

12/19/80

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11:30 From
Dec 7 Check with Joey
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Scheduled
12/9/80

Log No. 6294

THE WHITE HOUSE
WASHINGTON

SCHEDULE PROPOSAL
DATE: November 21, 1980
FROM: Zbigniew Brzezinski
VIA: Phil Wise

MEETING: Call on you by leaders of the Family Liaison Action Group.

DATE: At your convenience.

PURPOSE: Katherine Keough and Louisa Kennedy have asked to meet with you briefly for a courtesy call to thank you personally for all of your assistance in the hostage crisis. They wish to present you a bouquet of yellow roses.

FORMAT: Oval Office, 15 minutes.

CABINET PARTICIPATION: None.

SPEECH MATERIAL: **Electrostatic Copy Made**
None required. **for Preservation Purposes**

PRESS COVERAGE: Meeting will not be announced.

STAFF: Dr. Brzezinski.

RECOMMEND: State and Dr. Brzezinski.

OPPOSED: None.

PREVIOUS PARTICIPATION: You last met with them on July 23, 1980.

BACKGROUND: FLAG has been extremely effective in dealing with the problems of the hostage families. They have been very cooperative with the Administration and have been genuinely appreciative of your deep concern for the fate of their family members in Tehran. This would provide an occasion to thank them privately for their fortitude and steadfastness. Hopefully there will be an opportunity to do so publicly before January.

Approve

Disapprove

THE WHITE HOUSE
WASHINGTON

12/17/80

100

Mr. President--

Schlesinger letter and
response for signature.

I'll make extra copies
for separate file on *done*
memoirs.

--Susan

Send cc Rosalyn
J

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE

WASHINGTON

December 17, 1980

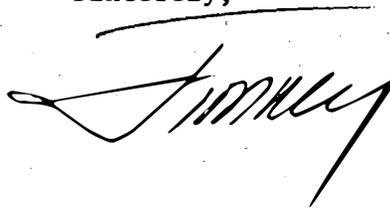
To Jim Schlesinger

I deeply appreciate your message of support following the election. Your friendship is very valuable to me, and I thank you for your encouraging words and for the contributions you have made to me and my Administration.

We have achieved some important goals for our country, and we have faced a number of difficult and sometimes unpopular issues which had to be resolved for the good of our country and the peace of the world. Unfinished business cannot detract from this record, as I believe history will show.

Rosalynn joins me in sending you our warm good wishes.

Sincerely,



The Honorable James R. Schlesinger
Suite 520
1800 "K" Street, N.W.
Washington, D.C. 20006

*Jim, you were the force behind
our energy achievements. Let's pro-
tect our "edifice". I hope to
see you in the months ahead - J*

36

PC

HANDWRITTEN PS

17 77 1835

JAMES R. SCHLESINGER

1800 K. STREET, N. W.
SUITE 520
WASHINGTON, D. C. 20006

December 15, 1980

President Jimmy Carter
The White House
Washington, D.C. 20500

Dear Mr. President:

I do hope that whatever distress you may have suffered in last month's election has now eased, and that you are again looking toward your own future with your customary optimism. Gratitude is, after all, not the most notable trait in the human species. And, we must all recognize, the times are not necessarily auspicious ones for incumbent Presidents.

As you return to Plains, you must take with you permanent satisfaction regarding your many accomplishments. Foremost among them I would place your achievements in energy. You, after all, had the courage to take on a problem of overwhelming importance to this nation -- one that your predecessors had evaded for political reasons which are regrettably obvious.

Rest assured your edifice will survive more or less intact. The Department of Energy, despite the shameless demagoguery directed toward this handy symbol of the nation's energy difficulties and convenient target for its frustrations, will continue to live. Your oil and gas policies have set the nation on the path towards maintaining production and reduced imports. The legislation, though not perfect, is well conceived. Moreover, you have started the country on the development of synfuels. And may I say (as an outsider in this respect) that only a Democratic President could have created the national consensus essential to these longer-term policies.

Rachel and I are particularly grateful for the high taste that you and Rosalynn brought to the White House. After some years of rather tasteless and sometimes tawdry entertainments, your own choice of music and of performers was always splendid and gratifying. You may read some dissenting (and ill-informed) comments on this matter in the press. That, however, is no reflection on the excellence of your own taste. Rather, it reflects one of those astonishing waves of sycophancy through which Washington periodically passes. You, however, have had an exceptional opportunity to make your own observations on this uninspiring phenomenon.

For the future, whatever it may bring, you go forth with much good will and with Rachel's and my private best wishes for you and for Rosalynn.

Respectfully yours,

A handwritten signature in cursive script, appearing to read "Jim Schlesinger".

James R. Schlesinger

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

Meeting With
Mrs. Louise Sunshine and her family
Friday, December 19, 1980
The Oval Office
(3 minutes)
10:55 a.m.

(by: Fran  Veerde

I. PURPOSE:

Brief Meeting and Photograph.

II. BACKGROUND, PARTICIPANTS, PRESS:

A. Background:

You called Mrs. Sunshine recently to thank her for her support and at that time she asked to bring her family in to see you in the Oval Office before January 20.

B. Participants:

The President
Mrs. Louise Sunshine
Ms. Mary Koffler (Aunt)
Suzanne Sunshine
Samuel Sunshine
Paul Sunshine
Lauren Golub, friend of the children
Lee Elman and his daughter, Alexandra
(friends of the family).

C. Press:

White House Photographer.

**Electrostatic Copy Made
for Preservation Purposes**

10:50

THE WHITE HOUSE

WASHINGTON

Photograph with Missy Mandel
and J.B. Bleckley

Friday - December 19, 1980
10:50 a.m. (3 minutes)

The Oval Office

From: Phil Wise

I. PURPOSE

To say goodbye to Missy Mandel and J.B. Bleckley and have a photograph taken.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: Missy and J.B. worked for you in the 1976 campaign and both took jobs in Washington after your election and were subsequently married. They are going to Texas where Missy worked during the 1980 campaign.

B. Participants: Missy Mandel and J.B. Bleckley

C. Press Plan: White House Photographer.

**Electrostatic Copy Made
for Preservation Purposes**

THE WHITE HOUSE
WASHINGTON

12/19/80

JODY POWELL

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

Rick Hutcheson

CC: PHIL WISE

ADMINISTRATIVELY CONFIDENTIAL

(12/16/80)

Jody
advise
J

Confidential

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for Preservation Purposes

To: President Carter
From: Hamilton Jordan *HL*

Bob Ajemian of Time Magazine is one of my best friends in the press. That is not to say that either you or I have benefitted greatly from my friendship with him, but he is a decent human being. Kirbo is also high on him.

I have done three or four stories with him over the years, and they have all been positive and human, and he has always scrupulously abided by the guidelines that I established.

Bob is anxious to have you consider doing a story with him on your own state of mind and attitude as you prepare to leave office. He is not interested in the issues that you face or that Reagan faces, but he is interested in the human element of a man who is President leaving office and returning home. He is very impressed with your demeanor and behavior since the election, and very embarrassed over Hugh Sidey's utterances.

He would like to spend some time with you (on whatever grounds you and Jody might establish) and write a piece on your leaving office. He is in no particular rush, and would only want to do it if you felt comfortable. I am certain that it would be a "soft" piece, that is both human and positive. I have never cooperated with him on a story that did not have a good feeling to it.

You might want to review the story he did almost four years ago on our Cabinet selection. If you wanted to do this, you might start by spending five minutes with him, and then decide whether it was worth your time.

A Hcdad is stop by Ajemian.

TIME

THE GREAT TALENT HUNT



omy be stimulated by means of a tax cut (see ECONOMY AND BUSINESS). Carter advisers feared that a permanent instead of a temporary cut would lead to problems in paying for new programs like national health insurance and making good on Carter's campaign pledge to balance the budget by the end of 1980.

Nor was that the only pledge that Carter might be hard put to fulfill. In November, Carter promised to reduce the unemployment rate by 1.5 percentage points, indicating a jobless rate of about 6.4% by the end of next year. Last week, however, OMB Director-designate Lance said the goal would be "very, very difficult" to meet because the unemployment rate has risen to 8.1%. Some analysts are now talking of a 7.1% jobless rate by the end of 1977, but Carter later said he was sticking to his original promise. Concerning another pledge, Carter has not decided whether to broaden the blanket pardon that he promised to give during his first week in office to the 4,500 draft evaders of the Viet Nam War era. Carter is considering also pardoning 5,000 deserters and 85,000 former servicemen who went AWOL during the same period.

Decisions on those matters would come later. For now, Cabinet-making has top priority, and when Carter flew back to Plains at week's end, he aimed to rest and to think some more about the jobs he hopes to fill in the weeks ahead.



SAHM DOHERTY

ROBERT MIZNER

FEMINIST GLORIA STEINEM & CONSUMER ADVOCATE RALPH NADER

PICKING THE TEAM WITH HAM & FRITZ

As Jimmy Carter labored over his Cabinet choices, TIME National Political Correspondent Robert Ajemian followed the selection process by watching Carter's two top transition aides, Vice President-elect Walter Mondale and Hamilton Jordan, at work. Ajemian's report:

Jimmy Carter was in a talking mood. Sitting in the wood-paneled den of his house in Plains, wearing a long, yellow, velour sweater and white sneakers, Carter had his feet crossed on top of his desk. Beside him, balancing thick black notebooks full of Cabinet profiles on his lap, was his young aide, Hamilton Jordan, in a sports shirt and safari jacket, looking just as casual as his boss. Jordan slid his red canvas chair next to Carter and handed over one of the books, reading along with him so closely that his head was almost touching Carter's shoulder. For two hours, looking a little like a father and son discussing homework problems, the two of them ran through the list of candidates for every top Cabinet job in the Government. From time to time Carter raised some worries: they still had too few top women, too few good names on the Treasury list. Carter pulled out his own log, a red notebook in which he had recorded all his telephone calls

and interview notes. He read some of them aloud to Jordan.

Outside, darkness had fallen fast. Rosalynn Carter, in slacks and a white ribbed sweater, stood over the sink in the nearby kitchen, peeling some squash for dinner. Several times she stepped back inside the den just to hear the names. Amy Carter burst into her father's study at one point, and Carter, with great delight, showed her his new white speaker telephone that plugged directly into the White House switchboard. She immediately called a neighborhood friend on the phone, and Carter and Jordan watched with amusement as she pretended she needed a school assignment.

Rosalynn brought in some tea, and as Carter began chewing on the lemon at the bottom of his mug, he told Jordan that after all these months he still didn't really have any idea whether Congressman Andy Young wanted a Cabinet job. Did Jordan know? No, Jordan didn't either. Carter talked about Texas Congresswoman Barbara Jordan. On the symbolic level she was an outstanding choice, but was she a good manager? He agreed with the suggestion that a select dozen prospects, most of them candidates for Defense and Treasury, come to Atlanta that Tuesday for personal interviews. As Jordan finally prepared to leave, Carter called to him, "I'll phone Fritz tonight and see if he agrees with our list."

Though Carter was calling all the shots himself, he was keeping Fritz Mondale and Jordan with him at the center of the selection process. The three men had started their work just before Thanksgiving, when they sat alone for three hours in one of the huge formal living rooms of Blair House. Each man ticked off names for various departments. When Jordan declared at one point that a certain businessman would make a good No. 2 man in a big department, Carter broke in: "No, let me decide that." He would obviously keep tight control.

From that meeting on, Mondale and Jordan moved together. The transition had been delayed for a couple of weeks by the power struggle between Jordan and the former transition chief, Jack Watson. A lot of people had been complaining about the holdup, and Carter was getting impatient. Men like Notre Dame President Theodore Hesburgh, John Gardner of Common Cause, Lawyers Clark Clifford and Ted Sorensen—all of whom Watson had visited with for many hours—had to be interviewed again by Jordan and his staff. A new list was drawn up, with a decidedly more political cast. Jordan's staff—politicians like Dick Moe and Anne Wexler and Tim Kraft—checked out the names that were offered. Jordan spent one whole afternoon talking to Du Pont Chairman Irving Shapiro, seeking Treasury candidates.



