the Windfall Profits Tax on Domestic Crude Oil. On February 26 Conferees authorized $3.115 billion for a one-year program of grants to States to aid low-income families in meeting home energy costs. In addition, Conferees accepted the structure of the Senate-passed version for FY 81 with an amendment that allows the Secretary of HEW to waive State plan requirements. States will receive grants under a distribution formula to provide energy assistance to recipients of SSI, AFDC, Food Stamps, and to others whose income is below 125 percent of the Bureau of Labor Statistics lower living standard. Moreover, energy payments may be made to individuals, vendors or public housing authorities.

Testimony Before the House Ways and Means Subcommittee on Health on the Problems of Financially Troubled Hospitals. My testimony this morning outlined the nature and extent of the problems threatening public and private hospitals and indicated actions which could be taken to aid financially distressed institutes. The testimony stressed how the Administration's proposed National Health Plan and Child Health Assurance Programs will ease the financial burden of those hospitals serving large numbers of indigent patients.

Southeastern Federal Regional Council to Sponsor a Training Seminar for Historically Black Colleges in Atlanta on March 10-13. The purpose of the seminar is to provide detailed training in proposal writing and resource development. Several hundred representatives of historically Black colleges and universities are expected to attend.

Sara Craig, as Chairperson of the Region IV Federal Regional Council, will Coordinate Emergency Medical, Housing and Food Services for Haitian Nationals that have Immigrated to South Florida. On February 20 Gene Eidenberg announced that the White House had arranged for $200,000 in emergency funding to provide services to Haitians in South Florida. These funds will be used to coordinate Federal, State and local efforts to provide medical, housing and food services.

Nathan J. Stark
Acting Secretary

1

Office of the Attorney General
Washington, D.C. 20530

February 29, 1980

Principal Activities of the Department of Justice
For the Week of February 25 through February 29, 1980

1. Meetings and Events

The Attorney General chaired the first official meeting of the Hispanic Advisory Committee, the group of seventeen Mexican-American, Puerto Rican and Cuban-American representatives from across the country, on February 25. The group, which will meet with the Attorney General quarterly, discussed the 1980 census, affirmative action initiatives, the establishment of civil rights units in U.S. Attorneys' offices and immigration issues.

On February 26, the Attorney General testified on the Department's FY 81 budget before the House Appropriations Committee. The Attorney General received the Herbert H. Lehman Ethics Medal from The Jewish Theological Seminary of America in Miami Beach on February 27.

On February 28, the Attorney General hosted a conference attended by 100 federal, state and local law enforcement officials to discuss joint efforts to combat arson and the expected increase of heroin from Southwest Asia. He and the conference participants then attended a White House reception.

2. Institutionalized Persons Bill

On February 28, the Senate, by a vote of 55 to 36, passed S.10, the bill empowering the Attorney General to bring suits to protect the constitutional rights of prisoners and patients in state institutions. No major problems are expected in the legislative conference since the Senate version and the version previously passed by the House are very similar.

3. Census Suit

A three-judge federal panel in the District of Columbia on February 26 dismissed a challenge to the 1980 Census which would have required a separate counting of undocumented individuals and an exclusion of those people from the population bases used in congressional reapportionment.

4. <u>ABSCAM</u>

By a vote of 404 to 4, on February 27, the House rejected a motion sponsored by Representative Peyser (D. N.Y.) requiring the Justice Department to turn over to the House Ethics Committee evidence in the ABSCAM investigation. Earlier in the week, the Senate voted to delay consideration of a similar proposal for 90 days.

5. <u>Philadelphia Police Suit</u>

On February 25, the Department filed a notice of appeal from the district court's dismissal of the suit brought against the Philadelphia Police Department for civil rights violations. The principal issue on appeal will be the Attorney General's standing to bring such suits seeking department-wide relief.

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

1

February 29, 1980

MEMORANDUM FOR THE PRESIDENT

THROUGH: Rick Hutcheson, Staff Secretary

FROM : Neil Goldschmidt

SUBJECT: Significant Issues for the Week of February 25

Trucking Regulatory Reform - This week I testified before the Senate and House on trucking reform bills introduced respectively by Senator Cannon and Congressman Howard. I endorsed Senator Cannon's bill, but suggested several modifications. We have established a very good working relationship with Senator Cannon on his bill and intend to support him strongly. The Senate will begin markup of its legislation on March 6. There is still opposition among many Senators to significant reform.

Congressman Howard's bill in the House is not acceptable to the Administration, and this week's hearings provided little ground for optimism. Congressman Howard has stated he intends to report a bill from Committee by mid-March. I intend to keep the pressure on by calling or seeing key Congressmen and Senators.

Midwest Railroads - The ICC has extended directed service over most of the Rock Island Railroad's lines from March 2 to March 23 in order to allow time to work out details for transferring parts of the railroad to other carriers and to provide time for conclusion of labor negotiations and enactment of labor protection legislation. We are endeavoring to complete the sale of Rock Island tracks to other parties by March 23, but both the acquiring railroads and labor will be reluctant to continue service as of that date unless there is progress on legislation to provide labor protection for displaced employees. Our proposed legislation was submitted to the Congress this week. Rail labor and management have reached agreement on labor protection for employees who will be transferred from the Rock Island to acquiring carriers and we expect to have this agreement signed next week. Rail labor has been very cooperative in moving quickly towards agreements with management for transferred employees and in the development of labor protection legislation for displaced employees. We anticipate that members of Congress may seek to use our proposed labor protection legislation as a vehicle for extending directed service on the Rock Island for another 30 days, and possibly to legislate continuation of a transcontinental Milwaukee Railroad System.

On Monday, March 3, 4,400 miles of the Milwaukee Railroad will be dropped from service but the majority of shippers on these lines will continue to receive alternative service. Service will continue on 3,600 miles of track proposed for inclusion in the Milwaukee's new "core" railroad. We have offered to continue service using DOT funds for one month on 1,300 miles of track presently operated by the Milwaukee but for which sales to other carriers are pending.

This week I testified before the ICC, urging approval of the Milwaukee "core" proposal in order to prevent the chaos which would result from having two railroads (the Milwaukee and the Rock Island) in liquidation at the same time in the midwest. The ICC is expected to make its decision on the core proposal and other restructuring alternatives for the Milwaukee by mid-March.

Meetings with Governors - This week I met with three different groups of Governors, all of whom were in town for the National Governors' Association Conference. Secretary Duncan and I explained to one group of Governors that there would be no new categorical program to assist in the maintenance of roads damaged by extensive hauling of coal. However, we also told them that the Administration has under review restructuring the Interstate Highway Program in order to provide more funds for highway maintenance, and providing more flexibility for states to use Federal-aid highway funds for maintenance. Governors Thornburgh and Rockefeller were the most vocal in calling for more Federal assistance for coal haul roads.

I also met with the Transportation Committee of the National Governors' Association to explain our intent to redirect the Interstate Highway Program towards more maintenance, and our proposed transit legislation to give operating subsidy priority to areas with the heaviest transit use. The Governors on the Transportation Committee were particularly interested in assuring that transportation receives full funding from the Windfall Profits Tax.

My last meeting was with Northeastern Governors, who were particularly interested in the changes we are proposing in the transit operating subsidy program. These changes would help New York and New Jersey. Federal assistance for commuter rail service is a high priority for these Governors. They are also interested in economic development opportunities arising from our Northeast Corridor Rail Improvement Project, an interest we share and are pursuing within the confines of existing programs.

Federal Railroad Administrator Jack Sullivan met with Midwestern Governors to explain the status of our rail restructuring efforts.

U.S./U.K. Civil Air Negotiations - U.S. and U.K. delegations have been meeting this week on a liberalization of the civil aviation regime. There has been some retrenchment of the British position since our February talks but we are still hopeful that an agreement can be reached next week. The British are willing to provide additional gateways for each side but are demanding monopoly protections on each route for a transition period. Working with State and CAB, we will attempt to get a more pro-competitive agreement.

Department of Energy
Washington, D.C. 20585

FEB 29 1980

MEMORANDUM FOR: THE PRESIDENT

FROM: Secretary
Deputy Secretary

SUBJECT: Weekly Activity Report
February 25-29, 1980

1. International Matters

Saudi Arabia: I am leaving today for a three-day trip to Saudi Arabia. I will be meeting with Minister of Finance Aba al-Khayl; Minister of Petroleum Zaki Yamani; Crown Prince Fahd; Minister of Planning Hisham Nazir; Foreign Minister Prince Saud and other Saudi officials.

Venezuela: Minister of Energy and Mines Humberto Calderon Berti will visit Washington next week to sign a Memorandum of Understanding on cooperation with the United States on energy technology. I hope to follow that up with a visit to Venezuela in the near future.

Mexico: I have discussed the natural gas price situation with the head of PEMEX, Diaz Serrano and with the Mexican Ambassador, Hugo Margain. I think we will be able to develop a mechanism to bring both Canadian and Mexican price adjustments in line with the prices of competitive alternative fuels in U.S. markets. I plan to go to Mexico in early April.

Canada: We are handicapped in dealing with the Canadian gas price situation because their Energy Minister has not yet been named. I hope to make a short trip to Ottawa as soon as possible to discuss our proposal to return Canadian gas prices to their traditional relationship to substitute fuels over the course of the next several months.

2. State gasoline targets: Implementation of the State gasoline targets awaits Presidential decision on the level of the national gasoline consumption target from which they are derived.

3. Gasoline rationing: The Federal Standby Gasoline Rationing Plan and the accompanying report to Congress are still at OMB awaiting clearance.

4. Utility oil backout: Drafting of the specifications for the legislation awaits Presidential decision. At Senator Robert Byrd's request, John Sawhill, Doug Costle, Jim McIntyre and Stu Eizenstat met this afternoon with a group of coal caucus Senators and coal industry representatives to discuss the bill.

5. ECC Conservation Action Group: The Conservation Action Group, which includes White House representatives and the Secretaries of Energy, Transportation, HUD, Agriculture and Commerce, met on February 22. Each agency is to provide DOE with a schedule of relevant agency events, and Al McDonald's office is providing a schedule of events involving the First Family. The public affairs representatives of these agencies will meet on Monday to begin development of a composite schedule of possible conservation events and a coordinated educational and outreach program.

6. Strategic Petroleum Reserve: We ran an unannounced quick response exercise of SPR retrieval capability on Wednesday. Within five hours of an order from headquarters in Washington, oil was being pumped from West Hackberry, Louisiana to a terminal in east Texas (about 42 miles). We transferred 300,000 barrels within 24 hours with no problems.

7. Synfuels development: The final solicitations under P.L. 96-126 (Nov. 27, 1979), for feasibility studies and cooperative agreements were issued this week. The deadline for submitting proposals is April 25, 1980. The legislation makes available $200 million for these purposes. The Alternative Fuels Program appropriation totals $2.208 billion and includes money for loan guarantees, purchase commitments and price guarantees.

Community Services Administration

WASHINGTON, D.C. 20506

MEMORANDUM FOR: THE PRESIDENT

ATTENTION: Rick Hutcheson
Staff Secretary

FROM: Graciela (Grace) Olivarez
Director

SUBJECT: Weekly Report of Significant Agency Activities
(February 25 through February 29, 1980)

Urban Energy Assistance

The CSA and New York City reached agreement whereby $6.5 million dollars of Emergency Crisis Assistance Program (ECAP) funds will be used to pay a portion of the heating bills in apartments occupied by low-income persons. As part of this agreement participating landlords must promise to spend an amount equal to 75 per cent of the payment on weatherizing their building before the next heating season. This will ensure that low-income occupants of the buildings have heat this winter and smaller heating bills in the future.

15 yrs. A Continuing Commitment
People Against Poverty

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

February 29, 1980

MEMORANDUM FOR: The President
Attention: Rick Hutcheson, Staff Secretary

Subject: Weekly Report of Major Departmental Activities

Urban Counties Receive Technical Assistance. HUD and the National Association of Counties are launching this week a new cooperative agreement to provide "peer to peer" technical assistance between urban counties. Under the terms of this agreement one urban county reviews and evaluates such things as equal opportunity programs and records systems for another county or group of counties seeking such assistance. In conjunction with this effort we have planned to hold at least two regional workshops covering topics that several counties have identified as priorities. These include such subjects as citizen participation, economic development and relations between contractors and developers.

FHA Interest Rates Rise Again. Effective today, the new interest rates on FHA-insured mortgages are: 13 percent for both single and multifamily mortgages; 15 1/2 percent for mobile home loans; 15 percent for combination mobile home and lot loans; 15 1/2 percent for property improvement loans.

Long Beach Applies Tandem Funding Idea. We have recently approved a Section 108 Loan guarantee of $5 million to be used by the City of Long Beach in tandem with Action Grant funds of $8 million for recasting the character of its deteriorating central business district. The City hopes to attract a regional market by capitalizing on convention and cultural center development. The HUD funds will be used for acquisition of real property, relocation, demolition and site improvements which will pave the way for a new shopping mall and parking facilities designed to complement the convention and cultural center concepts.

Rental Housing Situation Critical. In testimony Wednesday before the Senate Subcommittee on Housing and Urban Affairs, I informed Members that the prospect for meeting the multifamily rental housing needs of Americans in the 1980's is not promising. The production and availability of rental housing have suffered a major decline in recent years. The market is not building, in part because there are few households willing and/or able to pay the rents needed to support new rental housing. This situation is aggravated by the fear of controls on rents and condominium conversions.