JORDAN & MONDALE WEIGH APPOINTMENTS AT BLAIR HOUSE
"I'll call Fritz tonight and see if he agrees with our list."

He visited Henry Owen of the Brookings Institution, Averell Harriman, Cy Vance. During one conversation with Vance, Jordan recalled his own snide public remark that if Vance ended up in the Cabinet, Carter would have failed to get new people in the top posts. Joked Jordan to Vance: "I'm going to have to block you to keep my own job." After he finished the call, he admitted that his early remark had been stupid and he was going to find the right time to apologize to Vance face-to-face.

Within a week after the Blair House meeting, Mondale and Jordan had ordered up summary books listing candidates for every department. The weekend after Thanksgiving, Jordan lugged them to Plains. There Carter and Jordan narrowed the list from several hundred names to 70. A particular Commerce candidate, Carter and Jordan agreed, was too pompous. A top Agriculture candidate dropped down on the list because he had spurned Carter during the election campaign. A woman candidate for HEW was judged to be too caustic to work with. Once again Carter phoned Mondale and reviewed the boiled-down list. At the same time he asked his Vice President to deliver his own final Cabinet lineup when he flew to Plains the next Wednesday. Mondale did.

Back in Washington, Jordan made one of his regular journeys to Mondale's Senate office. In his Navy pea jacket and worn brown boots, carrying a tattered folder crammed with names, Jordan loped down the Senate halls, looking like the country boy he tries hard to remain. "Do you hear these walls trembling?" he said, mocking himself. He walked into Mondale's office and kept up the banter. "Tell the Vice President I'm here with his instructions for the day," he joked. Mondale is just as breezy. He uses Jordan as a sounding board about his new boss, Carter. Said Mondale of Jordan: "We work well together. He's smart and loose." In Mondale's office they tested the final lists before assigning in-depth profiles on the 70.

Next morning, in the black before dawn, the two of them were off once more to Plains to see the boss. On Mondale's DC-9 they pored over the black books—Mondale puffing on a thick Cuban cigar and Jordan sitting opposite in a torn shirt, popping green Chiclets into his mouth. They were an unsolemn pair, the young man who likes his rube image and the impeccably dressed man who looked more like a smooth character actor than a politician of enormous influence.

In Plains they went directly to Carter's familiar den and sat for four hours. Carter again pulled out his red logbook, and Mondale and Jordan were both pleased when they realized Carter's information was beginning to match their own. Carter dragged out a memo that listed all his campaign pledges. That made them all somewhat anxious again about the final number of women, blacks and Hispanics they would choose. As Carter opened two cans of crab soup and put together some meat and tomato sandwiches for lunch, the three continued talking in the kitchen. Should James Schlesinger be returned to Government? Carter was extremely high on him but was also aware of interview reports that Schlesinger was too impatient and not a team player. Should the outspoken but gifted George Ball be made an ambassador-at-large to the European countries? Carter often challenged Mondale and Jordan, playing the lawyer, testing their biases.

Flying home to Washington that night, with new Secretary of State-designate Cyrus Vance sitting beside him as a passenger, Mondale talked about the selection process—and his own eventual job as Vice President. He was worried about the need for new young blood in Government, for more women and minorities. "We've got to take some educated chances in these top jobs," he said. "A lot of the women candidates we have, for example, have no management track records to be judged on. So they keep being passed over." Mondale observed that it was often more difficult to find top women managers than black ones. He turned to foreign affairs. "There's a whole generation gap between this man," he said, pointing to Vance, "and the younger fellows like Tony Lake and Dick Holbrooke. We've got to open up these big jobs. The symbolism is important."

One job the new Vice President hopes will open up and not keep its empty symbolism is his own. Because there are Congressmen on the Hill who are still uneasy about Carter, Mon-

dale expects that he will receive many of the inevitable complaints about the new President. "I intend to speak up," he said. "If I start telling the President only what he wants to hear, I'll be all through. I'd rather have him shut the door on me than change myself. I've told Jimmy that."

Meanwhile the names kept coming, many from office seekers themselves. Carter himself sent a daily stream of manila envelopes to Jordan. Carter asked Democratic National Chairman Robert Strauss to seek nominations from Governors and party people around the country. One day Strauss told Jordan, "Ham, I've got an important Senator who wants to be interviewed for Interior—but he doesn't want the job." Jordan roared. He said, "A lot of other people want a job—but don't want the interview."

One Cabinet area that was giving Carter trouble was Justice. His close counselor, Charles Kirbo, headed the search for an Attorney General. The trouble was that the familiar Establishment names, the people who had the proven legal and man-



CARTER STUDIES PROFILES OF TOP CABINET PROSPECTS
He would obviously keep tight control over the process.

agement skills, often lacked the inspirational or symbolic touch Carter wanted. By last weekend it was clear that the larger departments would probably be headed by white men, however long the search went on. So Carter was faced with the decision of whether to overlook the legal credentials needed for Justice and pick someone like Patricia Harris, a black lawyer from Washington, or Barbara Jordan, or perhaps a black federal judge from Pennsylvania, Leon Higgenbotham, who has extensive legal experience but little management background. The FBI choice posed a different challenge. Mondale, especially, urged that the FBI have a director from outside Justice, a man with few ties to Carter or his staff. Said Mondale: "We need a tough, hardheaded civilian to rehabilitate that place."

At week's end Carter headed back to the voluntary isolation of Plains—back to the den and the speaker telephone and his own red logbook. He would study further the profiles that Mondale and Jordan had ordered up and continue his own interviews. But he would do it alone. It always came to that: the choices were his. And Carter clearly relished his isolation. Even his secretary was located ten miles away in Americus. During the three days when Rosalynn was in Mexico two weeks ago, Carter did his own cooking and a maid came by only once to clean the house. He only occasionally makes the trip down the street to Plains anymore. When Jordan arrived last weekend with more black books, Carter was up on a flat part of the roof raking off leaves. A man with heavier days and heavier choices ahead of him, Carter was hanging on to the pieces of his past that he treasured most, the home and people he will be leaving behind, the place where he feels closest to himself.

SUMMARY OF CONGRESSIONAL MAIL TO THE PRESIDENT

DATE: DEC 19, 1980

PAGE: - 1-

FROM -----	SUBJECT -----	DISPOSITION -----	COMMENTS -----
REP. PETER PEYSER (D) - NEW YORK	OFFERS HIS CONDOLENCES FOLLOING THE ELECTION AND HIS BEST WISHES FOR THE FUTURE.	ACKNOWLEDGED BY YOU	
REP. BALTASAR CORRADA (D) - PUERTO RICO	EXPRESSES HIS APPRECIATION FOR YOUR UNDERSTANDING OF AND CONCERN FOR THE PEOPLE OF PUERTO RICO; "I AM SURE THAT YOU WILL GO DOWN IN HISTORY AS AN EXCELLENT PRESIDENT AND YOUR ADMINISTRATION AS A FRUITFUL ONE WHICH TACKLED WITH COURAGE MANY OF OUR DIFFICULT PROBLEMS. THE FRUITS OF YOUR GOOD WORK WILL BE BORNE IN THE FUTURE."	ACKNOWLEDGED BY YOU	C /
SEN. HOWELL HEFLIN (D) - ALABAMA	URGES YOU AND PRESIDENT-ELECT REAGAN TO ESTABLISH AN EMERGENCY TRANSITION TEAM TO ACT IMMEDIATELY TO LOWER INTEREST RATES; ARGUES THAT HIGH INTEREST RATES ARE CAUSING SEVERE ECONOMIC HARDSHIPS FOR MILLIONS OF AMERICANS AND HAVE FAILED TO REDUCE INFLATION; BELIEVES REDUCING GOVERNMENT SPENDING WOULD BE A MORE EFFECTIVE METHOD FOR FIGHTING INFLATION.	ACKNOWLEDGED BY FM REFERRED TO: TRES CC: JACK WATSON CC: CEA	Electrostatic Copy Made for Preservation Purposes
SEN. LLOYD BENTSEN (D) - TEXAS	URGES YOU TO REVERSE THE DECISION TO SUSPEND THE LIMITATION ON MEAT IMPORTS FOR 1981; BELIEVES THIS ACTION WOULD VIOLATE THE MEAT IMPORT ACT OF 1979 AND WOULD HAVE A SIGNIFICANT ADVERSE EFFECT ON U.S. MEAT PRODUCERS; RECOMMENDS NEGOTIATING VOLUNTARY RESTRAINT AGREEMENTS INSTEAD.	ACKNOWLEDGED BY FM REFERRED TO: USDA CC: STUART E. EIZENSTAT CC: SRTN	
REP. PARREN MITCHELL (D) - MARYLAND	URGES YOU TO RESCIND THE SMALL BUSINESS ADMINISTRATION'S NEW INTERIM RULE DEFINING SOCIALLY AND ECONOMICALLY DISADVANTAGED INDIVIDUALS; NOTES THAT THE PROPOSED NEW DEFINITION BROADENS CULTURAL BIAS TO INCLUDE GENDER AND HANDICAP; ARGUES THAT THIS IS CONTRARY TO THE NARROW INTERPRETATION INTENDED BY P.L. 95-507, WOULD INCLUDE MORE NON-MINORITY INDIVIDUALS THAN MINORITIES, AND WOULD LEAD TO DESTRUCTIVE COMPETITION BETWEEN GROUPS WHO WOULD THEN BE ELIGIBLE TO RECEIVE THE LIMITED FEDERAL ASSISTANCE AVAILABLE.	ACKNOWLEDGED BY FM REFERRED TO: STUART E. EIZENSTAT CC: SBA	

SUMMARY OF CONGRESSIONAL MAIL TO THE PRESIDENT

DATE: DEC 19, 1980

PAGE: - 2-

FROM -----	SUBJECT -----	DISPOSITION -----	COMMENTS -----
REP. LES AUCOIN (D) - OREGON	URGES YOU NOT TO ISSUE THE PROPOSED EXECUTIVE ORDER TO CONTROL THE EXPORTATION OF HAZARDOUS SUBSTANCES; BELIEVES THIS ISSUE SHOULD BE DEFERRED TO THE NEXT ADMINISTRATION AND CONGRESS.	ACKNOWLEDGED BY FM REFERRED TO: ESTHER PETERSON CC:OMB	
REP. NORM LENT (R) - NEW YORK	URGES YOU TO PERMIT THE DEPARTMENT OF ENERGY TO DECONTROL THE PRICE AND ALLOCATION OF LIQUEFIED NATURAL GAS.	ACKNOWLEDGED BY FM REFERRED TO: DOE CC:STUART E. EIZENSTAT	
SEN. TOM EAGLETON (D) - MISSOURI	AS THE PRINCIPAL SPONSOR, URGES YOU TO SIGN S. 442, TO GRANT RELIEF FOR ISAAC N. HULVER, A WORLD WAR II VETERAN, DUE TO INJURIES HE RECEIVED AS A RESULT OF MALPRACTICE AT A VETERANS HOSPITAL.	REFERRED TO: FRANK MOORE CC:OMB	
REP. BERK BEDELL (D) - IOWA	HANDWRITTEN NOTE THANKING YOU FOR THE TIPPET HOLDER WHICH YOU MADE FOR HIM AT CAMP DAVID; REQUESTS AN APPOINTMENT WITH YOU TO PRESENT THE FLY ROD AND REEL WHICH HIS FIRM, BERKLEY AND COMPANY, MADE AND ENGRAVED FOR YOU.	REFERRED TO: BILL CABLE	
REP. WYCHE FOWLER (D) - GEORGIA	STRONGLY RECOMMENDS SARA CRAIG FOR THE STAFF OF THE CARTER PRESIDENTIAL LIBRARY.	ACKNOWLEDGED BY FM REFERRED TO: TOM DONILON	
SEN. STROM THURMOND (R) - SOUTH CAROLINA	THANKS FOR THE BIRTHDAY GREETINGS.	REFERRED TO: CENTRAL FILES	
REP. TOM HARKIN (D) - IOWA	AUTOGRAPHED PHOTOGRAPH REQUEST.	REFERRED TO: SUSAN CLOUGH	
REP. HENRY NOWAK (D) - NEW YORK	ON BEHALF OF LESLIE FOSCHIO, PRESIDENT OF THE THEODORE ROOSEVELT NATIONAL HISTORIC SITE FOUNDATION, REQUESTS ONE OF THE PENS YOU WILL USE IN SIGNING S. 2363, THE NATIONAL PARK AND RECREATION ACT OF 1980.	REFERRED TO: FRANK MOORE	

THE WHITE HOUSE
WASHINGTON

19 dec 80

Gene Eidenberg

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

Rick Hutcheson

cc: Stu Eizenstat
Jack Watson
Zbig Brzezinski
Louis Martin

THE WHITE HOUSE
WASHINGTON

JHS
OK
JW

BILL:

I HAD SUSAN SIGN THIS
ON FRIDAY AFTERNOON,
AS IT APPEARS TO IMPLEMENT
THE PRESIDENT'S DECISION.