New Assistant Secretary Takes Office. H. Dicken Cherry was sworn in last Friday as HUD's new Assistant Secretary for Legislation and Intergovernmental Relations. He was a member of the Texas House of Representatives from 1961 through 1967.

Moon

Moon Landrieu

THE WHITE HOUSE
WASHINGTON

04 Mar 80

Frank Moore

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

Rick Hutcheson

cc: The Vice President
Hamilton Jordan
Stu Eizenstat
Al McDonald
Jack Watson

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
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	FOR APPROPRIATE HANDLING
	LAST DAY FOR ACTION

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ACTION	FYI	
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	✓	JORDAN
		CUTLER
		DONOVAN
	✓	EIZENSTAT
	✓	MCDONALD
✓		MOORE
		POWELL
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		WEDDINGTON
		WEXLER
		BRZEZINSKI
		MCINTYRE
		SCHULTZE
		ANDRUS
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		BERGLAND
		BROWN
		CIVILETTI
		DUNCAN
		GOLDSCHMIDT
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		MILLER
		VANCE
		BUTLER
		CAMPBELL
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		CLOUGH
		CRUIKSHANK
		FIRST LADY
		FRANCIS
		HARDEN
		HERTZBERG
		HUTCHESON
		KAHN
		LINDER
		MARTIN
		MILLER
		MOE
		PETERSON
		PRESS
		SANDERS
		SPETH
		STRAUSS
		TORRES
		VOORDE
		WISE

cc Frank
Stu

THE WHITE HOUSE

WASHINGTON

March 1, 1980

We should announce soon that any appreciable increases in my budget requests will result in vetoes

J

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE

SUBJECT: Weekly Legislative Report

I. DOMESTIC POLICY ISSUES

1. Energy

ESC

The House and Senate Leadership met with their respective conferees. A decision was reached to move the ESC first. The principals (Wright, Moorhead, and Johnston) anticipate agreement on all major issues in the near future. The conference committee will not resume meeting until draft proposals are ready and tentatively agreed to.

Utility Oil Backout

Stu met with Senator Byrd Friday on coal conversion and assured Byrd that he would have the legislative specifications by Tuesday. Byrd and other members of the Coal Caucus have made it clear that any slippage from the $12 billion price tag will be viewed as a breach of promise. If the figures drop below $12 billion it is likely that the caucus will abandon the Administration's bill for Senator Ford's.

Windfall Profits

Tentative plans call for the completion of a final draft of the bill and conference report by Thursday. It is expected that the bill will go then to the House Rules Committee on March 11 and possibly the House floor March 12. Following House approval, the Senate would act on March 13. These are optimistic timetables which would put the bill on your desk the week of March 17.

All sides favor quick action since the tax becomes effective today. (The base on flowing oil has been cut slightly to make up the revenues lost by not having a January 1 effective date.)

Meanwhile, the House tabled by 294-118 a highway lobby-inspired motion to instruct conferees to drop the 4 cent gasohol exemption. There is a possibility that another instruction to the conferees to spend most of the windfall monies on energy programs rather than on tax reductions could develop.

2. Regulatory Reform

The House Judiciary Subcommittee met on Wednesday and Thursday to continue markup of the Regulatory Reform bill. While we still must face the controversial Administrative Law Judge section and a potential legislative veto amendment, the markup is proceeding on schedule. It is unclear whether the Senate Governmental Affairs Committee will continue with their markup this week.

3. Selective Service

The House Appropriations Subcommittee on HUD-Independent Agencies adopted an amendment by Congressmen Coughlin and Sabo which cut our request of $13.3 million to $4.3 million to allow the revitalization of the Selective Service System without registration.

Secretary Brown and David Jones will brief the full Appropriations Committee Monday. On Wednesday, when the full Committee considers the supplemental, an effort will be made to have the funds restored to the $13.3 million level.

Defense Department lobbyists will visit Republican members this week. We will have an updated vote count for you by COB Monday. We are also compiling a list of members that you may need to call.

4. Fair Housing

The House Judiciary Committee voted 20-10 to kill a Sensenbrenner amendment designed to remove the administrative hearing procedures and to authorize the Justice Department to litigate individual fair housing cases. The strong vote was clearly a result of your meeting with committee Democrats. The Committee will continue its consideration of the bill Wednesday.

5. Youth Employment Initiative

The House Elementary and Secondary Education Subcommittee is continuing its eight days of hearings on the education portion of the youth bill. Congressman Hawkins has been present at all of the hearings and continues to express his displeasure. However, he does intend to begin hearings on the labor portion on March 11. The Senate plans to hold hearings on Wednesday and Friday.

The legislation for the youth initiative is expected to be transmitted to the Hill Monday, but may be held subject to review by the economic policy task force.

6. Trucking

Last week Secretary Goldschmidt testified before the Senate Commerce and House Public Works Committees. In his testimony he indicated the Administration's support of the Senate bill and identified many of the problems we have with the House bill.

The Senate Commerce Committee begins markup Thursday.

House Public Works will mark up their bill early in April.

7. FTC Authorization

The House named conferees for the FTC authorization and instructed them to accept some form of the legislative veto. Funding for the FTC expires on March 15. The chairman of the Appropriations Subcommittee, Congressman Slack, has told the conferees that they must meet at least twice before his subcommittee will pass a continuing resolution.

8. Extension of Reorganization Authority

Chairman Jack Brooks introduced a bill to extend reorganization authority for one year. The bill was well-received and ordered reported by unanimous consent. The full Committee will consider the bill on Tuesday. We do not anticipate active opposition.

9. Higher Education

The Senate Labor and Human Resources Subcommittee on Education, Arts, and the Humanities started marking up the higher education reauthorization bill last week. With the help of Senators Pell and Eagleton, the Committee adopted generally favorable provisions for all of the titles except the most controversial -- Title IV, student assistance, which will be finalized when markup continues on March 14.

Senate action on the student assistance section will be important because the House-passed Ford bill could cost as much as $3 billion more than our FY 1981 proposal. Last week Jim McIntyre met with some interest groups, and Bo Cutter held a press briefing to lay out the economic and budgetary context of this bill.

Meetings are scheduled with the higher education interest groups for this week to see if a compromise is possible. If not improved, this bill may be considered as a veto candidate on budgetary grounds. See note

10. Military Physician Pay

A special pay bill for doctors in the military and public health services has passed both Houses and exceeds our request by 100 percent ($80 million vs. $40 million per year). Our proposed bill was based on a need to provide incentives to enhance retention of military physicians. The medical community successfully expanded the benefits to dentists, podiatrists, veterinarians, and public health personnel where retention problems do not exist. The bill is considered a veto candidate. (A veto here would also be helpful in pressuring the House and conference on the Warner/Nunn military benefits bill to delete the variable housing and subsistence increases that we oppose.) See note

11. Pay Reform

OPM Director Campbell met last week with House Post Office and Civil Service Committee Chairman Jim Hanley to discuss prospects and tactics for passage of some pay reform measures.

Subcommittee Chair Gladys Spellman may allow the matter to be handled at the full Committee level. Within the next two weeks, participants from the Hill and the Administration will meet to agree on the scope of a bill and a timetable for the Committee to consider.

12. Veterans' Affairs

The 1981 budget proposes $409 million in legislative savings for VA. Previously, similar proposals have met with little success on the Hill. This year, however, early signals from the House Veterans' Affairs Committee indicate a willingness to explore our savings proposal, as well as serious alternatives more palatable to the Committee. Budget discipline here is crucial now as the waves of the WWII veterans begin to be legally entitled to free medical service.

13. Balanced Budget Constitutional Amendment

Tentatively scheduled for Senate Judiciary Committee consideration on Tuesday, March 4. DPS, WHCL, OMB and Justice CL are working on Baucus, Biden and Mathias.

14. Economic Consultations

EPG principals and staff and WH and Treasury CL people will have consulted one-on-one with about eighty Members and Senators by Tuesday evening. We will provide you with written reports on these meetings.

We also expect to hold group meetings on Tuesday with Republicans from both Houses.

II. FOREIGN POLICY ISSUES

1. Central American Supplemental

We will now work to have the Senate act on the House bill so that a conference can be avoided. In order to do this we have to accept the House language calling for repayment if Nicaragua is found to be "aiding and abetting" terrorism.

2. Foreign Assistance Appropriations Conference

The conference report on the FY-80 foreign assistance appropriations act has been filed. We expect House floor action Tuesday, and Senate floor action Wednesday.

The bill is roughly $200 million over the budget function ceiling. Given the pressure building in both Houses for spending cuts, the bill could run into trouble. We are especially concerned about the Senate and will be working to soften Chairman Muskie's opposition.

3. Military Assistance to Egypt

There has been less resistance than anticipated to your decision to sell F-15s and F-16s to Egypt, although Egypt's postponement of the purchase of F-15s has generated some relief.

The most aggressive of Israel's supporters, however, have made their support of Administration proposals contingent upon an equivalent increase ($200 million in FMS credits) for Israel. Senator Stone would like to have U.S. agreement to assist Israel in its advanced aircraft production program. Other creative proposals to bring Israel some relief will undoubtedly be surfaced.

THE WHITE HOUSE
WASHINGTON

04 Mar 80

Jim McIntyre
Charlie Schultze

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

Rick Hutcheson

cc: Secretary Miller

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

	ADMIN CONFID
	CONFIDENTIAL
	SECRET
	EYES ONLY

ACTION	FYI	
		VICE PRESIDENT
		JORDAN
		CUTLER
		DONOVAN
		EIZENSTAT
		MCDONALD
		MOORE
		POWELL
		WATSON
		WEDDINGTON
		WEXLER
		BRZEZINSKI
✓		MCINTYRE
✓		SCHULTZE
		ANDRUS
		ASKEW
		BERGLAND
		BROWN
		CIVILETTI
		DUNCAN
		GOLDSCHMIDT
		HARRIS
		KREPS
		LANDRIEU
		MARSHALL

ACTION	FYI	
✓		MILLER
		VANCE
		BUTLER
		CAMPBELL
		H. CARTER
		CLOUGH
		CRUIKSHANK
		FIRST LADY
		FRANCIS
		HARDEN
		HERTZBERG
		HUTCHESON
		KAHN
		LINDER
		MARTIN
		MILLER
		MOE
		PETERSON
		PRESS
		SANDERS
		SPETH
		STRAUSS
		TORRES
		VOORDE
		WISE

cc Bill
Stu
Charlie
J

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

FEB 29 1980

MEMORANDUM FOR THE PRESIDENT

FROM: Bob Bergland

You asked for ideas on actions the Government can take to help control inflation. I of course share your view that we must take strong and concerted action and do so very quickly. I believe a selective, targeted approach is necessary to control inflation. A number of ideas come to mind.

1. We must re-examine the availability of credit. Actions by the Federal Reserve to tighten up the availability of credit through increased interest rates are constructive. Implementation of selective credit controls should also be considered. We could encourage farm credit sources to tighten credit for land purchases in an effort to ease inflationary pressures on land prices and land rents. Purchases of large tractors, farm machinery and equipment should be discouraged unless they clearly reduce reliance on energy. However, this is difficult when we have special tax provisions that encourage producers to purchase machinery and equipment.

   Your budget documents the steady growth of Federally sponsored credit. Federal loans and loan guarantees outstanding are expected to increase by 28 percent, from $335 billion in 1979 to $429 billion, by the end of 1981. New loans will increase from $126 billion to $142 billion (13 percent) over the same period. It seems to me that the sheer size of these programs, their impact on the specific industries or activities they affect, and the widespread use of subsidized interest rates all indicate a strong need for re-examination in light of the current situation.

   Here in USDA, I find that my portfolio has grown to over $76 billion and annual loan levels have grown dramatically in recent years. Many of our programs continue to carry heavily subsidized interest rates. For instance, we make loans to public bodies for construction of community facilities at 5 percent interest. I have asked my staff to review our credit programs with an eye toward tightening them up wherever possible. This, of course, will need to be done on a selective basis making sure those that alleviate inflation are maintained. We may propose termination or reduction of some programs, or at least increases in interest rates where such action seems appropriate. There may be some instances where we will need to seek legislative changes from the Congress. I will report to you on the result of this review. You may wish to ask other agencies with substantial credit programs to conduct a similar review.

2. We must continue efforts to restrain Federal spending. The USDA budget includes proposals to reduce Federal outlays in Fiscal Year 1981 including proposals to change the authorizing legislation for child nutrition and other programs. All of these proposals are controversial and will need constant attention and support. I have just received a memorandum from Jim McIntyre in which he asks our cooperation in identifying additional possible budget reductions in controllable programs for 1981. He has provided a target figure for 1981 which appears to amount to about a 10 percent cut in our budget for controllable programs. We will, of course, do everything we can in this respect, but I think it is clear that it will be difficult to achieve further reductions of this magnitude without some controversial and dramatic proposals, possibly including severe reduction or termination of on-going programs.

   The extent of the budget problem is perhaps best illustrated by a quick review of the USDA budget numbers. Our 1981 "program level" is estimated at $48.4 billion. About half of this level is representated by credit programs which do not generate direct budget outlays. Ironically, it is these credit programs which would appear to have the greatest inflationary potential in terms of their actual operations. This is why I have ordered the review discussed above. USDA outlays, estimated at $20.1 billion in 1981, include over $14 billion resulting from uncontrollable programs. This figure would be even higher were it not for legislative initiatives to reduce costs. The remaining $6 billion largely represents programs which are not inflationary in and of themselves. Finding rational and defensible spending cuts in these programs will be very difficult.