ON SECOND READING, THOUGH,
I'M NOT SURE WHETHER OR
NOT GENE IS CORRECTLY
INTERPRETING THE PRESIDENT'S
INSTRUCTIONS. PLEASE EITHER
CLEAR WITH JACK BEFORE
GIVING TO TOM JONES - OR
HAVE RETYPED AND GIVE TO
THE PRESIDENT ON MONDAY.

THANKS

RIC^k

THE WHITE HOUSE

WASHINGTON

December 19, 1980

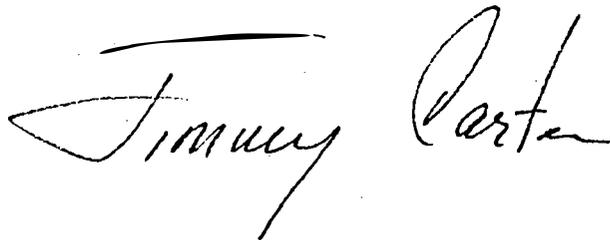
MEMORANDUM FOR

THE SECRETARY OF THE ARMY
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
THE ADMINISTRATOR OF THE NATIONAL AERONAUTICS
AND SPACE ADMINISTRATION
THE ADMINISTRATOR OF THE SMALL BUSINESS ADMINISTRATION

Under P.L. 96-481 (H.R. 5612), which I signed into law on October 22, 1980, I am required to designate agencies to participate in the SBA pilot procurement program. By this memorandum, I am officially designating the Departments of the Army, Transportation and Energy and the National Aeronautics and Space Administration to participate in this program.

This program offers opportunities for minority businesses to become more competitive and to participate more fully in high technology contracts which are an increasing portion of federal procurement activity.

I know I can count on each of you to see that this program is initiated in your agency before my Administration concludes on January 20, 1981.

A handwritten signature in cursive script, reading "Jimmy Carter". The signature is written in dark ink and is positioned in the lower right quadrant of the page.

THE WHITE HOUSE

WASHINGTON

December 19, 1980

MEMORANDUM FOR THE PRESIDENT

FROM:

GENE EIDENBERG

Gene

SUBJECT:

SBA Pilot Procurement Program

Pursuant to your note to me on the designation of agencies to participate in the SBA pilot procurement program, I have attached a memorandum for your signature to the relevant agency heads. Please note that I have included NASA because I did not interpret your note to mean you wanted this agency excluded since the Administrator volunteered to participate. (see attached).

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON
November 18, 1980

Gene
I think
Army
Energy
& Xportation
might be better -
J

MEMORANDUM FOR THE PRESIDENT
FROM: GENE EIDENBERG *Gene*
SUBJECT: Designation of Agencies to Participate in the SBA Pilot Procurement Program

On October 22, 1980, you signed into law H.R. 5612 which, among other provisions, continues for one year the SBA pilot procurement program. Under that program which was created by P.L. 95-507 and has operated in the Department of the Army for the past two years, SBA can request that specific procurements be set aside for economically disadvantaged firms. Under the pilot program, procurements have been selected to help the participating firms develop expertise in high technology areas, to become more competitive, and to move beyond the traditional 8(a) program.

You must designate within 60 days which federal agencies will participate in the program. It is the joint recommendation of Stu Eizenstat, Jack Watson, Louis Martin and myself that the reach of the program be expanded to include the entire Defense Department, Energy and NASA. We believe that although there have been some problems with the program, it has worked reasonably well. Because of the value of what has been learned from experience with the Army, we believe that other agencies in Defense offer excellent opportunities for innovative, high technology contracts, and also should be included. We also believe that a domestic agency should be included in the program and think that Energy offers the best opportunity for achieving our goals. Finally, NASA voluntarily agreed to participate in the program. It should be noted that all of these agencies are expected to fall short of the FY 1980 minority procurement goals.

If you agree with these designatives, I have attached a memorandum which conveys your decision to each agency head in writing.

Electrostatic Copy Made
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cc secret
12/19/80

cc Mike -

Thank you, again.
J.C.

NATIONAL SECURITY COUNCIL

Dec. 19, 1980

Dear Mr. President,

Four quick points as I order my files
for transerral to Atlanta:

-- If I can be of any help as you write
your memoirs, please call on me.

-- I hope you plan to visit China at
an appropriate time. And if I can be
helpful in your planning for such a visit --
which I am sure will be very successful --
please let me know.

-- You leave office with a stable,
basically tranquil E. Asia. Here's hoping our
successors do not damage that fragile web
of relations which serves our country so well.

-- It's been a privilege to have been in
your administration.

Season's Best!

Sincerely,
Michael Oshenberg



RKO GENERAL BROADCASTING

1750 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. 20006 • AREA CODE 202 638-1750

CLIFFORD EVANS
•
VICE PRESIDENT
WASHINGTON NEWS BUREAU

December 18 1980

Dear Mr. President,

Thanks for hosting last night's Christmas Party for the White House Correspondents.

The atmosphere was warm, the food delicious and greeting you and Mrs. Carter on the receiving line was, as always, most pleasant.

As always, to you and Mrs. Carter,
Every Good Wish and

Happy Holidays,

President Jimmy Carter
The White House

**Electrostatic Copy Made
for Preservation Purposes**

Cont. Files

Telephone Call 12/16/80
Adjournment of Congress

THE WHITE HOUSE
WASHINGTON

12-16-80

ALASKA

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SUPERFUND

DEREG - RR - AIR - TRUCKS - BANKS

NORMAL - PRC

JOBS - MORE, > 90

WPT / Syn fuels

MULTI-NAT TRADE

96th → 97th

Adjournment

Calls by Brademas, Rhodes

+

Byrd, Baker

THE WHITE HOUSE
WASHINGTON

19 dec 80

Secretary Duncan:

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

Rick Hutcheson

Stu Eizenstat
Zbig Brzezinski
Jim McIntyre
Charlie Schultze

THE WHITE HOUSE
WASHINGTON

12/18/80

Mr. President:

Eizenstat, McIntyre,
Schultze, Miller and Owen
concur with Secretary
Duncan.

Rick



THE SECRETARY OF ENERGY
WASHINGTON, D.C. 20585

ok
J

**Electrostatic Copy Made
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December 12, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: CHARLES W. DUNCAN, JR. *CW Duncan*
SUBJECT: REIMPOSITION OF THE MANDATORY OIL IMPORT
PROGRAM (MOIP) LICENSE FEES

Proclamation 3279, as amended, currently provides for the suspension of petroleum import license fees through December 31, 1980. The license fees of \$0.21 per barrel on crude oil and \$0.63 per barrel on unfinished oils and finished products have been suspended since April 1979. They were most recently suspended in June of this year to provide time to reassess the need for such fees in view of the continuing unsettled nature of international oil markets and the unresolved issue of domestic refinery protection. Those considerations, however, did not apply to customs duties, which are established under a separate body of law. You suspended duties along with fees in April 1979 but allowed the duties (which range from 5.25 to 52.5 cents per gallon) to be reinstated effective July 1, 1980.

In the intervening period, the world oil market has become even less stable as a result of the Iraq/Iran conflict. The Administration is currently studying appropriate refinery policy and Congress is deliberating various initiatives to provide domestic refiner protection after the Emergency Petroleum Allocation Act (EPAA) expires next year. Until the EPAA expires or crude oil is decontrolled, refiners will continue to receive protection from imported products through the Entitlements Program, thereby providing some measure of refinery protection. Our preliminary analysis of refinery policy issues indicates that even after expiration of the EPAA the domestic refining industry will not need import fee protection.

The Treasury revenues that would be derived from reimposed fees of \$0.21 on crude and \$0.63 on products for calendar year 1981 are estimated to be:

Crude oil fees	\$199 million
Product fees	<u>\$197 million</u>
Total fee revenues	\$396 million

Calculated on a fiscal year basis, this would mean Treasury revenues of about \$300 million in the remainder of FY 1981 and \$400 million in FY 1982. (These revenue projections

assume that if fees are reinstated, you would also retain the past practice of allowing duty payments to be deducted against license fee obligations.)

In addition to the direct increase in the cost of imports attributable to reimposition of the fees, the fees could result in an increase in the market price of uncontrolled domestic crude oil by an amount of about \$200 million in the remainder of FY 1981 and \$325 million in FY 1982. The Windfall Profit Tax would capture for the Treasury about 30 percent (after offsets) of any such domestic crude oil price increases. Thus, the total revenue impact of reinstating crude oil and product fees would be an increase in FY 1981 receipts of about \$365 million and an FY 1982 increase of about \$490 million.

The statutory authority upon which import fees can be based allows fees to be imposed in order to adjust the level of imports for national security reasons. Thus, fees must be based on a need to adjust imports, and cannot be used as a revenue raising measure (although that can be an incidental effect). Since the amount of the fees is so small that they are unlikely to have an appreciable effect on the level of imports, reimposition of fees may be viewed politically (if not legally) as a disguised effort to raise revenues. You will recall that this was a major political liability of the Gasoline Conservation Fee, which was based on the same statutory authority.

The average increase in the price of domestically produced petroleum products that would result from reimposition of fees would be about 7 cents per barrel (about one-sixth cent per gallon) for most products, but it could increase the after-entitlements price of residual fuel oil on the East Coast by as much as 45 cents per barrel because most of this fuel is imported and subject to the \$0.63 per barrel product fee.

Alternatives

Option A: Allow the suspension of the \$0.21 and \$0.63 license fees to continue.

- pro: 1. Would avoid providing a possibly unnecessary level of protection to domestic refiners during the period in which crude oil price controls are in effect.
2. Would allow an appropriate fee to be determined following the resolution of Congressional initiatives on domestic refinery protection.

3. Would avoid an increase in consumer energy costs of about \$500 million in the remainder of FY 1981 and \$730 million in FY 1982.
4. Would avoid the creation of expectations with respect to post-EPAA license fee levels.

con: Would mean the loss of potential Treasury revenues.

Option B: Issue a Proclamation which reimposes the \$0.21 and \$0.63 license fees.

- pro:
1. Would increase Treasury revenues by about \$365 million in the remainder of FY 1981 and \$490 million in FY 1982.
 2. Would marginally reduce demand for imported oil, consistent with international efforts to reduce the pressure on world oil markets.
- con:
1. Would increase consumer costs by about \$500 million in the remainder of FY 1981 and \$730 million in FY 1982 with a particular impact on East Coast residual fuel oil users.
 2. Would provide an unnecessary level of protection to domestic refiners.
 3. May create a constituency in favor of license fees (refiners and others who received special treatment under the program).
 4. May be viewed legally and politically as a budget balancing measure.

In view of the foregoing, I recommend that the current suspension of fees be continued indefinitely. The Proclamation, as currently amended, provides for a zero fee on January 1, 1981, in the absence of any further amendatory action. If you concur in this decision, I will have a Federal Register notice issued which states that a zero fee will remain in effect so that importers of petroleum and petroleum products will not take any unwarranted action in anticipation of the possible reimposition of license fees in January.

THE WHITE HOUSE
WASHINGTON

Phil had
seen

THE WHITE HOUSE
WASHINGTON

12/18/80

Mr. President:

You don't have to do
this. I'm sure Henry
Owen is the force behind
this.

Phil

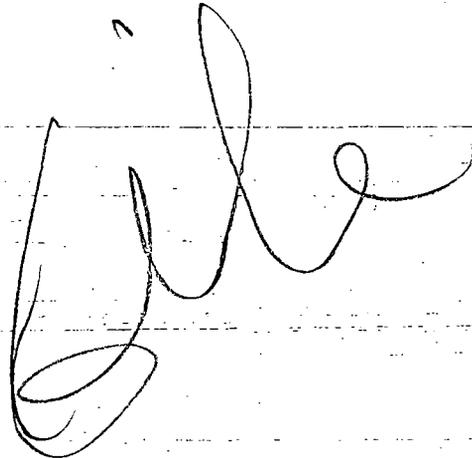
19 dec 80

Zbig Brzezinski

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

Rick Hutcheson

cc:
The Vice President
Phil Wise
Fran Voorde

A handwritten signature in black ink, appearing to read "RH", is written over the horizontal lines of the document. The signature is fluid and cursive.

THE WHITE HOUSE
WASHINGTON**Electrostatic Copy Made
for Preservation Purposes**

December 17, 1980

*Let
Fritz do
this
J*

MEMORANDUM FOR: THE PRESIDENT

FROM: ZBIGNIEW BRZEZINSKI *ZB*

SUBJECT: Proposed Meeting with Members of the US-Japan
Economic Relations Group

The American members of the US-Japan Economic Relations Group (the "Wise Men") have requested a 10-15 minute meeting on January 7 to deliver to you the Group's initial report. When you met with the US members of the Group (former US Ambassador to Japan Robert Ingersoll, Chairman; A.W. Clausen, Bank of America; E.W. Spencer, Honeywell; and Hugh T. Patrick, Yale) a year ago, you told them that you would be glad to meet with them personally to receive their recommendations when these became available.

They are asking for the date of January 7, because the Japanese members will make a similar presentation to Prime Minister Suzuki on that day. January 7 is the only date on which simultaneous delivery is possible because the report will not be ready for publication before then and because Suzuki will depart on a 12-day trip throughout Southeast Asia on January 8.

I submitted a formal schedule proposal to you earlier, but was told that there was no time available for such a meeting.

During Prime Minister Ohira's visit to the US in May 1979, you proposed -- and Ohira agreed to -- the establishment of the "Wise Men's Group" to examine factors affecting the long-term economic relationship and to make recommendations directly to you and the Japanese Prime Minister about ways to strengthen it. This was an important step in defusing the previous tension in US-Japanese economic relations. The Group's members, whom you selected personally, are distinguished Americans who have given their time freely to this important endeavor. It would be embarrassing to them and to you if a meeting cannot be arranged. They would find it particularly difficult to explain to their Japanese counterparts, who have an appointment with the Prime Minister, why such a meeting was not possible.

I urge you to meet with the Group on January 7. It would be a fitting conclusion to a year's work which, we hope, will contribute notably to one of your main achievements: the development of a stronger relationship between the US and Japan.

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

December 18, 1980

C

MEMORANDUM FOR THE PRESIDENT

FROM: Reubin O'D. Askew *RA*

SUBJECT: Agreement Regarding Procurement by Japan's Nippon
Telegraph and Telephone Company

On Friday, December 19, we will formally conclude negotiations with the Government of Japan regarding the application of the International Government Procurement Code between Japan and the United States. This will be done by an exchange of letters between myself and the Japanese trade representative, Dr. Okita. This issue is the sole major issue remaining from the Multilateral Trade Negotiations. As a result of this agreement, U.S. exporters will gain access to over \$8 billion in purchases by the Japanese Government, including \$3.3 billion in purchases by Japan's Nippon Telegraph and Telephone Company (NTT).

Agreement with Japan was made possible by resolution of the difficult and highly sensitive issue of coverage of NTT by Code obligations. As you know, we have insisted that Japan provide full access for foreign firms to NTT by making all of its purchases subject to the Code. The Japanese had strongly resisted this proposal. However, after negotiations for more than two years, Japan has agreed to provide full access to NTT, though not in the form we had originally sought. While we have been seeking formal Code coverage of all NTT purchases, Japan has agreed to provide formal coverage of approximately half of NTT's purchases while placing the remainder of NTT's purchases under full Code requirements through a bilateral agreement with the United States. In my view, this approach provides, substantively, what we have been seeking.

I have consulted extensively with the U.S. companies, unions, and Congressional leaders most concerned about this issue. Many companies, such as IBM and Motorola, strongly support the agreement. No major company opposes it. The unions are quite skeptical. The members of Congress agree that we should accept the agreement.

I believe this agreement is a major step forward in our trade relations with Japan. Of course, we will have to carefully monitor the implementation of the agreement and my office is fully prepared to do so.

I will be briefing the press at 2:30 p.m. today. In closing, let me commend Douglas Newkirk and David Shark on my staff, and Mike Mansfield and Bill Barraclough in the Embassy for their superb efforts during this negotiation.

THE WHITE HOUSE
WASHINGTON

Mr. President:

This letter will allow me to expend transition funds and is required by law.

Phil

THE WHITE HOUSE

WASHINGTON

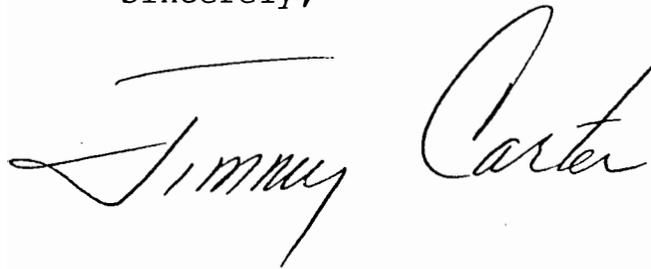
December 19, 1980

**Electrostatic Copy Made
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Dear Mr. Administrator:

In accordance with section 3(e) of the Presidential Transition Act of 1963 (P.L. 88-277), approved March 7, 1964), as amended, Mr. Phillip Wise, Jr. is hereby authorized to make on my behalf such designations or findings of necessity as may be required in connection with the services and facilities to be provided under the said Act. Should he so desire, Mr. Wise is authorized to designate one additional person to carry out these duties and should such additional designation be made, it will be communicated to you in writing by Mr. Wise.

Sincerely,

A handwritten signature in cursive script that reads "Jimmy Carter". The signature is written in dark ink and is positioned to the right of the word "Sincerely,".

Honorable Rowland G. Freeman III
Administrator
General Services Administration
Washington, D.C. 20405

JOHN ADDISON COBB ASSOCIATES

P.O. DRAWER 5

EAST HAMPTON, NEW YORK 11937

TELEPHONE
(516) 267-8830

**Electrostatic Copy Made
for Preservation Purposes**

December 15, 1980

Dr. John C. Sawhill
Chairman of the Board
U. S. Synthetic Fuel Corporation
1200 New Hampshire Avenue, N. W.
Washington, D. C. 20586

Dear Dr. Sawhill:

I enclose three copies of a study concerning your corporation and its future operations.

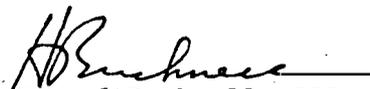
The study was conducted with the idea that the SFC at this point might find use for a general outline prepared by an outside source of the events surrounding its creation, the nuances of the legislation involved in its charter, and some preliminary elements probably to be involved in the strategy statement which it must eventually submit to Congress. This strategy statement should beneficially evolve in a de facto sense through an interactive process with Congress, the new Administration, industry, and the public. It should not be hastily produced several years hence to meet an administrative deadline even though evolutionary changes will occur. Initial SFC operations should therefore fit into an overall strategic concept approved by you and your Board of Directors from the very beginning and tested with your constituency. Circulation of this study should assist in this process. Should you concur, please let me know by letter and copies can be mailed at your direction for no more than the clerical and postal costs involved. There is, of course, the additional point that the study may say things you feel should be said but cannot because of your position.

Some weeks ago in correspondence with you I noted that my firm was involved in this sort of work. You replied kindly but did not indicate any interest in our study at the time. The study was subsequently completed. Therefore, while presenting this study to the SFC as a public service and a token of capability, we are also publishing it at the request of the editor, as an article in the journal Energy Communications in order to justify the expense involved through a form of company advertising. Energy Daily is being granted permission to use the "Executive Summary" if they so desire. A condensed version may appear in Energy Policy (British).

Naturally we hope that this effort may lead to further work with the SFC; possibly a development in more depth of some of the key strategy points cited. We would appreciate any comments you or your colleagues might have.

Incidentally, unless it happens to be SFC policy, please be advised that the Washington telephone information service does not carry your number.

Sincerely,



Howard Bucknell, III
President

HB/ps

Enc.

JOHN ADDISON COBB ASSOCIATES
MOBILITY FUELS
AND
THE ENERGY SECURITY ACT
OF 1980

MOBILITY FUELS
AND
THE ENERGY SECURITY ACT OF 1980

A Special Study Prepared As A Public Service

By

Howard Bucknell III

Of

JOHN ADDISON COBB ASSOCIATES

For

The Chairman of the Board, U.S. Synthetic Fuel Corporation

November 1980

Portions of this manuscript were taken from the forthcoming book, ENERGY AND THE NATIONAL DEFENSE, by permission of the University Press of Kentucky.

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EXECUTIVE SUMMARY

The U.S. Synthetic Fuel Corporation (SFC) begins its operations in an unfavorable public atmosphere. Many Americans, including the newly-arrived policy-makers, seem persuaded that the "energy crisis" has been overblown if not fabricated. The feeling exists on the one hand that synthetic fuels, if and when necessary, should be developed by the private sector in response to market demands. On the other hand there are those who feel that conservation efforts will obviate the need for synthetic fuels and that their development would result in an intolerable insult to the environment at huge public expense.

The authors of the Energy Security Act of 1980 obviously did not share the above sentiments. Nor do most analysts who have closely examined the synthetic fuel and national security connection. Examination of our energy status over a period of years has led to the conclusion that our national dependence on imported oil constitutes a severe threat to our national security which will not abate substantially in the next two decades unless synthetic substitutes are provided on the domestic scene. It has become obvious that the private sector is unable to take the necessary steps to meet this threat in a timely manner. The passage of the Act demonstrates a determination to undertake national defense measures that could preclude the necessity for our involvement in an oil war or which, if forced upon us, could substantially improve our chance of winning such a war. The paper discusses the international strategic aspects of oil including the dissolution of NATO and the fragmentation of the OECD emphasizing the prudence of developing transition resources in our own hemisphere. The importance of mobility fuels in our society is stressed.

Various flaws in the enabling Act are discussed in terms of the SFC's being able to meet its mandated minimum quotas of 500,000 barrels per day of synthetic crude oil equivalent by 1987 and 2,000,000 barrels equivalent per day by 1992. It is concluded that resource availability is by no means the factor potentially limiting SFC operations. The major problems delineated are:

- Uncertainty as to the understanding of the incoming administration of the national defense basis for the SFC. (This understanding will probably coalesce by the summer of 1981 when the oil production reduction occasioned by the Iran-Iraq War is felt world-wide.)

- The emphasis given by Congress to synthetic gas production by the SFC when liquid mobility fuels are the major defense problem. (This emphasis is apparently the result of lobbying influence and its effect cannot yet be judged.)

- The failure of Congress to establish an Energy Mobilization Board to override the effects of harassing tactics to be expected from environmental groups.

- The failure of Congress to mandate that the President grant construction priorities to the SFC under the Defense Production Act.