3. We should also consider modifications in indicies. I favor the effort underway to shift indexing from the CPI, which is basically

a price index, to a cost of living index. Consideration should be given to going one step further, to develop and use indexes that are revelant for the group of concern as in the case with the Food Stamp Program. For example, retired and elderly people are sensitive to some inflationary pressures and relatively immune to others. They need specific information which is clearly related to their situation.

Generally, I believe it is important to keep in mind that actions taken to ease inflationary pressures could increase unemployment. This in turn, adds to our outlays for programs such as the food stamp program. We need to understand the real impact of all the actions that we take.

I am convinced that energy conservation measures are the most effective way of reducing inflationary pressures -- not on prices, but on expenditures. We are reviewing every single program to identify changes that can be made to encourage energy conservation.

THE WHITE HOUSE
WASHINGTON

3/4/80

Stripping:

Per the President's directions, please mail the attached letter to former Governor Dolph and Janie Briscoe so they can present the letter to their daughter.

Thanks.

Rick Hutcheson

cc: Frank Moore

NLV

NAME Dolph and Janie Briscoe

1054

TITLE former governor of Texas

CITY/STATE San Antonio, Texas

Phone Number--Home (512) 822-8610

Work ( )

Other (512) 278-9171 (can always tell you where to reach the Briscoes)

FMM

Requested by Frank Moore

Date of Request 2/26/80

INFORMATION (Continued on back if necessary)

Jack Brooks asked me to remind you to call the Briscoes to congratulate them on the marriage of their youngest daughter, Cele, who will marry John Carpenter (Ben Carpenter's son) on Saturday in San Antonio. Chairman Brooks told me that the two of you had talked about this phone call last night at the Kennedy Center.

NOTES: (Date of Call)

Letter written.
Send via Briscoes
Mail in Uvalde

THE WHITE HOUSE

WASHINGTON

3-3-80

To Cele and John Carpenter

Congratulations to you both! Rosalynn and I want to express our best wishes on your marriage this weekend. You have certainly joined two fine families.

Jimmy Carter

11:50 AM

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

March 3, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: John P. White

SUBJECT: Introductory Meeting with Bernard Rostker, Director of the Selective Service System

I. Purpose

For you to meet Bernard Rostker and talk briefly about the importance of Selective Service Revitalization and peacetime registration.

II. Background, Participants and Press

A. Background: Bernie has testified several times on the Hill recently in support of your Selective Service and registration decisions, and is doing an outstanding job.

B. Participants: Office of Management and Budget: John P. White

C. Press: White House photographer for group photographs. No press coverage is suggested.

PM

NAME WRIGHT, James C., Jr.

1078

TITLE Representative (D/Texas)

CITY/STATE Washington, D.C.

Phone Number--Home ( )

Work ( ) 225-5071

Other ( )

Requested by Frank Moore F.M. BK

Date of Request

INFORMATION (Continued on back if necessary)
The Foreign Assistance Conference Report will be on the House floor on Tuesday. It is going to be a very tough fight because of the budget balancing exercise. Foreign Assistance is an easy target. We will need the leaderships' help if we are to win. You should thank Wright for all the help he has given us on the Central American Supplemental and urge him to take a leading role on the Conference Report.

continued.....

NOTES: (Date of Call)

If you have not done so during other conversations, you might want to thank Wright for the role he is taking on the draft registration issue. In various meetings with Members, he has made clear that he expects the House to support you as a patriotic duty.

pulled

3:40pm

THE WHITE HOUSE

WASHINGTON

C

March 4, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: GENE EIDENBERG Gene

SUBJECT: Drop-by Briefing for Members of the American Section of the World Jewish Congress
March 4, 1980
3:40 p.m.
Roosevelt Room

Approximately 40 leaders of American Jewish organizations making up the American Section of the World Jewish Congress will be meeting in the Roosevelt Room at 3:30 p.m. today to receive briefings from Stu and Zbig. (names attached.)

This group is coming to the White House after having received earlier briefings from:

Hal Saunders, Hodding Carter and Matt Nimitz at the State Department; and

Harold Brown and General David Jones at the Defense Department.

This day-long series of briefings had been set for some time and was <u>not</u> scheduled in response to the U.N. Resolution controversy. The World Jewish Congress was chaired by Philip Klutznick at the time you appointed him to be Secretary of Commerce.

Secretary Klutznick will meet with the group for ten minutes before your arrival. Following your departure, Stu and then Zbig will brief them on domestic and foreign policy. The group will then move to the Commerce Department for a reception hosted by Philip Klutznick.

The purpose of your drop-by is to welcome this group of distinguished American Jewish leaders to the White House and by your presence to reassure them following the events at the United Nations this weekend.

You should know that the group has been directing pointed and hard questions to Administration briefers all day regarding the United Nations vote. There is deep skepticism and concern within the group that the vote was not a mistake and that the Administration is shifting position because of domestic political pressures. I am told the group will be meeting the press following their meeting with you. What they say will depend a great deal on the outcome of their meeting with you, Zbig and Stu.

Without in any way being defensive or personally apologetic, it would be very helpful if you noted the controversy over the resolution and reaffirmed your commitment to the Camp David peace process and the negotiations flowing from it. To the extent you allay fears that the events at the United Nations reflect a lessening of that commitment, these leaders will be reassured.

Zbig concurs in this recommendation.

There will be no press coverage, with the exception of the White House photographer.

Memorandum from . . . . **WORLD JEWISH CONGRESS**

One Park Avenue, New York, N.Y. 10016 • (212) 679-0600

List of participants attending WORLD JEWISH CONGRESS AMERICAN SECTION briefings in Washington, 4 March 1980.

American Jewish Congress	Howard Squadron	President
American Jewish Committee	Richard Maass	President
Agudath Israel	Benjamin Fishoff	Vice-President
B'nai B'rith	Jack Spitzer	President
	Daniel Thursz	Executive Vice-Pres.
Anti-Defamation League	Maxwell Greenberg	National Chairman
Americans for Progressive Israel	Moshe Kagan	Vice-Chairman, Am. Section
American Mizrachi Women	Roselle Silberstein	President
	Ruth Jacobson	Vice-Chairman, Am. Section
B'nai Zion	Herbert Berman	Treasurer, WJC Am. Section
Central Conference of American Rabbis	Herman E. Schallman	Executive Vice-Pres.
Emunah	Shirley Billet	President
	Toby Willig	Vice-Chairman, Am. Section
Hadassah	Bernice Tannenbaum	President
Jewish Reconstructionist Fndt.	Ludwig Nadelmann	President
Labor Zionist Alliance	Jacob Katzman	Vice-Chairman, Am. Section
Mizrachi Hapoel	Arthur Schneier	Chairman, American Section
National Federation of Temple Sisterhoods	Norma Levitt	Chairman, American Section U.N. Committee
Pioneer Women	Ann Block	Washington President
Poale Agudath Israel	Shumuel Schick	Vice-Chairman, Am. Section
Rabbinical Assembly	Saul Teplitz	President
	Wolfe Kelman	Executive Vice-Pres.
Union of Jewish Congregations of America	Samuel Brennglas	Vice-Chairman, Am. Section
	Julius Berman	President
United Synagogue of America	Simon Schwartz	President
United Zionist Revisionists	Morris Giloni	Vice-Chairman, Am. Section
Women's League for Conservative Judaism	Goldie Kweller	President
World Zionist Organization	Charlotte Jacobson	Chairman
Zionist Organization of America	Ivan Novick	President

Joseph Karasick	Past Chairman, American Section
Jacques Torczyner	Past Chairman, American Section
Arthur Hertzberg	WJC Vice-President
Samuel Norich	WJC Vice-President
Israel Singer	WJC Director, North American Office
Mark Bruzonsky	Washington consultant
Elan Steinberg	WJC, New York
Mark Friedman	WJC, New York
Gordon Rayfield	WJC
Daniel Abraham	WJC
William Goldberg	WJC
Claire Flanders	Photographer

THE WHITE HOUSE
WASHINGTON

3-4-80

To: Bill Miller
Stu

Sen. Byrd's selections:

R Byrd	Bentsen
Muskie	Cranston
Talmadge	Sarbanes
Magnuson	Jackson
Long	

They are ready to go to work -

J. C.

cc Frank

THE WHITE HOUSE
WASHINGTON

04 Mar 80

Anne Wexler

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

Rick Hutcheson

C

THE WHITE HOUSE

WASHINGTON

February 29, 1980

ADMINISTRATIVELY
CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: ANNE WEXLER AW

SUBJECT: ACTIVITIES REPORT -- WEEK ENDING FEBRUARY 29, 1980

1. Registration

At the request of John White and Harold Brown I have organized a task force to push our registration proposals and to coordinate outreach. For next Wednesday's Appropriations Committee vote, supporting organizations will contact undecided and opposing Congressmen at home over the weekend and in Washington next week through their Washington lobbyists. For the hearing on the registration of women, also scheduled for next Wednesday, we are working with Sarah's office to coordinate supporting testimony although we hope to get the hearing postponed. I have asked the agencies to improve our materials to better deal with issues that have been raised. For the longer term, we are developing new media materials and placing speakers on campuses as occasions arise. Our support is a good cross section--- veterans, minorities, labor and some student, women's and religious groups --- even the National Rifle Association (any port in a storm). We are working to expand the base and make it more visible. A coalition of students from the Young Democrats and Young Republicans have formed the Student and Youth Coalition to Defend Democracy.

2. Inflation

Beginning yesterday morning and ending COB on Monday, we will have held about fifteen consultation sessions with interest groups. Each group is given a brief overview of the economic situation by an EPG deputy and is told that we want their views as no decisions have been made. The continuing nature of our anti-inflation effort and the fact that all options require some sacrifice are stressed. We will prepare a summarized report for the EPG and you by Tuesday afternoon, March 4.

3. Miscellaneous

- A computer tracking system to monitor the energy conservation efforts which the agencies have committed to undertake.has been developed. This system is based on the successful system which Al McDonald and I used to monitor and coordinate agency action for the MTN and which I used for coordination on SALT. It should help with accountability

- It still appears that the White House Conference on Families will be a battle ground based on right wing ideological objections. I understand Governor and Mrs. James have pulled Alabama out of the Conference, Mrs. James apparently being concerned with the idea of "diverse family forms".

- We brought in business, labor and religious groups to get their help on the Hill next week on the foreign aid conference report. They are lobbying with our C.L. people for the vote next week.

9:55 AM

March 3, 1980

MEETING WITH REP. LEO ZEFERETTI

Tuesday, March 4, 1980
9:55 a.m. (5 minutes)
The Oval Office

From: Frank Moore FM/BR
Jon Tumler JT

I. PURPOSE

Congressman Zeferetti wants to endorse the President for reelection.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: The Congressman's decision to endorse the President at this time is the result of a telephone conversation he had with Chairman Strauss a few weeks ago. A previously scheduled endorsement meeting was cancelled when the Congressman was unable to return to Washington from New York. He has been quite anxious to endorse, and may have mentioned this during the telephone conversation the President had with him last weekend. (The Congressman had hoped that Chairman Strauss could attend this endorsement meeting, but the Chairman must be in Chicago.)

By way of issues, recently the Congressman has expressed interest in the price of home heating oil, the Pan Am/ National Airlines merger (pro), Iranian students in the U.S., and the Administration's energy program (supportive). Also, in a letter dated January 23, 1980, the Congressman suggested that all U.S. ports be closed to the Soviet merchant marine fleet.

B. Participants: Congressman Zeferetti and a Mr. Carlo Corsuti, a New York attorney, local Democrat, and friend of Mead Espositio (Brooklyn Borough president). Mr. Corsuti served at the White House Conference on Small Business, and is on the Naval Academy Advisory Board.

C. Press Plan: Brief photo session with AP, UPI and New York Times only.

THE WHITE HOUSE
WASHINGTON

3/3/80

Mr. President:

Bob Strauss would like to bring Al Shanker of the American Federation of Teachers and Barry Feinstein of the Metro Labor Council of NYC to endorse at the end of this meeting. Landon agrees with this request. May I schedule?

__✓__ yes ____ no

Phil

6:30 PM

C

THE WHITE HOUSE

WASHINGTON

March 3, 1980

DINNER WITH THE DEMOCRATIC LEADERSHIP ON THE ECONOMY

Monday, March 3, 1980
6:30 p.m. (wine)
7:00 p.m. (dinner)
The Family Dining Room

From: Frank Moore F.M.

I. PURPOSE

To discuss with appropriate Congressional leaders steps to be mutually taken to halt inflation and strengthen the economy.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: All the people attending tonight have met with the President's chief economic advisers. Any decisions the Administration makes will have to have the support of most of this group to ensure passage and will have to have their outspoken approval before our efforts will be believable within the private sector. The scenario should be one of the President calling in Democratic leaders to discuss the economic conditions of the nation.

B. Participants: The President, The Vice President, Secretary Miller, Stu Eizenstat, Frank Moore, Senators Byrd, Bentsen, Muskie, Magnuson and Cranston and Congressmen Wright, Ullman, Whitten and Ashley. Senator Long and Congressmen O'Neill, Giaimo and Bolling are unable to attend.