- The limitations imposed by the Act on the number of government-owned, company-operated plants (GOCO) as well as the general limitations on plant size which may preclude beneficial economies of scale.

- The undue emphasis in the Act on small business operations when the bulk of needed engineering and managerial expertise resides in larger corporations who can substantially slow down SFC operations (since they control refining) if they are not included.

- A probable inadequacy in funds since much of the money discussed by Congress will be spent by agencies other than the SFC.

- The decision of Congress to remove gasohol from SFC jurisdiction.

Concerning general operations of the SFC, the paper concludes that its major opportunity in the western hemisphere as a quasi-official branch of the U.S. government may lie in assisting in the development of the rich Venezuelan heavy oil deposits along the Orinoco River where, in all probability, private U.S. corporations would not be allowed to operate. On the domestic scene it is concluded that immediate emphasis should be placed on shale oil developments (particularly in assessing the status of the in situ operations of the Occidental Petroleum Corporation) because of uncertainties attending the expansion of coal operations beyond existing slack capacity. As to gasohol, it is concluded that the combined efforts of the Department of Energy and the Department of Agriculture as specified by the Energy Security Act of 1980 will not be particularly successful. The current emphasis on ethanol from grains rather than methanol from wood will probably have an unfortunate impact on food prices. The SFC should be prepared to assume eventual responsibility for gasohol production.

MOBILITY FUELS AND THE ENERGY

SECURITY ACT OF 1980

Howard Bucknell III

President, John Addison Cobb Associates
(Energy Analysts)
Drawer S, East Hampton
New York, 11937

ABSTRACT

The Energy Security Act of 1980 which created the U.S. Synthetic Fuel Corporation (SFC) is analyzed in terms of its potential for producing mobility fuels deemed essential for national security reasons. The backdrop of this legislation is described. Various strategies are proposed for the SFC in the light of 1980 general election results and a predicted renewal of interest in the problems posed by severe dependence on oil imports by the summer of 1981 when world oil stocks will probably be severely diminished as a result of the Iran-Iraq war.

INTRODUCTION

Popular as well as academic analyses of the Energy Security Act of 1980 will generally begin with an air of faint surprise. Most analysts will embark on the premise that it is worth examining if the Congress knew what it was about when it specified a minimum production goal of 500,000 barrels per day of domestic synthetic crude oil equivalent by 1987 and a minimum goal of 2,000,000 barrels equivalent per day by 1992. The point will be advanced that, after all, there are economic, social, and environ-

mental factors to be considered here before any of this can be thought feasible. The energy situation is no longer as serious as once thought. We are conserving energy. The analyses, therefore, will predictably focus on these aspects and, because of time, space, and personal energy factors, will, in the end, make little constructive comment on how to go about reaching the goals specified by Congress. Nor will they much consider the penalties involved if these goals are not met. Predictably, of course, by the summer of 1981 all of this will change again since, by that time, world oil stocks will be severely diminished as a result of the Iran-Iraq war. Our dependence upon imported oil will again be painfully apparent. Measures to assuage this dependence will again be in vogue. The energy situation will again assume crisis proportions.

This essay works from the premise that the concept of a government-sponsored but industry-conducted program of synthetic fuel production on a large scale in this country has been debated carefully and even hotly over a number of years and that what the Congress has now mandated is both reasonable and necessary to the economic, social, political, and military security of the nation. This is not to say that the Act is without flaws. It has flaws. Some of them will be discussed in these pages. The Act is a preliminary but major step in a new direction for U.S. energy, foreign, military, economic, and social policy. It will undoubtedly be attacked, amplified, amended, weakened, and strengthened in the

months and years ahead. A product of debate, compromise, adjustment, and calculated risk, the Energy Security Act of 1980 must be regarded as a living document, not a prescription engraved in stone. How well it is implemented will, within the decade, have much to do with how securely our people retain their basic freedoms.

THE GENESIS OF GOVERNMENT INTERVENTION IN ENERGY PRODUCTION

Government support of energy resource production is nothing new in this country. The Battelle Pacific Northwest Laboratories have calculated that, since 1918, over \$100 billion in direct and indirect government subsidies in 1977 dollars have been paid to the oil industry, over \$56 billion have been advanced to support electrification, \$18 billion to develop nuclear power, over \$9 billion to support the coal industry, over \$16 billion to support the gas industry, and about \$15 billion to develop hydroelectric power. But direct intervention is something new. The genesis of the Energy Security Act of 1980 is to be found in a recent realization that the economic and social vitality of this nation is heavily dependent upon highly individualized modes of transportation, that this transportation--for the present at least--is almost entirely dependent upon petroleum-based mobility fuels, that the defense capability of the country is also almost entirely dependent upon such fuels, and that almost half of the fuel of this nature which we use is imported from abroad, from areas which show increasing signs of marked political instability and over which

we, as a nation, can exert little, if any, control. The recognition of the potentially serious consequences of this situation-- including the threat of war for which we are ill-prepared--has led to a general conclusion amongst those who have seriously contemplated the matter that an absolute prerequisite for our survival as a nation whose ethos is determined by economic, social, and political forms of general popular choice is that we substantially reduce our use of petroleum-based fuels beyond those produced domestically and that, secondly, we rapidly develop synthetic alternatives to such fuels while exploring the potential for basing our society on essentially inexhaustible renewable energy resources. The U.S. Synthetic Fuel Corporation, whose founding is called for by the Energy Security Act of 1980, was chartered because the Congress and the Administration had nowhere else to go. In the six years elapsed since the Arab Oil Embargo it had become painfully clear that the large corporations who might have turned their capital and technological resources to a diminution of our dangerous dependence on insecure imported oil by the development of synthetic fuels, could not, or would not, do so as long as they could continue to gamble profitably on the handling of foreign oil. Conventional economics applauds their decision, short-sighted as it may be from a national security viewpoint. But then conventional economics probably argued against the production of Spitfire aircraft in England by English firms prior to their need in the Battle of Britain. We are approaching our own battle for survival in economic terms certainly and quite possibly in military

combat as well. It is a function of government to transcend the norms of the market place where a people's survival is at stake. The decision for government to interject itself into the production of fuels was, in every sense of the word, a national defense measure of the first magnitude.

The point that synthetic supplements to our mobility fuel budget must be sought is based on the considerable uncertainty attending the question of how much conservation can be achieved with a viable economy. It has already been established that through elimination of waste plus a redistribution of car size choice a considerable savings in mobility fuels can be achieved. However, often this savings is confused with general or overall energy conservation that has nothing to do with the transportation area where it is impossible to make substitutions in an effective manner pending widespread use of electric vehicles or the development of hydrogen engines. Furthermore, in the general conservation area there is acute uncertainty about how much can be achieved in total fuel reductions without severely limiting industrial productivity.

Often this problem is brushed aside on the basis that the United States will become a "service economy" and that we will support ourselves through the provision of low energy supported "services" to other nations. Reduced to the absurd, this premise consists of a vision of a comfortable middle-class America safely at home, removed from the problems of foreign lands, and leisurely examining low energy cathode ray tube computer read-outs in order

to advise the rest of the world how to produce and sell steel, concrete, automobiles, ships, aircraft, tanks, and so forth without the annoying toil and sweat and burdensome energy requirements of factories devoted to heavy manufacturing. Thus "our" energy budget would be very low and "their" energy budgets would be commensurately high. But if we desired the products involved, obviously we would pay the going rate, and it is quite unclear that this would be advantageous--particularly in areas of military defense. The question of the "service economy" is basically then, "in whose service?"

Also involved in a no-growth economy of "service" dimensions is the problem of civil unrest at levels never before experienced in this country. History has recorded the traumas associated with the elimination of class-levels in caste-bound societies. Yet to be experienced are the predictably more severe traumas to be associated with the establishment of caste and class barriers in a heretofore open society through the "quick-freeze" permanent layering of "haves" and "have-nots" almost certain to emerge as a result of economic growth being stifled by energy shortages.

To a certain extent we will probably face these problems regardless of what we do. But through the large scale development of synthetic fuels we should be able to mitigate the impact, increase our security, and buy time in which to sort out both the technological and social issues which our energy situation presents to us.

But in our society, once an intellectual consensus is

reached on this sort of an issue, who is to take appropriate action? The free enterprise system does not respond to rational conclusions; it responds to the market place. At the present time the purveyors of mobility fuels generally have ample supplies, synthetic replacements for the most part would cost more, and there are capital risks involved in the establishment of a synthetic fuel industry. Fundamentally there is presently little market incentive for synthetic fuels and considerable opposition to their development by environmental groups. Under these circumstances there is little reason to expect oil companies, for example, to produce synthetic fuels except under conditions of solid government support and subsidy.

The environmental groups are not the only source of opposition to synthetic fuel development. The synthetic fuel problem and the means developed to solve it work directly at the nexus of a cherished if not always realistic American concept of the free enterprise system. The Synthetic Fuel Corporation now created by Congress at President Carter's request puts the government into the business of supplying energy. Thus not only does it draw opposition from the environmental groups and "no growers"; it also disturbs conservatives dogmatically against involvement by the government in any of the means of production. Doctrinaire objections of this sort have been submerged in times of crisis before, however. The synthetic rubber industry was created by the government during World War II when natural rubber supplies were cut off by the Japanese. In fact the synthetic rubber example was

seized upon in the spring of 1979 when general debates began as to the merits and demerits of synthetic fuels and their government sponsorship.

Paul R. Ignatius, Eugene Zuckert, and Lloyd N. Cutler joined forces in June 1979 to write an article in The Washington Post urging the creation of a joint public/private "Petroleum Reserve Corporation" to produce up to 5 mbpd of synthetic oil. As analogies they cited the government-owned synthetic rubber plants financed during World War II by the Reconstruction Finance Corporation, the aluminum and steel plants financed during the same period by the Defense Plants Corporation, and the aluminum, copper, and nickel development efforts given market-guarantee contracts by the General Services Administration during the Korean War.

W. W. Rostow had pointed out earlier that, contrary to popular conceptions, public and private industrial cooperation is "the sort of thing we have done well in this country from the time the Jefferson Administration gave Eli Whitney a contract for guns with interchangeable parts down through construction of the long distance railways to Project Apollo." But it must be admitted that in each case an obvious emergency or at least unusual but popularly perceived pressure was felt to stimulate this cooperation. In the present instance the web of urgency is so complex that only those who have carefully studied the matter and patiently unravelled the interacting strands are able to conclude that a clear and present danger exists. Practically speaking,

the media does not today convey a sense of this condition to the public. In fact many prominent journalists seem convinced that the whole energy situation is one contrived by the major corporations involved to milk the public. To them the Synthetic Fuel Corporation represents collusion between these corporations and political figures. Articles exemplifying this point of view recently appeared in The Washington Monthly. The thrust of these articles (under the general title of "Psst--The Energy Crisis Is Over") was that the Energy Security Act, as it finally appeared, represented a triumph of lobbying by synthetic gas operators and that no real energy crisis exists in America because of the large amounts of natural gas to be discovered below normal drilling levels. There is probably enough truth in these charges to introduce considerable confusion but, when the smoke clears away and especially when the oil shortage because of the Iranian-Iraqi war manifests itself in this country (by the summer of 1981), it will again become apparent that:

- a threat of war does exist because of U.S. and allied oil dependency factors;
- a bonanza in natural gas would not in the next ten years solve this dependency. The bonanza is not certain, and the conversion of the natural gas to mobility fuels would impose as large an effort as the development of synthetic fuels;
- the development of a substantial synthetic liquid

fuel capability could reduce the threat of war or enhance the ability to win a war while mitigating, in the meantime, the financial and political bondage increasingly felt as a result of OPEC oil price and production rate control.

The synthetic rubber industry example is worth returning to since not all observers consider it a successful venture. Robert A. Solo of Michigan State University views the synthetic rubber industry as "a scandalous, a complete, a nearly catastrophic foul-up." It seems that Solo's major concern is that during the hectic history of this effort it "never produced significant technological advance and innovation." This is undoubtedly a valid criticism, but it must be measured against the point that the crash synthetic rubber program did produce rubber and produced it in quantities sufficient to meet the exigencies and demands of the war effort as well as a modicum of civil sector demand. Later a great and profitable domestic industry emerged in private hands.