C. Press Plan: White House photo only

III. TALKING POINTS

We are all in this together as Democrats. I need your help. The worse thing we could do is to try and fail. It would be open season on us by the Republicans. If I try and fail without your help it gives me open season to run against the Congress as a President who has tried to do something about inflation but has received no help.

Never before has the Congress been willing to cut the budget in areas that are now necessary. Unless this leadership group speaks out, their colleagues in the private sector will not respond.

Secretary Miller and your other economic advisers have already briefed everyone attending this meeting about where we are and how we got here. You should allow each participant to speak, if possible calling on Senator Muskie last as he does the best job of summation and will do the best analyses of the Congressional realities of the situation.

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

C

February 29, 1980

OFFICE OF THE
ADMINISTRATOR

Dear Mr. President:

Thank you very much for signing the picture Lucie brought to you yesterday.

The EPA Guidance Cup was a great success. Since Doug Costle's team won, we awarded your picture to him. He is very proud of it, showing it to everyone, and promises to hang it in his office.

Thanks again.

Ken Caufield

THE WHITE HOUSE

WASHINGTON

March 4, 1980

C

MEMORANDUM FOR THE PRESIDENT

FROM: Frank Moore F.M. / m

The House Government Operations Committee, after very brief discussion, passed a one-year extension of your reorganization authority by unanimous voice vote this morning.

1:45 PM

CONFIDENTIAL ATTACHMENT

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

February 29, 1980

C

MEMORANDUM FOR THE PRESIDENT

FROM: G. William Miller Bill

Subject: Background for Meeting, Friday, February 29, 1980
1:45 - 2:45 p.m.

Attached is an outline of the subjects for our meeting today.

CONFIDENTIAL ATTACHMENT

2/28/80

1981 Budget Cut Options
(Outlays in billions)

Option A

1. Indexing

a. Adjust CPI calculation to use of rental services basis...... (-$4.0)

b. Cap CPI at 10%.. (-4.8)
Assume "a".. -4.0

2. Deferral of new proposals

a. Delay welfare reform by one year........................... -.9

b. Close one-half the welfare demonstration site............... -.1

c. Hold low-income energy assistance to 1980 level............. -.8

d. Cut non-defense personnel amounts by 2%..................... -.6

e. Delete 1981 State grant program in land and water conservation fund.. -.2

Total, deferral of new proposals.................... -2.6

3. Across-the-board cut of 10% in gross obligations, excluding defense and non-controllable programs (reducing obligations by 22 billion)... -6.0

Total, Option A.................................. -$12.6

Option B

1. Indexing

a. Adjust CPI calculation to use of rental services basis...... (-$4.0)

b. Cap CPI at 10%.. (-4.8)
Assume "a".. -4.0

2. Deferral of new proposals

a. Delay welfare reform by one year........................... -.9

b. Close one-half the welfare reform demonstration sites....... -.1

c. Withdraw anti-recession fiscal assistance proposal.......... -1.0

d. Reduce general revenue sharing by one quarter............... -1.7
(In total--State share 1.7)
(--local share 5.2)

e. Defer mass transit and auto-use management energy initiatives.. -.3

f. Defer youth initiative one year............................ -.2

Total, deferral of new programs.................... -4.2

3. Delay of postponeable, investment-type activities

    a. Delay construction for Corps of Engineers, Interior, Energy (waste isolation pilot plant, SPR facilities), Agriculture, Commerce (ship construction).................... -.2
       Transportation - limit 1980 obligations for highway program.. -.4

    b. Terminate or delay NASA science program (Galileo, gamma ray observatory, space telescope, solar polar mission and construction).................................... -.1

    c. Hold funding for Economic Development Assistance in 1980 to the 1979 base level.................................. -.2

        Total, delay in postponeable, investment-type activities.................................... -.9

4. Reduction in increases proposed in the 1981 budget or in lower-priority programs

    a. Limit Trade Adjustment Assistance cash benefits to workers who have used up their employment insurance.................. -.2

    b. Delay and terminate various Corps of Engineers non-construction activities.................................... -.05

    c. Small reduction in EPA programs for State program grants, extramural contracts, etc................................. -.02

    d. Phase out the Young Adult Conservation Corps................ -.2

    e. Defer urban parks and recreation grants..................... -.08

    f. Eliminate State grant program in land and water conservation fund.. -.24

    g. Stretch out magnetohydrodynamics program................... -.02

    h. Reduce nuclear fission and conservation technology.......... -.07

    i. State: Reduce refugee assistance.......................... -.02

    j. Foreign aid: Reduce Energy Security funding by $100M; cut P.L. 480 by %50M, and World Bank selective capital increase by $20M.. -.13

    k. National Science Foundation: Cancel research facility upgrade program in 1981; delay (by one year) expansion of industry/university cooperative research; and phase down NSF role in most areas of applied research................. -.03

l.	Hold low income energy assistance program to 1980 level......	-.8
m.	Reduce Title VI Public Service Employment jobs from 200,000 to 150,000..	-.5
n.	Reduce by one-half reimbursements to Cuban refugees who entered the U.S. before October 1, 1978......................	-.02
o.	GSA: Reduce National Defense Stockpile acquisition..........	-.02
p.	Government-wide: Set limit on amounts for consultants.......	-.04
q.	Agriculture: Terminate Youth Conservation Corps and reduce water and sewer grant program................................	-.1
	Total, reduction in increases and in lower priority programs..................................	-2.5
5.	Across-the-board cut of 2.0% in gross obligations, excluding defense and non-controllable programs (reducing obligations by 4.4 billion)..	-1.2
	Total, Option B..................................	-12.8

DRAFT 2/29/80
~~CONFIDENTIAL~~

INTENSIFIED ANTI-INFLATION PROGRAM

I. Budget

Objective: To establish confidence in a fiscal policy of restraint and austerity, fairly shared.

A. FY 1980 Budget: As evidence of budget restraint, some spending reductions (about $4 billion) would be proposed for FY 80 and an immediate freeze on new hiring of government personnel.

This could be coupled with a re-iteration of the commitment to achieve all cuts in the budget proposed in January and pledge not to submit any supplementals (including defense) without offsetting reductions.

B. FY 1981 Budget: A balanced budget for FY 81, to be achieved by a combination of spending cuts and revenue increases balance to be maintained after March re-estimates of both expenditures and revenues.

Spending Cuts ($12 billion):

To be credible, it would be necessary to be sufficiently specific as to programs or areas of spending cuts (schedule of potential cuts to be supplied by OMB):

1. Limit indexed expenditures more in line with cost-of-living rather than CPI (potential savings of $4 billion), plus
2. Cuts in specific programs, plus
3. Percentage cut across board (except defense, interest, personnel and entitlement programs) in an amount necessary to achieve a zero deficit.

~~CONFIDENTIAL~~ Jug 10/1/90

4. Defense expenditures to be held within budgeted levels.

5. Push for enactment of all cuts requiring Congressional action which have already been proposed.

Revenue increases: ($10 billion):

Option A: Propose tax measures to increase revenue by targeted amount. Schedule of potential items to be supplied by Treasury.

Option B: Oil import fee (possibly allocated to gasoline only). Equivalent of 10 cents per gallon on gasoline would yield about $11 billion.

Pro: Establish confidence, dampen inflationary expectations, help stabilize markets. Less impact on social programs.

Can be accomplished immediately by residential decision without Congressional action.

Con: The oil import fee would contribute to inflation.

C. Congressional Involvement: The budget action should be undertaken with close consultation with the Budget Committees and Congressional leadership. Explicit support by Congressional leadership would be obtained in advance.

II. Credit Limitations

Objective: To demonstrate commitment to control excess credit and thus to restore confidence in the financial markets.

A. Independent Federal Reserve actions.

The Federal Reserve is considering actions which it will take independently (but with coordinated timing) to reinforce credit restraint consistent with already announced targets. These will be within the general framework of the October 6 actions, but, to the extent feasible, designed to maximize "availability" rather than "interest rate" effects. They could include:

1. Action to tighten existing marginal reserve requirements on liability expansion. These requirements, imposed in October, are not "binding" on most banks now.

2. A more visible program of voluntary credit restraint, with reporting requirements, aimed primarily, but not entirely, at banks. This program will emphasize restraint on total lending, but with special accommodation of small business and mortgage lending to extent feasible. Emphasis would be placed on discouraging "take-over" or "speculative" financing.

B. Credit Control Act of 1969.

Invoke the Credit Control Act of 1969, specifically to provide mandatory control of some types of consumer credit, particularly credit cards. The Federal Reserve would then act to constrain credit not tied to autos, home repairs, or mobile homes (where restraint is not desirable) by a system of special reserve requirements of say, 10 percent, on any increase in outstanding amounts.

Pro: Restraint on growth of consumer credit would directly carry the message to the American public of the need for restraint. Many credit card issuers might welcome official sanction for pulling back from business that is currently unprofitable, and there could be some favorable effects on consumer saving.

Con: The Federal Reserve Board notes that coverage, would be only on $70 to $200 billion of credit and borrowing might take different forms.) It would be administratively cumbersome because tens of thousands of individual lenders are involved (many of which would have to be exempted).

III. Wage Price Program

Objective: Strengthen program to moderate wage and price increases through voluntary cooperation.

A. Re-iterate opposition to mandatory wage and price controls.

B. Announce new pay standards in line with Pay Advisory Committee recommendations.

C. Maintain the current price standard and tighten it further by disallowing passthrough of wage increases in excess of 8.5 percent.

D. Increase the price monitoring staff significantly perhaps to the 300-400 range persons (from the current level of 80 persons).

Pro: Would permit closer scrutiny of price increases and demonstrate importance of compliance.

Con: May be perceived as first step toward mandatory wage and price controls.

E. Explore vigorously all possibilities of proceeding against already cited non-compliers with the price standards, including application of existing sanctions.

F. Appoint a prominent, qualified, person with legal, accounting, and auditing talent to assume responsibility for the price monitoring operation.

G. Give greater visibility to wage-price monitoring activity, including more aggressive publicity of the names of companies out of compliance.

H. The President's personal involvement would be part of this program.

I. The credibility of the entire program will be severely tested by the steel wage negotiations, and a high level coordinated effort should be undertaken to prevent an excessive wage settlement.

IV. Energy

Objective: Increase effort to conserve energy and reduce our dependence on foreign oil.

A. Redouble efforts to secure passage of remaining energy legislation.

B. Promulgate national target for state gasoline consumption of 7.0 mmb/d.

79 = 7.4
80 = 7.2 → 7.0
7
6.7

Based on Federal Highway data, current consumption of gasoline is projected by DOE to be 7.2 mmb/d in 1980, 200,000 b/d less than in 1979. State conservation actions could probably reduce this level by another 200,000 b/d. Should additional restraint measures (such as import fee) be proposed, consider lowering the state targets, perhaps to 6.7 mmb/d.

C. Impose a fee on imported crude oil and direct the price effects to gasoline refining.

An oil import fee of roughly $4.50 translates into an increase of gasoline at the pump of 10 cents per gallon.

Pro: Would generate revenue of about $11 billion in FY 1981 and help close any budget gap.

Would result in import savings of roughly 50,000 barrels per day in the first year. Oil import savings would rise to approximately 250,000 b/d after a few years.

Con: Would have an immediate adverse impact to the CPI, adding roughly .5 percentage points to the index at a time of intense inflation.

Might provoke oil producing countries to increase prices further.

D. If the import fee is imposed, lower the oil import quota from 8.2 mmb/d to 7.5 mmb/d.

E. Organize a high visibility, intensified communications program spearheaded by a non-partisan, prestigous group of citizens named by you.

V. Commodities

Objective: Dampen speculation in commodity markets which may exacerbate future inflation.

Consult with the CFTC and the Federal Reserve about action such as increasing margin requirements on commodity futures transactions and other appropriate steps to dampen excessive speculation and cool inflationary expectations.

VI. Regulatory Program

To be developed by Fred Kahn and CEA.

VII. Procedure

A. Announcement by the President of his decisions in an address before a joint session of Congress, possibly on Thursday, March 6, 1980;

Pro: Prompt action soon would put the Administration in the forefront of the battle against inflation and satisfy mounting Congressional and public pressure.

Con: Budget re-estimates will not be available until March 17 and full details of program remain to be worked out.

B. Continue consultations with Congressional leadership and various domestic constituencies prior to any announcement in order to receive their ideas and get a better sense of their views and possible reactions;

C. Seek Congressional leadership support for decisions prior to announcement;

D. Conduct a limited number of discussions with our allies, including Saudi Arabia on the appropriate proposals;

E. Organize series of coordinated follow up sessions, after announcement of decisions, to maintain momentum and build support for the elements of the program.

Classified by Randall K.C. Kau
☐ Declassify ☐ Review for
Declassification on March 1, 1986

THE WHITE HOUSE
WASHINGTON

3-4-80

To Stu

(1) We are in a period of budgetary stringency and to maintain a $12 billion program which is all new & cut back proven & existing programs would be difficult to justify. Therefore, I want to reduce the total package cost.

THE WHITE HOUSE
WASHINGTON

(2) With 25 or so plants scheduled to convert without any federal subsidy, I am convinced that much of the conversion funding will be unnecessary or excessive. (Are we going to pay the 25 if the bill passes? Will all of them wait now until the legislative issue is resolved?)

THE WHITE HOUSE
WASHINGTON

(3) The acid rain problem is of deep concern to me. The Congress must be warned, then data must be presented to the public as obtained in the future, then action must be taken to deal with this new & serious environmental issue. A brief message on this should be included.

THE WHITE HOUSE
WASHINGTON

(4) I would like to achieve our 1 million bbl/day saving target, with as much of it coming from conservation in existing plants as possible.

Also, we should first back out on oil before we shift to gas → coal conversions.

THE WHITE HOUSE
WASHINGTON

(5) Let all of it be financed out of WPT, and for 1981 FY minimize expenditures and let DoE absorb the funding amount.

THE WHITE HOUSE
WASHINGTON

(6) FUA administration
Complexities & red tape
should be reduced.

(7) I prefer: a) no more
than 50% federal
funding of capital costs
in phase I

b) a means in Phase I
to prevent overcharging
for capital costs.

c) Phase II payments
should be about the same
as Ph. I on a "per barrel
saved" basis - (~ $3.50)

THE WHITE HOUSE
WASHINGTON

d) Approximately $400 mil. to reduce SO_2 emissions among <u>other</u> plants which contribute most to acid rain problem

e) a total cost of no more than $9-$10 billion.

J. C.

2:45 pm

PERSONAL - NOT FOR CIRCULATION

Stu - see note
J

THE WHITE HOUSE

WASHINGTON

March 3, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Meeting on the Utility Oil Backout Legislation

Prior to our meeting this afternoon on this legislation, I wanted to make a few additional points about my concerns with the EPA "constant emissions" approach:

1. The depth and extent of the acid rain problem is not yet known. Research is now going forward throughout the government, and it is being studied as well in the Congress. I think that it is premature to base our entire utility conversion program on data not yet fully analyzed and possibilities not yet understood.

2. A constant emissions policy goes beyond the requirements of the Clean Air Act. That is clearly recognized by all of the supporters of utility conversion. As a result, they believe that a constant emissions policy is actually a "backdoor" tightening of the Clean Air Act. This problem is simply not dealt with in the current Act. We should not deal with it without further study.

3. Aside from the two substantive issues just mentioned, a constant emissions policy would impair your image in coal States as the first President in recent times who is truly concerned about coal; would impair our relationships with the coal industry and the UMW; would disrupt our relations with Senator Byrd and the entire coal caucus; and would overrule the recommendations of your Commission on Coal, chaired by Governor Rockefeller:

- Over the past several years, we have worked hard to convince coal States of our commitment to increase production. In fact, production has not increased significantly, and coal and political leaders in those States have begun anew to question our commitment. The utility bill is seen as the measure of our commitment to coal. This is clear from discussions with leaders from Illinois, Pennsylvania, Kentucky, and West Virginia. As we head into primaries in those States, our support in the coal areas will evaporate if we adopt a constant emissions policy.

- o We have developed a solid relationship with the coal industry. Recently, industry leaders have been helpful with lobbying the energy package through Congress, particularly the Energy Security Corporation. We are also now developing a very solid relationship with Sam Church, the new President of the UMW. As you know, he wants to be supportive of the Administration and your candidacy, and has been looking for ways to do so. Without doubt, our relations with both the industry and Sam Church would be hurt almost beyond repair with a constant emissions policy.

- o Senator Byrd's principal legislative concern in recent months seems to be the utility legislation. He has been upset with the Administration for delaying the submission of this legislation for so long, but that problem can be overcome with a bill he can support. I met with Senator Byrd on Friday; he indicated clearly that he could not support a constant emissions policy. Other members of the coal caucus would be similarly unreceptive. Senator Ford, for instance, has withheld submitting his own bill for several months with the expectation that we would be submitting legislation he could support. That would not be the case if we proposed a constant emissions policy, and he would then proceed with his own bill. That bill would no doubt receive the support of the entire coal caucus and would become the main legislative vehicle in the area.

- o Your Coal Commission has proposed legislation along the lines of that developed by the Department of Energy. The Commission strongly opposes a constant emissions policy. If you were to propose such a policy, we would of course suffer some embarrassment from the fact that you would be rejecting one of the major recommendations of your own Commission. But, more importantly, you will be forcing Governor Rockefeller, in his view, to oppose your legislation and to repeatedly take public stands against our coal policy.

4. It is perhaps unfortunate that the coal industry and its leaders are so adamant against consideration of any modifications along the lines of those developed by EPA. But those are the circumstances with which we must deal. If you propose a constant emissions policy, there will be no support for the bill at all. The environmentalists, who favor constant emission, do not have the clout in Congress to pass such legislation, and indeed they would really not want to do so. The environmentalists would prefer no conversions, and consent to a constant emissions policy only if there has to be a bill.

5. I understand your concerns with the environmental issues raised by EPA. But I do not believe that we can afford now to propose a constant emissions policy that will ensure the defeat of our bill. The defeat of our bill will probably mean there will be no conversion bill this year, and thus we will not be taking the action needed to reduce demand for another 1 million barrels of oil per day.

6. We have a true energy crisis -- as you have so often pointed out. We <u>must</u> get foreign oil out of utility boilers and replace it with coal. In the midst of this crisis to take what will be clearly perceived as a step away from coal will send very bad signals of our seriousness in dealing with the energy problem.

THE WHITE HOUSE

WASHINGTON

February 28, 1980

20,000

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Utility Oil Back-out Legislation

I would like to give you my thoughts on the utility oil back-out bill.

On the first issue, the size of the program, I believe that $12 billion is necessary to carry through on our oft-stated commitment to reduce oil consumption through increased use of coal. While we clearly must work with OMB and DOE to delay FY 1981 outlays (with effort, I believe they can be kept at or below $100 million), we are too far out front on this issue to retreat from a large program. Furthermore, the program will be funded out of the windfall profits tax.

The structure proposed by DOE for a $12 billion program is the one favored by Senator Byrd, Governor Rockefeller, Senator Ford, and other coal state officials. It is the one I recommend.

The sulfur dioxide emissions issue is much more difficult. On the one hand, it seems hard to believe that with $12 billion, we cannot find a way to convince the coal industry and the UMW to accept a reasonable constant emissions policy. On the other hand, the coal people I have spoken with all say that a compromise is impossible, at least at this time. The coal industry is the only constituency which we have for this legislation, and without them, the bill will be declared dead the day it is announced. (Byrd and Rockefeller have both indicated they would not attend an announcement ceremony if you decided in EPA's favor.) (See Governor Rockefeller's attached letter to you.)

As a result, I have recommended against the constant emissions policy in favor of the DOE option.

There is, however, a possible compromise which you may want to consider. Much of the current pressure from the Congress comes from those who want a bill this year and who fear that time is running out. It is possible to send forward the basic proposal but indicate that the acid rain/sulfur emissions question requires further study and we will make our recommendation to the Congress on this issue later.

This strategy would permit Senators Ford and Byrd to begin work on the legislation, including holding hearings. Over the next month or six weeks, we could work to try to put together a coalition of coal interests, the UMW, and northeastern states on an emissions policy all can accept. At that time, our recommendation could be sent to the Hill for inclusion in the legislation.

From your perspective, this strategy has several advantages:

- It takes some of the heat off of you on the emissions issue and, properly I believe, places it on those who have dogmatically opposed any consideration of limiting emissions in this program.
- It will let us test the strength of those who might oppose the bill on environmental grounds and see where compromises might be possible.
- It preserves a coalition of support for the bill upon introduction and lets the process start moving ahead.

It also has several disadvantages:

- You will be criticized by some for taking so long to send this bill to Congress without resolving this critical issue; and
- It runs the risk of failing to satisfy any of the competing interests on this bill.

On balance, I believe that a compromise might be the best solution. If you choose either of the options as presented in the longer decision memo, the bill will face rough sledding from the opponents of your decision. If this bill is to pass, a compromise of some kind is inevitable.

When the coal interests recognize that some compromise is required, we may be able to put together the kind of coalition (particularly through the UMW) which the coal companies and the environmental groups can live with. It is only with this kind of coalition that I believe a bill stands any chance of passing this year.

I have not discussed this recommendation with others as yet since it would only have delayed getting the basic decision memorandum to you. If you want me to explore this further -- or, better, if you direct EPA and DOE to work together to outline a program for further review of this issue -- we can still have a bill ready to go to the Congress next week.

JOHN D. ROCKEFELLER IV
GOVERNOR

February 26, 1980

The President
The White House
Washington, D. C.

Dear Mr. President:

I have repeatedly urged the coal and utility industries to accept existing Clean Air Act regulations on coal burning and to drop their campaign to weaken the Act. This has not been a politically popular position for me. No one wants to see strong coal conversion legislation more than I do. But I believe it is the correct position and I believe the industry is prepared to accept it.

Therefore, I am greatly concerned that on the eve of what could be a long overdue boost for coal, the miner, and the country, there may be an eleventh hour attempt to use the coal conversion bill to tighten existing Clean Air regulations. This would be an enormous mistake.

If the Clean Air Act needs to be amended to cover long-range transport and acid rain problems, then this should be done. A "backdoor" effort to tighten regulations on coal burning through the utility back-out bill would be bad public policy. It would destroy the coal and utility industry coalition now willing to accept existing regulations on coal burning, setting us back to square one; it would not have the support of the Coal Commission; and, in my judgement, it could ultimately lead to a bitter confrontation and significant weakening of the Clean Air Act and its regulations.

I can think of no surer way to produce a stillborn coal conversion bill than to use it to further tighten the emissions requirements of coal burning at this time of unprecedented inflation.

I look forward to continuing to work with you to enact effective coal conversion legislation to cut oil imports.

Sincerely yours,

Jay

DECISION MEMO

THE WHITE HOUSE

WASHINGTON

February 28, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Utility Oil Backout Program

Introduction

The electric utility industry consumes about 3 million barrels per day of oil and natural gas (equivalent). This sector of the economy can achieve substantial near-term savings of oil and gas, particularly through conversion of existing facilities to coal, construction of replacement facilities, co-generation and conservation measures such as peak load management and weatherization.

Since 1974, Congress has enacted several regulatory programs designed to shift oil- and gas-fired utilities to coal and other alternate fuels. At least prior to 1979, these programs have not been effective in getting utilities to convert--even though the economics of conversion have become increasingly attractive. To date, only two out of approximately 150 coal-capable units have actually been converted. Under the Fuel Use Act of 1978 (FUA), for which regulations were issued in August, 1979, 20 conversions have been ordered; DOE will order additional conversions under FUA in 1980.

Regulatory and financial impediments have constrained utilities from voluntarily accelerating oil and gas replacement--action which would otherwise be justified to reduce costs to utilities and ratepayers, especially given rising oil and gas prices.

The major financial and institutional factors inhibiting voluntary conversions and other oil use reductions are:

a. State utility regulation which permits (in many cases) automatic recovery of fuel costs (for existing facilities) while preventing the recovery of capital costs until the facility involved is actually in use; and

b. Difficulties in raising capital because of poor cash earnings resulting from rate decisions (many utilities are legally constrained from issuing new debt; equity issues are constrained by stock already selling below book value).

c. Politically-inspired reluctance by State regulatory commissions to permit rate increases needed to finance new investments to reduce oil and gas consumption.

The Federal policy options available to deal with these barriers are limited.

The cheapest solution would be Federal preemption of State utility rate regulation to assure adequate utility earnings to finance conversions. This option is not, however, considered politically viable and, in any event, could leave some "reluctant" States with adequate opportunities to delay conversions or other oil reduction strategies. While grants should overcome this reluctance, they shift some of the burden of paying for oil use reductions to the general taxpayers, even though individual rate-payers will benefit from such action over the longer run. There are, however, general benefits to the Nation as a whole from reducing oil dependence.

Grants constitute the most effective and useful form of financial assistance to utilities; loans or loan guarantees would not assist utilities already at or near debt ceilings. By providing a significant portion of the capital required to meet program targets through direct cash grants, the amount of capital the companies need to raise through higher earnings (and higher rates) and from external sources is reduced.

Many State regulatory commissions have not allowed most utilities high enough rates to cover costs of cost-effective capital investments. Thus, unless State regulators change their policies or a Federal program is developed to overcome these barriers, oil and gas consumption will not be reduced and could actually increase in the near-term. Such increases could occur even though reasonable forecasts of rising future world oil prices will make significant levels of oil displacement even more economic. Without such a Federal program, it is likely that utility rate-payers will incur higher electricity rates due to rising oil prices and the Nation will lose the economic and national security benefits which would result from an accelerated oil displacement effort.

$12,000/barrel

Background

The Original Proposal

Your July 15, 1979 energy message contained a program to reduce the use of oil by electric utilities by 50 percent in 1990. The original program set up a regulatory system based on allocation of oil consumption rights (i.e. tickets) to utilities at 50 percent of a base period usage. Consumption in excess of allowable levels would have been penalized by imposition of a specific dollar per barrel penalty. A grant program of $5 billion (linked to the windfall profits tax) was included to assist utilities in financing oil displacement efforts.

This program was based on analyses which showed that at least 50 percent of utility oil consumption could be economically displaced at the prevailing oil prices ($30 per barrel).

Subsequent review within the Administration and the Energy Coordinating Committee resulted in expanding the program to include natural gas displacement; defining a 1 million barrel-per-day displacement target; and increasing the grant program to $12 billion (subject to your final review). The proposal to increase the grant program was linked to the inclusion of natural gas displacement in the program's objectives and greater recognition of the financial burdens implicit in the 1 million barrel-per-day target and higher projected receipts from the windfall profits tax.