Nevertheless there is a point here which bears comment in the comparable case of the Synthetic Fuel Corporation. If it is to effectively implement its charter and pursue the intent of Congress, it will necessarily at the onset use tried and proven technologies for extracting synthetic fuels from coal, shale, tar sands, and heavy oils (its charter does not permit the development of ethanol and methanol fuels from biomass sources; this will be commented upon at greater length). This use of

"first generation" technologies, such as, for example, the SASOL system used in South Africa, may, in some cases, be less than optimum for domestic application. Better, or at least more applicable, technologies are potentially at hand. This factor, of course, was one which inhibited the early writing of the Act in the first place. It is not clear even now how the Synthetic Fuel Corporation will resolve the obvious need to commence production at once while at the same time preparing to phase in better and cheaper technologies as they become available and are proven on a pilot scale. Most probably a clear-cut relationship between the SFC and the DOE or its successor organization will be necessary where the former can impose R & D demands on the latter and the DOE can, in turn, introduce felicitous and timely proposals for "second generation" approaches. This would also nominally be a function of the industrial partners of the SFC engaged in actual plant operation. But it must be understood that many of them will probably lack R & D facilities if the letter of the enabling law concerning contractors is followed. Further, in reviewing energy-oriented R & D in this country it is clear that it is already dominated by federal dollars disbursed through DOE. Even the giants of the industry like EXXON rely heavily on DOE grants (and hence direction) to sustain their energy R & D efforts. The SFC/DOE R & D relationship (unclear at this point) must therefore be considered a key factor in the long-term success of the SFC. This conclusion is underscored by the fact that while the synthetic

rubber venture was a creature of World War II and thus functioned only "for the duration," the SFC will, under the enabling Act, operate until at least September 30, 1997. A tremendous store of practical knowledge concerning the production of synthetic fuels will be generated during the first few years of the SFC's operation. The key to its becoming a success and even a money-maker to be eventually turned over to private industry at a profit to the taxpayer probably lies in the R & D planned improvement area. Here much assistance could be obtained by reference to Levering Smith's "invention on schedule" techniques evolved during the development of the Polaris Program.

We have noted the debate on synthetic fuels which began in 1979. Actually the antecedents for joint government/industry cooperation in this area go back further in the public record. In March of 1973, Senator Henry Jackson introduced the "National Energy Research and Development Act of 1973" which would have set up an "Energy Management Project" to supervise a series of joint government and industry corporations which would have undertaken specific developments of new energy sources. It was not passed because of ideological distaste for such ventures on the part of the Nixon Administration and the unwillingness of the House to back a novel approach. The conservative reaction to the Jackson proposal was more or less summarized by Rogers C. B. Morton, then Secretary of the Interior:

A joint venture with the government is a halfway house of nationalization--I think we need a great

partnership with the people--throughout the country people generally have invested heavily in the resource industries to provide all the capital that these industries need

To say the least, this statement was greeted with something approaching dismay in the board rooms of some oil companies. The EXXON Corporation under Jamieson, for example, had mounted an extensive and sophisticated albeit very private campaign presenting statistical charts to convince government policy-makers and other industry members that a joint government/industry approach was probably the only way that synthetic fuels would be developed in this country before the year 2000.

By 1975 some members of the conservative element had come to face more realistically, perhaps, the facts and figures of capital investment necessary for augmented domestic energy production, the risks involved as perceived by the oil and gas industry, the general disinclination of the oil giants to divert money from profitable overseas development--and the rather intangible but increasingly ominous prospects for the country (and, of course, the Administration in power) if overseas shipments were to be cut off. The Arab Embargo, of course, helped to sharpen these perceptions for those unused to analytical projections and the estimate of political and military probabilities.

As a result of this heightened insight, President Ford (probably at Vice-President Rockefeller's suggestion) proposed legislation in October 1975 for the creation of an Energy Independence Authority (EIA). This Authority (a government corporation) was to

be provided with \$100 billion with which to assist private industry in energy developments of a high-risk and capital intensive nature. It was expected that the EIA would provide the impetus to start the country moving towards the goal of "energy independence" earlier enunciated by President Nixon. Inasmuch as the "high risk" ventures involved in the bill which emerged included pipeline systems and nuclear power plants as well as synthetic fuel plants, it may be that the EIA represented merely an acknowledgement by the conservative element that private industry would not or could not raise the capital necessary to move the country at a reasonable rate towards a new and more secure energy era-- risk or no risk. Something of the same problem was probably involved in the heavy, and profitable, as well as (perhaps) scandalous involvement of the Standard Oil Company of New Jersey (now EXXON) with the Nazi-controlled I. G. Farben Industries on the eve of the U.S. entry into World War II. Multinational corporations have patriotic employees, but it is worth remembering that the corporations themselves as legal entities are not chartered nor obliged, per se, under our laws to necessarily respond to the national interest, unless it happens to coincide with the stockholder's financial interest as perceived by corporate officers. The EIA Act was not passed; ultra-conservatives pooled resources with liberal elements to defeat it. Ultra-conservatives have now enlarged their membership in the Senate.

To conclude this section of the essay it is perhaps worth

listing the general objections to the establishment of a Synthetic Fuel Corporation that had accumulated at the time of its creation in 1980 as well as the salient strategic factors underlying passage of the Energy Security Act in general. The point of doing so is that while the enabling Act passed with a comfortable majority, its opponents within Congress and on the periphery of Congress where the lobby groups work were not convinced by their opposition's persuasions and can be counted upon in the future to work towards the SFC's undoing at every opportunity. This stark fact will be a basic facet of the SFC's operating environment and will clearly color the perceptions of its directors. The directors nominated by the Carter Administration are: John C. Sawhill, Chairman of the Board; Frank T. Cary, formerly of IBM; Cecil Andrus, former Secretary of the Interior; Lane Kirkland, President of AFL-CIO; Frank Savage of Equitable Life Assurance; Catherine B. Cleary; and John D. deButts, formerly of AT&T. Some uncertainty attends the confirmation of these directors in view of 1980 election results. Basically the essential objections as posited by the more vocal elements in the country are as follows:

- It is too early technologically speaking to commit major resources to synthetic fuel production. Better processes are "just around the corner."

- Government should not make the commitment to synthetic fuel production. This should be the responsibility and prerogative of the private sector.

- Synthetic fuel production will be environmentally devastating because of a) water demands and pollution, b) carbon dioxide production, and c) scarring of the earth in scenic areas.

- Synthetic fuel production is unnecessary because conservation efforts will obviate the need for it. Conservation is cheap; synfuel production is expensive.

There are other objections, of course, but in the main they appear to be variations on the above themes.

Specialized major oil company objections to the SFC charter depart somewhat from those voiced by the intelligentsia. As described recently by Jimmie R. Bowden, President of CONOCO's Coal Development Company, at The Oil Daily Forum in Washington, the oil business more or less considers itself betrayed by the Energy Security Act of 1980 because of the undue emphasis placed on favoring small business and much of the procedural language of the Act which may indicate a descent by the SFC into the interminable and erratic contract processes so prevalent in the Department of Energy. These fears must be given an audience because, as will be further developed, Congressional intent or no, the SFC probably cannot succeed without substantial support by the U.S. oil industry as a whole.

Strategic considerations that impinge upon synfuel production seem to be:

- The acute OECD dependence upon Persian Gulf oil (Western Europe, 60% of its imports--6 mbpd; Japan, 70% of its imports--

4 mbpd; United States, 32% of its imports--2 mbpd) together with the current very poor military potential for undertaking or opposing hostile action in that area without the concomitant and protracted loss of oil plus the increasingly dubious ability of the OECD nations to cooperate militarily, politically, or economically in the face of oil stoppages.

- The prospect of a Soviet oil shortage by 1985 coupled with her availability of forces and the proximity of the USSR to the Persian Gulf region plus the uncertain stability of existing regimes including an Iran now at war with Iraq.

- The prospect of extremely large heavy oil deposits along the Orinoco River in Venezuela whose extent and large-scale extraction have yet to be determined. Uncertainties regarding the development of the Alberta tar sands in Canada.

- The factors to be introduced in the world oil trade and man-of-war passage by the widening and deepening of the Suez Canal now nearing completion.

- The almost certain proclivity of OPEC to continue to raise world oil prices at the least in step with general Western inflation (indexing), thus maintaining an energy/inflation relationship that effectively precludes curbing inflation.

- The trade-offs introduced against the above factors by the development of a large scale synthetic fuel industry in the United States and in the Western Hemisphere.

It is not customary to include economic factors in a "stra-

tegic" portrayal, but in this case it seems worthwhile since it is the possible demise of the prevailing international economic order that might well provoke war while at the same time precluding its effective prosecution.

The combination of the Soviet energy situation and the Western European and Japanese situations results in the consideration that the great western alliances forged during and in the aftermath of the Second World War may well be now moot for all practical purposes. While it is the people of Japan and Western Europe who have the most to lose should an all-out oil war erupt in the Middle East, it is also clear that while it is certain that they would be hurt should they join us in the war, it is also sure that they would be punished the most severely should the war be lost. Our unilateral ability to fight the war and to build up the neglected infrastructure for the prosecution of war would be severely limited by a loss of oil as a result of war. Abstention on the part of our allies would perhaps preclude direct invasion of Western Europe by Red Army forces and might result in better oil delivery conditions if the USSR won. Even if the USSR were to lose an oil war in the Middle East in this decade and have her marauding naval forces put down at sea, the outcome would not be a subjugated Soviet Union but rather a sullen one biding her time. Her geographic propinquity to the Middle Eastern oil fields would not have changed. The facts of geography are against us. As to the U.S. nuclear umbrella so long referred to by West European

politicians and more cautiously by Americans as prohibiting such wars, few people in the streets of Western Europe in the present age of uncertain nuclear parity between the superpowers believe any longer that the U.S. would sacrifice its great cities, its industries, and its population to stop an invasion of Western Europe which, after all given recent trends, could be more conveniently and certainly more safely condemned with great skill and vigor by our representatives in the halls of the United Nations. This in spite of protestations to the contrary by President Carter as late as October 1980 and the declarations of President-elect Reagan during the campaign. He has yet to be presented with the full facts of existing capabilities. "Better Red than Dead" is, therefore, no longer a slogan; it may well be now a fact of life for our former allies. The American people show little sign of even having considered the problem except as an academic oddity. The Japanese must, however, in spite of current references to protective treaties with the U.S. They are less precariously located physically than the Europeans but even more vulnerable to any stoppage of sea transport in terms of the maintenance of economic health and, indeed, the ability to feed their population. Their position is, of course, complicated by the uncertainties introduced by a nearby Russia that "is" and a nearby China that "may become" ominously capable and expansionist military powers.

The Suez Canal question not only raises the question of a rerouting of a substantial portion of the oil tanker trade from

around Africa; it also brings up the subject of naval and air force dispositions along the oil routes. While there may be some question that Soviet naval forces in the Indian Ocean could prevail against U.S. forces currently stationed there (at great cost and with uncertain staying power)--particularly if the U.S. forces were to be assisted by French and British units (an uncertain proposition)--there is little question of the Soviet ability to dominate the Mediterranean should they choose to do so. This fact was brought home sharply to U.S. naval authorities during the 1973 war between Israel and Egypt for all that little attention was given to the proposition in the U.S. press.

The above rather depressing vignette has been presented to illustrate that, whether one accepts the propositions advanced above or not, the rapidly changing shape of the world has created a situation where if we are to continue to maintain our ability to evolve a polity of our own economic, social, and political choosing then, largely due to energy factors, we had best look to our energy resources at home and within our own hemisphere. It is against this backdrop that the Energy Security Act of 1980 was passed, and it is in the face of the problems enumerated that we should consider how to implement it and how to make it a success.