This program, however, failed to achieve significant support among various constituencies (e.g., coal, utilities, State public service commissions, consumer groups). In particular, the utility industry objected strenuously to the mandated 50 percent reduction target and associated penalties in the absence of assurances of adequate funds to finance new facilities. Coal interests expressed strong objections to the lack of any reasonable assurance of near-term increases in coal utilization (particularly in view of the depressed conditions and unemployment in the coal industry).

An alternative legislative proposal was developed which is more responsive to the concerns of several constituencies (e.g., coal and utilities) and provides financial assistance to overcome major impediments to prompt oil and gas displacement.

The Basic Proposal

The basic proposal would establish a two-phase program for achieving a reduction in electric utility oil and gas use of 1 million or more barrels per day by 1990 and provide Federal grants to assist utilities in meeting this objective. While there are differing approaches to this program presented for your decision, the following elements are common to all options.

Phase 1 - A number of oil- and gas-fired power plants capable of burning coal or other alternate fuels would be designated in the legislation and prohibited by statute from using oil or gas. The Secretary of Energy could add to the list of plants within a specified time frame. Funds would be available for grants to be awarded by the Secretary of Energy for some of the costs of conversion. The bulk of the affected power plants are located in New York, Massachusetts, Connecticut, New Jersey, Pennsylvania, Maryland, and Virginia. (A map showing their distribution is attached as Tab A.)

Phase 2 - Utilities would be awarded a grant based upon each barrel of oil or gas reduced from current levels of use. Utilities wishing to participate would develop and submit to DOE fuel displacement plans. Plans must be approved at the State level, after consideration of quantitative cost-effectiveness studies of all reasonable alternatives to oil and gas. Plans would include assessments of: (1) financial feasibility; (2) environmental impacts; and (3) the cost-effectiveness of reasonable alternatives to oil, including use of coal, nuclear, synthetic fuels, solar and renewable resources; a program of energy conservation; or to a combination of these options. Funds under this phase will be available to all utilities, thus adding regional balance to the program since Phase 1 primarily benefits the Northeast.

Issue I: Level of Program Funding and Formula for Awarding Grants to Utilities

At issue are:

- The level of funding targetted for reduction of oil use in power plants capable of burning coal;
- The total level of funding for the program; and
- The formula for awarding grants to utilities under both phases of the program.

Background

In January, DOE proposed, and discussed in general terms with key members of Congress, an oil reduction program funded at $12 billion. Half of the total, or $6 billion, would have been earmarked for conversions to coal or alternative fuels (refuse or coal-oil mixtures) at facilities now burning oil or gas but capable of burning coal (Phase 1).

The remaining $6 billion (Phase 2) would have been allocated to utilities to reduce current oil consumption by 1990 using whatever means they choose. Principal alternatives under Phase 2 would be additional conversion, early retirement of oil and gas burning facilities and replacement with new coal, solar, or nuclear plants, and conservation.

$8 bil
FY 81-85
FY 81 22m

The options presented below reflect two differing approaches to the initial DOE proposal. Based upon the original regulatory proposal of last July, however, your FY 1981 budget shows budget authority of $8 billion for this program from FY 1981 to FY 1985. (The remaining $4 billion of the original program would have been spent after FY 1985, years which are not shown in this year's budget.) Outlays for FY 1981 in the budget are $22 million. All options outlined below would increase FY 1981 outlays. Option 1 would increase outlays by $600 million; options 2 and 3 by $400 million, unless the program is specifically delayed to push outlays to FY 1982. Our estimate is that this would delay all three program options by up to 6 months. (Option 1 would increase FY 1982 outlays by 1.1 billion; option 2 by $350 million and option 3 by $700 million).

At various times in the last two months, you, Secretary Duncan, and other senior Administration officials have referred to a $12 billion utility oil reduction program. OMB does not believe any funding is needed, but, if there is a program, funds should be reduced to $6 billion since:

1) the program's original regulatory features have been eliminated;

2) with sharply higher oil prices utility investments to cut oil use are very economical;

3) by 1990 utilities are likely to make many of these investments without grants.

DOE believes that the financial exemptions permitted under the Fuel Use Act are a major constraint to conversions, and that a grant program of $4.5 billion is essential to overcome the barriers listed earlier in this memo. The remaining $7.5 billion is needed to achieve our target of 1 million barrels per day savings in oil and gas use.

Funding for the program is scheduled to come from the Windfall Profits Tax. The Conferees' allocation of WPT net revenues for "energy and transportation" make room for only $8.5 billion for the program if all other obligations are met from that account. Any further funding must come from general revenues. Because the Conferees' allocations can be varied by the authorizing and appropriating committees, the real issue is whether $12 billion makes sense in light of the total budgetary outlook over the 1980's.

The main options presented for your consideration are:

Option 1 -- A $12 billion program with $4.5 billion earmarked to pay about 2/3 of the capital costs of converting existing coal-capable oil or gas fired plants to coal or alternative fuels (Phase 1); the remaining $7.5 billion would be allocated by formula to utilities for voluntary investments made to reduce 1990 oil and gas consumption below base period use in 1974-78 (Phase 2).

Cost $13/bbl

Option 2 -- A $6 billion program which would award grants to utilities for any oil or gas reduction achieved at a rate of $3 per barrel. Up to $3 billion would be earmarked for conversion of coal-capable units. Grants would be limited to $3 per barrel, not to exceed 50 percent of the capital costs of conversion. The remainder would be allocated to utilities for oil and gas reduction achieved by 1990 below base period consumption for 1974-78.

$3/bbl

50% conversion cost

Cost $9/bbl

Option 3 -- Same as Option 2, but at a total funding level of $12 billion; $3 billion for Phase 1 and $9 billion for Phase 2.

Estimates of oil and gas savings from any of the three options differ substantially. While all agree that provision of grants will accelerate the timing of and increase the amount of oil savings otherwise achievable under the existing FUA, the precise level and timing of these savings -- and the resulting cost-effectiveness of the program -- is highly judgmental.

If it is a political necessity, OMB believes that most of the Phase 1 plants can be converted by 1990 with a subsidy of $3 billion (enough to cover about 40 percent of the capital costs if all Phase 1 plants were converted). Option 2 reflects that view. This would provide a subsidy of $9.00 per barrel for the incremental barrel of oil saved.

DOE believes that a Phase 1 program of $4.5 billion (which would cover $60 of the capital costs of conversion) is likely to be necessary to achieve the mandated conversions, resulting in a subsidy of about $13 per incremental barrel.

The total oil/gas savings under Phase 2 of the program can be measured on a dollar/barrel displaced basis.

Phase 2 Subsidies

Level of Total Fund	$/Barrel Subsidy (in 1980 $)
$ 7.5 billion (Option 1)	$ 5.40/bbl
$ 3.0 billion (Option 2)	$ 2.20/bbl
$ 9.0 billion (Option 3)	$ 6.50/bbl

Option 1 -- A $12 million grant program tilted to conversions in Phase 1, with a formula grant program in Phase 2.

Phase 1 would provide $4.5 billion to cover up to 2/3 of the capital cost of converting plants to coal, refuse, or coal-oil mixtures, but a cap of $5/barrel would be imposed to limit the level of subsidies for extremely high cost conversions.

Phase 2 would provide $7.5 billion to utilities for oil and gas reduction using a formula based on barrels per day reductions in 1990 from a 1974-78 base period. To the extent a utility did not use funds available to it, monies would be turned back for use by other utilities seeking additional funds. If a utility fails to achieve the required savings by 1990, the grant would be repaid.

Pro

- o Provides up to 60% of estimated capital costs of mandated Phase 1 conversions to overcome financial constraints which would otherwise prohibit some conversions and delay others.
- o Perceived by the Congressional coal caucus, coal state governors, the UMWA and the coal industry as the strongest pro-coal option.
- o By allocating more of the total funds to Phase 2, avoids perception by western and southern utilities that funds are being overallocated to the northeast, while maintaining a strong emphasis on converting coal capable plants.
- o Maintains your and other Administration officials' frequently stated support to a $12 billion program.
- o Availability of substantial Phase 1 funds is likely to decrease pressure to relax state emission limits since more funds would be available for emissions control equipment.

Con

- o DOE's best estimate of the cost to government per incremental barrel saved would be $13/barrel. Would spend $4.5 billion on conversions to save 40,000 barrels per day in 1990. (Is estimated to achieve oil savings of 190,000 barrels, a larger saving achieved earlier than the other options.)
- o The program, particularly Phase 1, is likely to be strongly opposed by some liberals and fiscal conservatives, who will characterize the program as a give-away to utilities and the northeast for activities they are already required to do.

o Tying grants to percentage of capital costs in Phase 1 may cause utilities to overstate conversion costs.

<u>Option 2: -- A $6 billion grant program, with grants awarded on a cost-per-barrel saved basis</u>

Phase 1 monies would provide $3 billion to assist conversions up to $3 per barrel saved, not to exceed 50% of the conversion cost.

Phase 2 would provide $3 billion in grants to utilities for oil savings in 1990 below base period (1974-78) consumption. Grants would be awarded on the basis of the same formula as in Option 1, except grant may not exceed $3 per barrel for each barrel saved.

<u>Pro</u>

o Proponents believe that it will achieve about the same level of overall savings in Phase 1 as Option 1, reducing the estimated cost to government per barrel saved from $13/barrel to $9/barrel.

o Windfall Profits Tax revenues earmarked for energy would be adequate to cover this program; (the earmarked account could not cover a $12 billion program and still meet other program commitments.)

o Gives some protection (other than no program) against argument which both liberals and fiscal conservatives may make that Phase 1 of the program is a give-away to utilities to pay for something they are (legally) required to do anyway by reducing the level to $3 billion. (Same argument applies to Option 3).

o Recognizes that inflation has reached the crisis stage and that federal spending must be reduced.

o Places more of the burden for reductions in oil use on rate-payers (who benefit directly) than on the general taxpayer.

<u>Cons</u>

o Retreats substantially from a level of funding widely quoted by the President and senior Administration officials. Would be viewed by the Congressional Coal Caucus, coal state governors, and the UMWA as a breach of previous commitments.

- o DOE disagrees with assumption of equal effectiveness with $3 billion grant level for Phase 1 since it allocates fewer funds to solving the financial constraint on coal conversion; it thus reduces and delays potential oil savings; DOE also disagrees with OMB conclusion that about equal oil displacement savings will be achieved under Phase 2.

- o The argument that utilities are already required to convert under FUA fails to recognize that the law provides exceptions from conversions based on financial considerations--which grants are designed to address.

- o Reduction of funds available for mandatory conversion may increase pressure on states to relax SIP's and may thereby increase surful emissions.

Option 3

A $12 billion grant program identical to Option 2 except Phase 2 grant funds increase from $3 billion to $9 billion.

Pro

- o Provides a level of funding consistent with prior Administration representations (although Phase 1 funding is lower than some in Congress have been led to expect).

- o Enlarged Phase 2 program provides greater encouragement than Phase 1 to utilities for choosing the most cost-effective method of oil and gas reduction.

- o Would be the preferred option of those in Congress and elsewhere who advocate increased reliance on conservation and renewable resources; would (in combination with a constant emissions policy) be preferred by environmental groups.

- o Broadens the geographic distribution of funds, since a larger Phase 1 is targetted principally to the northeast; with a larger Phase 2 program, more units will be able to participate in the program.

Con

- o The coal caucus, utility interests with facilities required to convert, the UMWA, and the coal industry (which would prefer a $6 billion Phase 1 program) will oppose because of reduced level of Phase 1 funding.

- o Funding for Phase 1 may not be adequate to overcome financial barriers for conversions for at least some utilities.

DECISIONS

__________ Option 1: $12 billion program with
$4.5 billion for Phase 1
$7.5 billion for Phase 2

Recommended by: DOE, CEA, DPS, EPA, given uncertainty about emissions

__________ Option 2: $6 billion program with
$3 billion for Phase 1
$3 billion for Phase 2

Recommended by: OMB, CEQ, Fred Kahn, Consumer Affairs

__________ Option 3: $12 billion program with
$3 billion for Phase 1
$9 billion for Phase 2

Recommended by: CEQ, Fred Kahn, and Consumer Affairs as a fallback if a $12 billion program is needed

Issue #2: Sulfur Dioxide Emissions -- Should increases in sulfur dioxide emissions from coal conversions be curbed as part of our program, and if so, how?

SUMMARY

If further controls on sulfur dioxide emissions are not required, conversions under either the Fuel Use Act or Phase 1 of this program will increase emissions above current levels. While none of the options presented below would increase sulfur dioxide levels above current health standards of the Clean Air Act, increased SO_2 emissions will aggravate the acid rain problem.

Acid rain, which occurs when sulfur or nitrogen oxides react with water in the atmosphere, has been linked to fish kills in New England and Canadian lakes and is suspected of adversely affecting crop and forest productivity. Though the extent to which individual plant emissions add to the problem is as yet unquantified, acid rain is becoming an increasingly visible issue in the Northeast and Canada. It was discussed in your August 1979 Environmental Message and is now under intensive study within the Administration. The Clean Air Act does not now have any requirements to control acid rain directly although the health-based standards for sulfur emissions and new source performance standards do limit emissions.