SOME DETAILS OF THE ACT

The Energy Security Act of 1980 is an act in eight major parts or "titles." These comprise "Synthetic Fuels," "Biomass Energy and Alcohol Fuels," "Energy Targets," "Renewable Energy

Initiatives," "Solar Energy and Energy Conservation," Geothermal Energy," "Acid Precipitation and Carbon Dioxide Study," and "Strategic Petroleum Reserve." Thus it is an omnibus energy bill quite similar in many respects to the omnibus energy act proposed by Senator Jackson in 1973, passed by the Congress, but vetoed by President Nixon ostensibly because it included provisions for the emergency rationing of gasoline. The present act contains reference to gasoline rationing but it is merely cautionary; advising the President that the question of when and if to ration remains with the Congress. The main focus of this essay is on the Act's provisions for the production of mobility fuels as contained in the first two titles. Other titles will be discussed only in passing as they seem to apply to the mobility fuel question.

In many respects Title I of the Energy Security Act of 1980 is the unique result of fierce interaction and eventual compromise between the members and staffs of the House Subcommittee on Economic Stabilization (Committee on Banking, Finance and Urban Affairs) and the Senate Committee on Energy and Natural Resources with a running acerbic commentary by Senator Proxmire's Committee on Banking, Housing and Urban Affairs. The House Subcommittee on Economic Stabilization entered the picture because of its primary cognizance over the Defense Production Act of 1950 which was due for renewal by 1980 and the personal conviction of its chairman, Representative William Moorhead of Pennsylvania, that the production of synthetic fuels in this country had become a major defense

necessity. This conviction was strongly buttressed by hearings held by the Subcommittee in March, April, and May of 1979. As a result Moorhead introduced a bill, eventually successful in the House (by a vote of 368 to 25), which provided for the renewal and extension of the Defense Production Act, included the proviso that synthetic fuels be treated as essential defense items, and called for the rapid development of a synthetic fuel industry in this country. The Defense Production Act is a powerful lever in the hands of a skilled and determined administration. It can assign priorities to materials that guarantee rapid production. But pairing this Act with the energy question encountered opposition. The Senate Committee on Banking, Housing, and Urban Affairs chaired by Senator Proxmire produced a strong adverse commentary on the House (Moorhead) bill. Its report, "Extending the Defense Production Act of 1950," as amended (Senate Report 96-387 of October 30, 1979) is a succinct summary of all the popularly perceived disadvantages and pitfalls pertaining to a government-sponsored synthetic fuel industry. The report generally advanced the concept that what was being done in the field of conservation and solar energy would more than take care of America's energy needs. Extensive reference was made to Stobaugh and Yergin's book, Energy Future, and to Friends of the Earth comments but without demonstrating too keen a perception of what was involved. In terms of facts and figures and the point that the Stobaugh and Yergin prophecy for the year 2000 is by no means at hand in the

year 1980. The staff report is generally representative of papers evolved by bright and dedicated environmentalists with little energy background and no national security experience. On the other hand, the Senate Committee on Energy and Natural Resources chaired by Senator Jackson (their report on the Moorhead bill is contained in the same Senate document cited above) fully concurred in the need for synthetic fuels but, noting strong House support for the Moorhead bill, introduced amendments fulfilling general energy program needs that had been accumulating on the staff's shelf and here and there in the Senate.

Senator Proxmire's Committee's criticisms were eventually left for future reference as a matter of record, and the Senate and House adjudicated their differences in conference. The emergent Act's Title I therefore is split into two parts. The first part provides for presidential action to develop synthetic fuels under the Defense Production Act. The second part provides for the establishment of a U.S. Synthetic Fuel Corporation to undertake this task. The Defense Production Act provisions are placed on "standby" when the SFC becomes operational. In a typical Washington two-step, while it seems clear that the Congress or at least Moorhead's Subcommittee intended that the Defense Department take the lead in this preliminary phase (which may persist for quite a while), funds permitting the implementation of all of this had, in the meantime, been allocated to the Department of Energy by the Congress. There was also in existence an

executive order assuring the Secretary of Energy that he was to take the lead role in all administration energy matters. The Secretary of Defense, beset with other problems and long experienced in the miasma of Washington bureaucratic infighting, bowed to all of this, and it seems now that one of the first tasks of the SFC will be to attempt to obtain control from an avid if inefficient DOE of synthetic fuel production matters for which the Congress will hold the SFC responsible. This may not be easy even though the Chairman-designate has held the post of Deputy Secretary of Energy. All of this is further clouded by prospects of DOE abolition or major reorganization once the Reagan Administration takes control.

The major feature of the second part of the Act's Title I is the establishment of the tax-exempt U.S. Synthetic Fuel Corporation with its board of directors and small staff drawn and paid outside the Civil Service. The Congress's mandate to this corporation is to produce through cooperation with industry "at least" 500,000 bpd of synthetic crude oil equivalent by 1987 and "at least" 2,000,000 bpd by 1992. The sources of synthetic crude oil in the Act are specified as coal, shale, tar sands, and certain categories of heavy petroleum. Biomass-produced fuels are not within the jurisdiction of the corporation but hydrogen, if produced from water, is. The general thrust of the legislation is for the government to absorb most of the initial financial risk while in general creating an industry whose operation for the most

part will be in private hands.

The specifications given for SFC production have been the source of fervent argument. Many feel that they cannot be reached without excessive expenditures, environmental perils, and social dislocations. Others do not agree. But it seems probable to anyone analyzing the international climate that we face grave security dangers if the figures and dates are not met or exceeded whatever the domestic consequences.

A second feature of Part B of Title I is the proviso that besides making loans for synthetic fuel development and guaranteeing prices, the Corporation is also authorized to engage in joint ventures and, in limited instances lacking enough industrial proposals, to itself undertake direct construction of up to three synthetic fuel plants. This may turn out to be a major limiting factor. The present administration's distaste for GOCO (government owned-company operated) plants may eliminate the participation of a number of technologically capable but thinly capitalized corporations. In the face of a decision by the major corporations--particularly those with foreign oil to sell--to abstain from intensive SFC participation or to participate at a slow pace, the ultimate ability to deliver synthetic fuels in quantity may be very long in materializing.

In the establishment of a six-member advisory committee to the SFC's board the Congress made it clear that it expected the Energy Mobilization Board to markedly facilitate the operations

of the SFC. The chairman of the EMB was named along with the Secretaries of Defense, Energy, Interior, Treasury, and the Administrator of the Environmental Protection Agency as members of an advisory committee for reviewing the corporation's solicitations and proposals. The Advisory Committee does not appear to have any substantive authority in itself, but the fact that the Congress in 1980 did not pass the Act creating an Energy Mobilization Board may prove very debilitating to the SFC in its being able to rapidly unravel the complex web of federal, state and local laws and regulations which confront any energy production project at this time. Predictably the issue of the EMB or some comparable body will be revived in the next Congress, but its fate remains uncertain. It seems essential that, if the SFC is to fulfill its mandate, some sort of fast track regulatory adjudication authority must be made available. This issue is particularly important since the Congress has specifically denied the SFC the ability to have its projects considered "federal projects" for the purposes of the application or assignment of water rights. The success of the synthetic fuel project in general will be closely tied to water access. Without some quick adjudication and override authority comparable to that originally envisioned for the EMB, the SFC Board of Directors may find themselves in a situation analagous to that of a sheriff hired to clean up a desperado-ridden town in the Old West but permitted to use only blank cartridges in his guns.

In the original Senate language for the Act, Senator Henry Jackson's Committee specifically excluded production of heavy oils from the scope of the corporation's activities. This commodity which is a highly viscous, almost tar-like, crude generally must be heated or otherwise treated to be extracted. It is estimated that about 10 billion barrels of heavy oil exist in the United States, most of it in California. The Jackson Committee considered that, through decontrol of the price, heavy oil would be produced rapidly as an extension of the normal operation of the existing U.S. oil industry and within the scope of known and available technology. In the Act as it was finally passed, however, the wording seems to permit SFC heavy oil involvement where "the cost and the technical and economic risks make extraction and processing of a heavy oil resource uneconomical under applicable pricing and tax policies" The latter two words, of course, refer to the situation created for U.S. oil producers by the Windfall Profit Tax. The question of whether or not the SFC can properly operate in the heavy oil area may well become a major issue. The 10 billion U.S. barrels are an attractive target since that figure amounts to about one-third of current U.S. proven reserves or the totality of Alaskan proven reserves. But of far greater potential significance is the question of Venezuelan heavy oil.

Under the provisions of the Act, the SFC is authorized to award financial assistance for the development of up to two syn-

thetic fuel projects located in the Western Hemisphere outside the United States. At our present state of knowledge the Athabasca tar sand deposits in Canada's Alberta province immediately come to mind. The 86 billion barrels involved were always of great interest to James Schlesinger. Even greater reserves (up to 600 billion barrels) may emerge. But these resources are already being developed by Syncrude Canada Ltd. Their availability to the United States (short of seizure) will be a moot question for some time to come because of the Byzantine nature of Canadian provincial politics. On the other hand, information is accumulating that heavy oil deposits in Venezuela along the Orinoco River may approach a trillion barrels. The strategic implications of assured access to such deposits in the Western Hemisphere are staggering. Offering, as it does, the prospect of eliminating the need to transport the 2 mbpd currently brought to the U.S. through the Strait of Hormuz as well as the several million barrels per day imported from Nigeria, Algeria, and Libya across an Atlantic Ocean which our currently reduced Navy can not protect now or in the foreseeable future if the USSR chooses to cut off oil supplies. The problems of military defense in our own hemisphere would be enormously reduced. Even so, heavy dependence upon Venezuela or Canada is not necessarily a straightforward proposition. Canadian federal authorities are keenly aware of the future energy needs of a growing country. Venezuelan leaders originated the concept of OPEC even though it now seems to be dominated by

its Arab members. Given the general neglect of South America by the United States diplomatically and economically we can expect that access to Canada's riches and a major development of the Orinoco heavy oil fields will entail a tortuous process of negotiation and compromise not necessarily permitted by existing law. Nevertheless it is quite possible that the U.S. Synthetic Fuel Corporation as a quasi-official branch of the government might be able to undertake this development on the basis of general hemispheric security where comparable attempts by any private U.S. corporation or consortium of corporations might founder on the basis of long-held and quite understandable Venezuelan and Canadian prejudices.

Having brought up the matter of military operations it should be pointed out that the necessary compromise of viewpoints involved in the enactment of the Energy Security Act has produced a certain confusion in its final form as to the ultimate destination of synthetic fuels in our economy. The military have tested mobility fuel products made from coal and shale over the last few years. In general, they have been found adequate for fueling ships, powering aircraft, and driving tanks and trucks. Special refining treatment is required in some cases. There is a tendency in the Act to specify that what the government produces in the way of synthetic fuels should go directly to military use. Complications are introduced for the diversion of these fuels into the civilian market and reference is even made to placing any surplus

In the Strategic Petroleum Reserve. Fuel specifications for high performance military vehicles on land, at sea, and in the air are generally more stringent than for their civil counterparts. It would seem advantageous as experience with the Act accumulates to acknowledge the point that introducing a stream of acceptable synthetic mobility fuels into the nation's general economy would best serve security purposes in that it would thus free comparable amounts of more conventional fuels for military use. Not to do this is for the SFC to be faced with the problem of producing ultra-grade fuels when its purpose could be as well served more rapidly and economically otherwise. Of course the Act, as written, does not provide for the SFC's entry into the refinery business and here another problem arises. The half million barrels per day or so used by the military establishment in peacetime may allow for initial guarantees of purchase of the fuels produced by the SFC, but it is by no means enough to absorb the larger target production. The point is that the SFC production targets are not based on military needs per se but rather on the imports demanded currently by the general economy--including the military. U.S. refining capacity is often described as being too low, but the fact is that our existing refining capacity exceeds by a wide margin (about 7 mbpd) the petroleum we are able to produce in this country. To run at full capacity our refineries must have imports. If we are to use the domestic refinery system for synthetic fuels, some device must be created to ensure that

domestic refineries will accept synthetics (which will be costly to them in some cases) instead of the imported petroleum for which they are currently equipped to refine. The Act does not provide for this. In all probability, since Congress has denied the President the authority to levy an oil import fee, resort will have to be made by the President to some semblance of an import quota comparable to that imposed by President Eisenhower (for different reasons) which would be progressively reduced as synthetic fuel became available. The oil companies controlling our domestic refinery system thus ultimately control the ability of the SFC to produce liquid mobility fuels. Their cooperation can only be assured through strong presidential support of SFC operations. The success of SFC therefore depends upon President-elect Reagan understanding the national defense aspects of the synthetic fuel program.