The Canadian government has requested formal consultations on this issue which will take place on Friday, February 29. Canada is likely to cite the provision of the Tokyo communique which states a commitment to "increase as far as possible, coal use, production and trade without damage to the environment." State will report any significant problems to you after that meeting, although we have tried to anticipate the Canadian reaction in the pros and cons below.

The options are:

1. Take no action to curb sulfur dioxide emissions beyond that which is currently required by the Clean Air Act to protect public health.

2. Control sulfur dioxide emissions on a regional basis by setting aside $400 million from the total program funds to pay for:

   -- about 3 new advanced sulfur removal facilities on plants in the Ohio Valley; and

   -- additional coal cleaning plants to reduce the sulfur content of Eastern coal.

3. Require individual plants, as a condition of receiving a coal conversion grant, to meet a "best practicable emission limit" which EPA and DOE would apply on a plant-by-plant basis. To the extent that these measures are insufficient to keep emissions from increasing beyond current levels, DOE would find and fund emission offsets within the locality or region.

BACKGROUND

Both the existing Fuel Use Act (FUA) and the Phase 1 proposals require converting plants to comply with all applicable Federal and State environmental requirements.

Converting plants would have to comply with emission limitations for existing plants contained in EPA approved State Implementation Plans (SIPs). Most current SIPs would allow higher emissions for coal burning plants than they would for oil or gas-fired units at the same sites. Conversions would thus lead to increased emissions even if all applicable state and federal standards were met.

In addition, current law permits a state to relax its SIP so long as it can still meet federal environmental standards for protection of public health. There is already substantial pressure on states to reduce SIP requirements to permit utilities to use lower-cost, higher sulfur oil or coal. The grant funds proposed for Phase 1 of the program will help alleviate pressures for SIP relaxation, though they will not eliminate them.

The SIPs currently in effect were not designed with a strong push toward coal in mind. They also do not address total regional loadings of sulfur; the Clean Air Act has no regulatory program dealing with this issue.

The extent to which sulfur emissions increase as a result of Phase 1 depends upon:

- the number of conversions which actually occur;
- the extent to which state SIPs are relaxed (or tightened); and
- the extent to which our conversion program requires or facilitates additional sulfur emission reductions.

It is important to point out that some of the increase in emissions beyond current levels would have occurred anyway under the Fuel Use Act. This by itself would put pressure on states to relax SIPs. An argument can be made that the grant program in Phase 1, while increasing the number of conversions, will reduce pressure to relax SIPs since a substantial portion of the cost of conversions will be paid by the U. S. Government.

Emission Impacts

If all Phase 1 plants actually convert and if no further requirements are levied to control sulfur dioxide, EPA estimates that current emissions would increase by 450,000 tons per year. This is equal to a 2.5% increase on a nationwide basis, but constitutes about a 25% increase in the northeastern part of the country.

DOE believes that actual increases in emissions could be less if SIPs are not relaxed, and some utilities do not use 100% of their total emission allowance under the SIP. (This is possible since coal sulfur content varies considerably and some utilities burn lower sulfur coal as a safety margin.) These variables could lower emission increases to 200,000-250,000 tons/year. (EPA disagrees with these estimates since their studies show that most coal plants are emitting at levels close to SIP ceilings.)

It is estimated that 2/3 of acid rain stemming from these conversions falls on land; the remaining 1/3 falls over the ocean.

Emission increases are of concern because:

- -- They could exacerbate the acid rain problem in the Northeast and in Canada.
- -- In certain regions, these increased emissions will use up allowable increases in overall pollution and thereby limit future industrial development.
- -- Within the next year or two, EPA may recommend that the Administration seek changes in the Clean Air Act to control sulfur emissions more tightly as part of a broader program to control acid rain. (Alternatively, this same rationale can be used to argue that the acid rain problem be dealt with later, after further research is done and a complete control strategy is assembled.)

-- They may cause foreign relations problems with Canada and inhibit our ability to work with them on energy and other matters. A significant increase in sulfure emissions to Canada could be particularly awkward, given Canada's recent assistance in Iran and Afghanistan.

The manner in which the Administration deals with this problem as part of its overall proposal will significantly affect the degree of support or opposition from all of the interested parties -- from the environmental community to the utilities. However this issue is decided, one or another important constituency will oppose our recommendation and probably the whole program.

Option 1

Take no action beyond current Clean Air Act requirements to deal with sulfur emissions.

Pros

o Represents the least dollar cost to the Federal government and the utilities; avoids the precedent that the government will pay for pollution control expenditures beyond those required under the Clean Air Act.

o Recognizes that most of the emissions increases would occur anyway under the current FUA law.

o Does not directly or indirectly extend current federal emission requirements or programs beyond the Clean Air Act; it therefore does not change the current environmental rules of the conversion game as basically set out in the Fuel Use Act.

o It and Option 2 avoid engendering extreme utility and coal industry opposition, (the groups oppose any tightening of federal air pollution requirements).

Cons

o Though it protects public health, it makes no attempt to deal with the acid rain problem which is known to exist, even if it is not yet fully quantified.

o Will engender extreme opposition by environmental groups and those northeastern states concerned about acid rain. Will also cause extreme concern in Canada, and may become the subject of an official government protest. It may make it difficult, if not impossible, to continue discussions (undertaken by request of Congress) on an agreement on trans-boundary air quality.

- o Will be criticized for expending large sums of federal monies without requiring pollution controls which would hold emissions constant and would prevent a known problem from worsening.

- o May make it more difficult to control this problem in later years (due to difficulties in retrofitting plants once converted) if the Administration decides to seek an amendment to the Clean Air Act; in turn, later changes in the law may delay conversions.

Option 2

Meet all environmental requirements applicable at the time of each conversion. Address acid rain problems separately by dedicating $400 million of Phase 1 funds to offset emissions by providing financial assistance for:

-- Additional advanced sulfur removal techniques (scrubbers, chemical coal cleaning) or pollution control at facilities currently operating without controls ($300 million);

-- Grants and loan guarantees for additional coal cleaning for eastern coal ($100 million).

Do not set individual plant-by-plant emission requirements for converting facilities beyond those required by SIPs.

Pros

- o By achieving about 150,000 tons per year reduction in overall sulfur dioxide emissions through the use of scrubbers and other advanced technologies, and potentially more through coal washing, shows concern about the acid rain problem while not preempting efforts now underway to better define its dimensions and develop an overall control program.

- o Meets all currently applicable environmental standards, but avoid a quasi-regulatory scheme and potential administrative delays associated with case-by-case determinations of appropriate control measures for individual plants.

- o By decoupling overall sulfur reductions from individual plant conversions, avoids utility charges that the bill is a back-door amendment to the Clean Air Act. Will decrease prospects of coal and utility industry opposition to the bill over this issue.

- o Accelerates commercialization of advanced sulfur removal technology which can reduce emissions; may provide better markets for higher-sulfur eastern coal, thereby reducing unemployment in these mines.

- o Targets emission reductions to the Ohio Valley which is considered a major contributor to acid rain.

Cons

- o Environmental groups and some northeastern states will oppose this legislation if it provides only limited control of total sulfur dioxide emissions.

- o Establishes a precedent of federal funding for pollution control on plants which are not part of the Phase 1 program (though all options violate the "polluter pays" principle to a certain degree). Spends $400 million for clean-up not now required by statute, and constitutes an even larger future budget threat.

- o EPA does not believe DOE proposal, which depends on utilities cooperation, will be effective in reducing emissions. Any emission reduction under DOE proposal will come in Ohio Valley, which DOE models show would only be 1/3 to 1/2 as effective in reducing Northeastern acid rain as achieving the same reduction in the Mid-Atlantic and New England states where most coal conversions occur may significantly exacerbate the acid rain problem.

- o Local opposition to individual conversions because of emission increases could substantially delay them.

- o The Canadian government may view any increases in sulfur dioxide emissions as a sign of U.S. bad faith in proposing a bilateral agreement on air quality.

- o It will be very difficult to find utilities which are willing to accept scrubbers, even if the Federal government pays 100% of the costs of installing them. (Operating and maintenance costs for scrubbers can be significant.) The coal cleaning program may not reduce emissions since one could clean dirtier coal and end up with the same level of emissions.

- o Is likely to provide grants in areas that have not complied with Federal standards (Ohio, thereby rewarding non-compliance).

Option 3

Require converting plants to meet a "best practicable emission limit" as a condition for a Phase 1 grant. EPA will specify criteria for these limits, and EPA and DOE will jointly determine individual plant requirements. Criteria for these limits can be developed for inclusion in the legislative history, and thereby decrease regulatory uncertainty. Utilities may use a variety of compliance techniques including scrubbers, lower sulfur coal, coal washing.

To the extent that these limits do not prevent increases in emissions over current levels, DOE is directed to find and fund additional offsetting emissions. These offsets should be in the same locality if possible, and should come into effect within two years of the conversion. Assuming a good faith effort on DOE's part to fund offsets, conversions would proceed even if delays were encountered in the offset program.

Pros

- o It is the strongest demonstration of Administration concern about acid rain.

- o It is the only option which holds total sulfur dioxide emission roughly constant and limits the increase in nitrogen oxides; will not contribute further to the acid rain problem.

- o Will be supported by environmental groups and those northeastern states which would otherwise strongly oppose this entire bill. Would avoid problems with Canada over acid rain.

- o May prevent delays of individual conversions by reducing local opposition to increased emissions.

- o Will prevent consumption of available air resources in areas of converting plants, leaving room for further industrial growth.

- o If utilities choose to comply by burning lower sulfur coal, would not add to capital costs of conversion, although operating costs would increase by about $100 million per year. (If, alternatively, scrubbers were selected by some plants to control emissions, capital needs could increase by $1 billion; operating costs could increase as well.)

Cons

- o Has the effect of tightening federal emission requirements for converting facilities beyond that now required by the Clean Air Act. Congress declined to do so when it considered the Fuel Use Act in 1977 and 1978. Will be perceived as a change in the rules and a "back-door" amendment to the Clean Air Act. Will give new authority to EPA.

- o Will be opposed by utilities and coal interests. Some have indicated that they will oppose the entire bill if it contains this requirement. Utilities are particularly concerned about giving wide discretion to EPA to set plant-by-plant standards, and will also oppose requirements which would increase their operating costs by $100 million per year.

- o Will reduce the barrels of oil reduction per federal dollar, requiring a more costly Phase 1 program or a lesser reduction in oil. If 25% of the plants are required to use scrubbers instead of allowed to burn low sulfur coal to comply with emission limits, this would add approximately $1 billion (20%) to the cost of Phase 1.

DECISION

__________ Option 1: take no further action beyond current Clean Air Act requirements

Recommended by: OMB

____✓____ Option 2: provide $400 million of Phase 1 monies to install sulfur removal equipment ~~in the Ohio Valley~~ where most appropriate.

Recommended by: DOE, CEA, DPS

__________ Option 3: prevent increase in total sulfur dioxide loadings through plant-by-plant standards and additional offsets as needed

Recommended by: EPA, CEQ, Interior

NOTE: The State Department will register its views after their 2/29 consultation with the government of Canada

CONGRESSIONAL LIAISON

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: Frank Moore F.M./

SUBJECT: Re Congressional Assessment Of Utility Oil Backout Bill

The coal caucuses of both Houses feel that they have a commitment to coal conversion from the Administration arising from your July 15, 1979 energy message and the State of the Union address. In the past few months we have asked that coal conversion amendments not be added to EMB and ESC legislation, promising that the utility oil backout bill would be forthcoming soon. Several weeks of negotiation between the coal caucuses and DOE resulted in the present DOE draft. The date promised for transmittal had to be put back several times and patience on the Hill is exhausted.

While the House Coal Caucus also wants a bill soon, initially most of the pressure will come from the Senate. The Senate Coal Caucus heavily supports Phase I and there is little interest or support for Phase II. The caucus agreed to support our proposal funded at $12 billion, with $6 billion for Phase I and $6 billion for Phase II. While they may agree to a combination of grants and loans rather than grants alone, they will likely see a reduction in the $6 billion for Phase I level as backing away from a commitment to coal conversion. Certainly anything under $4.5 billion for Phase I would be opposed. The Senate Energy Committee staff have not agreed to Phase II, and actively oppose it.

The caucuses in both Houses are committed to moving a Phase I-type bill soon. While they would prefer Administration support, they threaten to move a Phase I-type bill of their own if we don't soon send one that they will accept. Also it may be too late for our bill to meet the March 15 initial congressional budget deadline. The budget process would require it to be reported out of committee by May 15th. The time constraints of an election year will present a difficult obstacle for any extensive debate over provisions of our bill.

Senator Ford has drafted a bill similar to Phase I. Conversion orders would be issued from a similar list with FUA exemptions being retained. The exemptions would have to be applied for within 180 days and there must be a decision on the application within 180 days. Ford would provide $6 billion in grants and loans over a five year period with $1 billion in fiscal 1981. The Senate Energy Committee is committed to rapidly move the Ford bill.

If we don't soon send up a bill which is close to the DOE draft or the Ford proposal, the Senate Coal Caucus will likely proceed without us. We would not get credit for moving a coal bill, and will be condemned for reneging on our commitment to a coal bill. The Administration would still have to face tough substantive issues such as the environmental issues, taking the political liability and receiving none of the credit.

MCINTYRE

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FEB 28 1980

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES T. McINTYRE, JR. Jim

SUBJECT: Utility Oil Backout Proposal

For both budgetary and programmatic reasons, I recommend against proposing an oil backout bill. If a proposal is absolutely necessary, I believe you should set a $6 billion cap on its funding.

Background

Soaring oil prices make reduction in oil use a clearly economic investment for utilities (and their rate payers). However, because some public utility commissions are refusing rate increases needed to keep their utilities in sound financial shape, but are allowing automatic rate increases to cover higher oil costs, a number of utilities cannot raise the capital needed to finance the necessary oil conservation measures (i.e. coal conversions, new coal plants, nuclear plants, electricity conservation, etc.).

In July 1979, we planned to meet this problem through legislation mandating a 50% cutback in utility oil use by 1990 (a saving of 750,000 barrels per day). The $5 billion in federal grants originally proposed to us by DOE to ease this transition grew eventually to $12 billion. However, utility interests still balked at a mandatory cutback, and coal interests began insisting on provisions to make coal conversion a preferred method of saving oil.

DOE now proposes shifting the focus of the July proposal to meet these political pressures. The mandatory cutback in utility oil use would be scrapped. A portion of the grants--$4.5 billion--would be earmarked for financing about 2/3 of the capital costs of converting 117 coal-capable oil plants, for which the legislation would specifically mandate conversion (an amendment to the recently passed Fuel Use Act). The remaining $7.5 billion in grants would go to utilities which voluntarily reduce oil use below 1974-78 base period levels.

DOE projects that utility oil and gas use would drop 1 million barrels per day by 1990 under its proposal. However, a very large amount of this saving would occur anyway, as utility commissions finally faced up on their own to oil price increases and FUA prohibition orders. The incremental oil savings attributable to the proposal are extremely uncertain, as DOE freely concedes. DOE's own estimates of incremental savings from the coal conversion provisions are very small--40,000 barrels per day by 1990, with some (very speculative) acceleration of conversion to earlier in the decade than would otherwise be the case.

We included $8 billion of $12 billion for the original mandatory program in our 1980-85 budget numbers in January. However, this new DOE proposal would increase outlays over the January budget figures by about $600 million in FY 1981 and $1.1 billion in FY 1982.

A $12 billion program would put our energy security spending $3.5 billion over the allocation provided by the Windfall Profits Tax conference. The rest would have to come from general revenues.

Problems with the Proposal

1. Sending up a $12 billion spending program in the present economic climate would directly undermine our emergency efforts to roll back FY 1981 spending and to reassure the country that long-term budget spending is not out of control. As noted, DOE's program would increase FY 1981 and FY 1982 outlays by $600 million and $1.1 billion, respectively, over the January budget.

2. Since last July, not only has the program changed, losing its mandatory features and thus much of its efficacy and rationale; so also have general economic and budgetary conditions changed radically: Inflation has accelerated by about 30%. The projected FY 1980 deficit has expanded 40%. Outyear budget spending levels have soared. Oil prices have increased about 50%, providing tremendous new incentives for utility commissions to solve this oil use problem on their own. Finally, it has become obvious that Windfall Tax revenues are not a free good: We will need much of the revenues in the 1980's to control deficits without running prohibitively high income tax rates. This $12 billion program would not merely breach the Windfall Tax Conference allocation--more importantly, it would greatly complicate outyear budgetary control.

3. The program sets the dangerous precedent of trying to solve local regulatory problems with federal grants. Oil back out will economically benefit local rate payers over the long term. The nation's taxpayers should not, in my judgment, be burdened with providing these local benefits. I fear that this program will lead to further federal bailouts for utilities--and other industries--financially hobbled by local regulatory or political mismanagement.

4. The DOE proposal is not a cost-effective way to reduce oil imports. With oil prices soaring, much of the $12 billion will be rewarding oil back out measures that would have been taken in any case. Because of such windfalls, the incre-mental oil savings generated by the coal conversion phase of the proposal would cost the Treasury an average $13 per barrel, on DOE's own estimates. OMB believes even this figure is highly optimistic. Oil conservation is vital to out national security, but $13 exceeds any reasonable national security premium(for which estimates range generally from $3-$5). Facing severe, long-term budget constraints, we should rely chiefly on oil and gas price decontrol to force oil savings, reserving subsidies for programs that are highly cost-effective. This program violates that principle.

5. Though the coal conversion phase of the proposal will be popular with the Coal Caucus, it will embroil us in a bitter and prolonged legislative controversy over the acid rain problem, which we do not yet understand well enough to pro-pose a sensible solution. In particular: If this legis-lation prohibits increases in emissions from coal conversions, as both EPA and the Canadian government are demanding, added costs for pollution abatement will be $1-$3 billion, and the utility industry will fight the whole proposal as a new tightening of the Clean Air Act and as a net setback to the coal conversion effort. If, instead, as DOE recommends, the legislation provides $400 million for coal washing and scrubber investments in the Ohio Valley, we will have established for the first time a multi-billion dollar pre-cedent for federal assumption of pollution control costs to minimize acid rain. And if the legislation is simply silent on the issue, relying on current Clean Air Act provisions, the environmental community will be outraged. Killing the proposal now would be politically difficult--but going forward would, I believe, be even more difficult.

6. The proposal would, in my judgment, actually slow down the coal conversion effort under FUA. The Congressional process would take many months, almost certainly extending into next year, with the result at best uncertain and most likely a stalemate. In the meantime, implementation of FUA would go into a de facto limbo. I believe we can get quicker conversions, without a penny of grants, and without a big legislative fight on the environmental issues, simply by directing DOE to streamline FUA administrative procedures.

Conclusion

For all these reasons, I recommend that you reject this proposal and direct DOE to speed up FUA procedures. The Coal Caucus would be very unhappy, but a proposal this expensive, complex, and controversial would at any rate have little chance of passage in this election year session and would be seen as directly contrary to emergency efforts to reduce federal spending. The proposal would subject us to accusations of wasting tax dollars for "handouts" to utilities at a time of general economic and budgetary austerity.

In the alternate, I reluctantly recommend the more cost-effective, $6 billion alternative outlined in the inter-agency memo.

SPETH

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
722 JACKSON PLACE, N. W.
WASHINGTON, D. C. 20006

February 28, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: Gus Speth Gus Speth

SUBJECT: Utility Oil Back-Out Program Decisions

Of the two issues presented to you for decision, the most important is whether you decide to require a constant emissions policy (Option 3 of Issue 2). Adopting a constant emissions policy is the prudent, sensible course of action in this case. Failure to adopt a constant emissions policy will increase acid rain in the Northeast and Canada just when acid rain is coming increasingly to the fore as a major environmental threat. At present, you are prominently associated with insisting on the clean use of coal and, as a result of your second Environmental Message, with concern over acid rain.

It is difficult to believe that coal and utility interests could credibly oppose a bill which gives them at least several billion dollars to do what they are required in most cases to do anyway -- eliminate their use of oil -- simply because the bill requires that they do it cleanly as a condition of receiving federal support. On the other hand, without a constant emissions policy, the proposal will be strongly opposed by conservation and other interests.

In our view, Option 2 is seriously inadequate. It appears highly unlikely that a utility will accept a scrubber purchased by the government; TVA may be the only utility willing to do so. Moreover, reducing emissions in the Ohio Valley area is only about one-half as effective in reducing acid rain in New England as a program that reduces emissions from utilities in New England. The coal washing part of Option 2 might have no effect in reducing SO_2 emissions; instead, higher sulfur coal might be washed so that the resulting coal is no lower in its sulfur content than the coal currently being used. Finally, Option 2 is not designed to reduce emisions of nitrogen oxide which also cause acid rain and which will increase when utilities convert to coal under current SIP requirements.

You should be aware that submission of the proposed legislation will most likely raise troublesome issues not before you for decision, including the following:

- the latest proposal, unlike the proposal in your July 1979 energy message, is aimed at backing natural gas as well as oil out of utilities. Some will challenge the broadening to include gas;

- nuclear critics and the United Mine Workers have already opposed allowing the funds to be used to subsidize nuclear power plants, as the current proposal would allow. A Febraury 12 letter to you from UMW President Church argues strongly that "nuclear power should not be allowed to drown a viable coal utilization proposal."

COSTLE

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

MEMORANDUM TO THE PRESIDENT

OFFICE OF THE ADMINISTRATOR

FROM: Douglas M. Costle

SUBJECT: Utility Oil Backout

I want to tell you directly why I feel so strongly that the Administration proposal on Utility Oil Backout must prohibit significant increases in total atmospheric sulfur oxide (SO_2) loadings -- the cause of "acid rain."

Unless these are prohibited, conversions under the program could result in SO_2 emission increases of about 400,000 tons per year nationally. (In the northeast, New York, New Jersey, Pennsylvania and New England -- where the bulk of these emissions would be deposited -- SO_2 emissions would increase by 25%.) Acid rain would increase as much as 16% from a level which is already causing environmental damage and is beginning to have an economic effect.

As a result, emission increases of this size will provoke attacks by northeastern States, environmental organizations, urban areas (because coal conversions may consume margin for growth), and the Canadian government. Such attacks will:

-- decrease chances for passage of the legislation this session, given the short time left for congressional action; and

-- alienate important constituents who support your personal conviction that energy security need not be purchased at the price of our environment.

I want to stress that the issue is not whether we should convert to coal. We should. The issue is not whether there is technology available to convert to coal while protecting environmental goals. There is. The issue is <u>simply</u>, do we have the <u>political will</u> to do so.

EPA has proposed for your approval an approach that would prevent emission increases due to oil backout. EPA's approach would achieve <u>the same oil reductions on the same schedule</u> as the DOE proposal and would do so without sacrificing important environmental goals.

Costs

The costs of the two alternatives are not very different:

Regarding capital costs, the two will cost about the same if DOE's $400 million offset program is counted; ours may even cost less.

Regarding operating costs, our proposal will cost about $100 million more annually for low sulfur eastern coal.

This does not take account of the environmental costs which the EPA proposal will prevent.

Consumers will pay much less under either proposal than they do now for electricity from oil-fired plants.

Acid Rain

In the atmosphere, emissions of SO_2 and nitrogen dioxide are converted to acid which then falls to earth in rain, snow and in dry form as fine particles. In the last fifty years we have observed that rainfall which under natural conditions is only slightly acid, now is becoming more strongly acid throughout the eastern U.S.

We know some of the harmful effects of acid rain; and we suspect others.

-- We know acid rain can and has destroyed lake and stream ecosystems, killing fish and other water life. Some lakes in northern Minnesota, about 200 lakes in New York (including those in Lake Placid) and many hundreds of lakes in Canada have already been identified as acidified and fish populations are shrinking or are extinct. Headwater streams in the Appalachian chain from Georgia to Maine are becoming acidified.

-- We know some soils may be damaged over time due to leaching of minerals and nutrients.

-- We know stone buildings and monuments are eroded more rapidly by acid rain.

-- We know the sulfur mist from power plants is contributing significantly to the poor visibility conditions (on average less than eight miles) in the northeast.

-- We suspect some important crops could be damaged by acid rain and that others may be injured by acidified soil.

-- We suspect growth of some forests may be reduced.

-- We suspect that in the long term some drinking water supplies may be contaminated by toxic heavy metals leached from the soils by acid rain.

What we know and what we suspect about acid rain tell us we are faced with a genuine environmental problem that is potentially very serious. It is a problem which may -- if allowed to grow unchecked -- carry substantial economic cost.

My staff has been working to evaluate the costs and benefits of alternative control measures before bringing you a recommendation for actions to reduce emissions. However, I do not have to wait for more work to be done to advise you that the potential emissions increases from DOE's version of the utility oil backout proposal would be a major step in the wrong direction.

Concerned Groups

As we learn more about the effects of acid rain, this "environmental" problem is becoming a political one. The issue is becoming popularized as increasing numbers of articles on acid rain appear in the mass media. As the public learns more about the issue, expressions of concern about acid rain by political officials - particularly in Mid-Atlantic and New England states - have become more numerous and more hostile.

-- Environmental directors from Pennsylvania, New Jersey, New York and New England insisted on meeting with me just last month to present their demands that EPA take action on acid rain and other interstate pollution.

-- This week EPA must testify before two different congressional committees on the subject. We have had over 150 information inquiries from Congressmen and their staffs.

-- In Canada the topic is debated on the floor of the Federal and provincial parliaments and is the subject of frequent editorials.

-- The government of Canada has officially requested of the Department of State formal consultations on the emission implications of the various oil backout proposals. The Canadians have asserted that a plan which allows emission increases is inconsistent with the international convention on transboundary air pollution which the U. S. signed last November as well as with the Tokyo Summit accord.

Both in the United States and in Canada appointed and elected officials are looking to this Administration for programs to limit SO_2 emissions. A proposal that would increase emissions will dash these expectations and limit the political acceptability of increased future coal use needed to achieve your goal of one million barrels per day of oil saved by 1990.

A proposal which prevents the utility oil backout program from increasing emissions would satisfy these concerns and would broaden the constituency for the program. Only EPA's proposal does this. The DOE proposal cannot be defended as adequate or effective. At best it addresses only a fraction of the emissions increases and does so with a program that depends on voluntary cooperation by utilities.

You made an unambiguous (and correct) statement in Louisville that we can have both coal and a clean environment. A coal conversion bill which allows a substantial increase in total sulfur loadings (and therefore additional acid rain) in the northeast would stand in direct contradiction to that position. Moreover, it would be the first instance in your Administration of deliberately and knowingly losing ground in dealing with a significant and visible environmental problem.

Doug Costle