Very impressive sums are involved in the support for the SFC, but they may not be adequate unless it can become a profit-making venture. Subject to further appropriation the corporation is authorized to undertake obligations up to \$20 billion less whatever has already been spent by DOE on synthetic fuels under earlier law before the SFC commences operations. So far about \$2 billion have been involved there. Also to be subtracted would be the sums spent under the Defense Production Act provisions for which \$3 billion has been authorized but not actually appropriated. Thus the nominal initial \$20 billion account for SFC

could in fact amount to less than \$15 billion. These obligation levels would presumably be reviewed after the first four years of operations when the Board of Directors is required to submit to the Congress a proposed comprehensive strategy of operations. Provision is made in the Act at this point for further SFC obligation, if justified, up to but not exceeding an aggregate limit of \$68 billion. Inasmuch as the Act stipulates that no new business may be initiated by the SFC after September 30, 1992 (although the corporation would continue in existence until 1997), and assuming full operations would be in effect by 1982, it appears that the overall annual funding level envisioned by the Congress is a maximum of about \$6.8 billion per annum. This should be measured against the approximately \$8.3 billion per annum inferred (as an aggregate figure) in the fact sheets accompanying the President's address to the nation of July 15, 1979 which was the official "kickoff" of the Carter Administration's drive for the establishment of a government-sponsored synthetic fuel industry. Permission for the SFC to sell "Energy Defense Bonds" to the public may be a solution.

As for domestic mobility fuel production above and beyond that to be derived from conventional petroleum sources, the figures quoted above do not delineate the extent of government involvement and support. Title II of the Energy Security Act ("Biomass Energy and Alcohol Fuels") creates an "Office of Alcohol Fuels" and an "Office of Energy from Municipal Waste" in the Department of

Energy. The mandate of these two offices is to produce biomass-derived alcohol for fuel purposes at the level of at least 60,000 bpd by the end of 1982. In the language of the Act this government venture will be jointly supervised by the Secretary of Energy and the Secretary of Agriculture. Initial funding is at the level of about \$0.75 billion per annum largely for loans and price guarantees to private operators. The general thinking of the Congress in this instance appears to have been that, while a potentially smaller source of mobility fuels, alcohol (ethanol and methanol) could be produced more rapidly than the synthetic fuels from coal and shale and, because of an existing albeit rather inefficient infrastructure, could be counted upon to expand in the private sector under the benign and loose (not to say inept) reins of existing cabinet offices without the concentrated attention and stimulus to be offered by a specially dedicated corporation. The accuracy of this judgment remains to be seen. The Department of Agriculture has not been noted for its enthusiasm for the gasohol concept, and the Department of Energy has yet to demonstrate productive efficiency in management terms. Additionally it must be noted that the use of alcohol as an extending supplement to gasoline (as in the case of "synthetic" fuels) is ultimately, under current law, in the hands of the refineries and the commercial gasoline distributors regardless of how popular gasohol may be with the public because of patriotism, improved octane, and other factors. Oil companies may spend more money

advertising gasohol than they do in producing it. The ultimate aim for the gasohol venture as described in the Act is to achieve a level of alcohol production in the United States equal to at least 10 percent of the total national gasoline consumption expected for 1990. If current EXXON projections are used, this would amount to something on the order of 550,000 bpd or 23.1 million gallons a day. This implies a very large industry that may or may not evolve under the present congressional proposal. Therefore it would be wise for the directors of SFC to monitor carefully the progress of alcohol production since the national responsibility for it may well be thrust upon them by a frustrated Congress before 1984. The costs of the SFC and those of the alcohol program are all tied to the Energy Security Fund set up in the Treasury for receipt of expected revenues from the Windfall Profit Tax. Thus, at the beginning, the two disparate approaches to alternative mobility fuel production are somewhat in competition.

We have mentioned problems connected with shale oil development by the SFC in Colorado, Wyoming, and Utah. It should be pointed out at this juncture that the Energy Security Act does not address the matter of deposits of coal and shale oil on federally owned land. About 80% of the high grade shale oil in the United States is located on Federal land as is a substantial amount of coal. Under the existing Prototype Oil Shale Leasing Program less than one percent of the Federal oil shale land has

been leased. There is reason to believe that striking changes in the Mineral Leasing Act of 1920 and the Federal Land Policy and Management Act of 1976 will be necessary before the SFC can attract large scale operations in this area. Here relations between the SFC and the U.S. Department of the Interior (long accustomed to running its own show in response to its own constituency) will be of great importance. In fact, running interference with the cabinet departments already involved in synthetic fuel development plus relations with the Environmental Protection Agency may develop into the single most difficult task for the SFC staff. Congress's Office of Technology Assessment (OTA) may not be neglected in this effort since the OTA considers itself well versed in the field of synthetic fuels and has published extensive reports on the subject.

OTHER FEATURES OF THE ACT

The remaining titles of the Energy Security Act of 1980 are generally unrelated to the mobility fuel question except indirectly. Two titles, however, bear upon the issues noted in this essay.

First, there is the question of "Energy Targets" (Title III). Beginning in February 1981 (and every second year thereafter), the President is now required to transmit to the Congress a statement of energy targets for net imports, domestic production, and end-use consumption of energy for the calendar years 1985, 1990, 1995, and 2000. This introduction of the Five Year Planning concept onto the American energy scene probably stems from reactions to

the presidential proclamation of July 15, 1979 which announced the policy of prohibiting any further imports above a level of 8.56 mbpd. This decision, taken under the authority of the Trade Expansion Act of 1953, has not really been invoked since demand for oil dropped in the country subsequently. It is uncertain at this point, however, whether the drop was due more to conservation efforts by the American people or to reduced demand resulting from straitened financial circumstances induced by recession in the face of higher petroleum prices. Obviously a response to a combination of these factors, the uncertain aspects of the situation lie in the future demand. The Carter White House now estimates that 1990 imports will range between 4 and 5 mbpd. EXXON estimates that 1990 imports will range between 9 and say 10 or 11 mbpd depending upon the success of the synthetic fuel effort. In as much as both projections in accordance with the current fashion are based on quite pessimistic estimates of overall economic growth (about 2.7% annually) and very optimistic estimates of the correlation ratio between GNP growth and energy demand growth (about 41%) it can be seen that considerable difference of opinion exists as regards the potential of synthetic fuels. In this respect the American Petroleum Institute in its discussion paper No. 018 of June 1980 entitled "The President's Import Ceiling: A Binding Constraint" argues that the President's policy amounts to a self-imposed oil embargo bound to result in economic dislocation, increased unemployment, and a reduced level of economic

growth. Given a 3.4 percent real economic growth from 1981 to 1985, the API calculates that oil import demand would exceed the President's ceiling by about 1985. The API paper does not offer a specific proposal as to how the presidential decision could be circumvented, but it is not hard to outline a few avenues. In the first place the Congress could be persuaded to specifically negate the otherwise quite legal action of the President as was done in the recent case of oil import fees. Secondly the new President could rescind the decision. And, thirdly, the new Secretary of the Treasury need only write to the President stating that in his opinion larger oil imports do not constitute a threat to the national security. In the Trade Expansion Act it is stipulated that a presidential decision to limit oil imports must be based on a finding by the Secretary of the Treasury as to national security implications. Clearly the matter will be argued in the years ahead on the basis of national prosperity versus national security. The performance of the SFC will largely determine the nation's ability to enjoy both.

The other title of interest is the last, Title VIII, which requires the President to resume filling the Strategic Petroleum Reserve. This directive is of interest to the SFC because in the final analysis the Reserve provides an outlet to SFC crude oil production if it is, for any of several reasons, not readily taken up by the market. It is not clear how many technical problems may be introduced by the storage of diverse categories of oil

by a program singularly undistinguished to date by flexible or even adequate management. The Energy Policy and Conservation Act of 1975 (EPCA) directed that the Reserve be filled to 500 million barrels. Upon his inauguration in 1977 President Carter announced an augmented goal of 1 billion barrels by 1985 in order to meet minimum security requirements. To date some 94 million barrels have been injected laboriously into the salt domes and since 1979 no further action has been taken by the Administration towards providing any more oil for what the Congress described in the Energy Security Act as "a national security asset of paramount importance." The Administration's decision was apparently based on a combination of frustration over the inept performance of the DOE in managing the Reserve, qualms over the cost of continuing the fill during a period much given to discussion of a balanced budget, and concern over threats made by Saudi Arabia to decrease production and raise prices if filling of the Reserve proceeded. The Congress has now mandated that the filling of the Reserve be resumed at the rate of at least 100,000 bpd. Since, at this rate, the EPCA goal would be met by about 1995 and the Carter goal sometime in the twenty-first century, there is an understandable tendency to view this title of the Act as a piece of election year maneuvering. The Congress affirms its members' fervent interest in national security to the presumed relief of their constituents, and the campaigning President was left to cope with the unaltered facts of DOE ineptitude, financial aggravation, and the threats

of Saudi Arabia. The law as passed, incidentally, also encourages the continuing depletion of the Elk Hills petroleum reserves that an earlier, and possibly wiser, generation of legislators had set aside for the exclusive purpose of supporting emergency national defense needs. The Strategic Petroleum Reserve indeed should be filled rapidly as a hedge against an increasingly ominous future. But the mechanism to do so is still being fumbled with in Washington. The incoming Administration, dedicated to budget reductions, will not find the problem more tractable.

SOME SFC STRATEGY CONSIDERATIONS

There are a multitude of specific feasibility issues which will attend each specific decision faced by the SFC as to technology selection, site location, supporting infrastructure, environmental and social impact, and so forth. These will probably develop in forms impossible to predict at such an early date. Nevertheless there are some broad limiting parameters to the SFC's production potential that can already be discovered and which should be recognized and refined in their dimensions as quickly as possible. Emphasis must be placed here on what can be done immediately and with minimum social, economic, and political opposition--particularly in the initial and perhaps permanent absence of the Energy Mobilization Board (EMB).

First of all, let us take the question of mobility fuels to be developed from coal. Manifestly, as many reports have explained, coal production in this country can be vastly expanded.

Whether it will be or not has yet to be decided. Thus of immediate interest to the SFC is the matter of current excess coal production capacity. Based on this now fallow excess capacity, something on the order of 820,000 bpd of oil could be produced using the existing and proven South African (SASOL) process. Theoretically this could be increased to about 2.5 mbpd of methanol, but the processes for this have not been tested commercially. Interest in the SASOL process should focus on the point that it is proven commercially and that the plants involved were largely built by an American concern, Fluor Engineers and Constructors, Inc. of Los Angeles. On the debit side it should be noted that Mid-Western coals appear generally subject to a caking problem which apparently makes them poor candidates for the SASOL process as presently employed. But questions arise concerning the availability of water in the areas of Western coal deposits.

The extensive shale deposits in Colorado, Wyoming, and Utah (Green River Formation) are well known. Less attention has been paid to the Devonian and Mississippian formations running from the upper Mississippi Valley to Michigan. Whereas the Green River deposits are the richer (about 1.8 trillion barrels of which about 600 billion barrels could be extracted with known technology) as much as 423 billion barrels could also be extracted from the Devonian resources. Where water is a factor, the Green River shales pose a problem, but the Devonian shales are located in areas of plentiful water. All told, most current

calculations of production potential for the Western shales seem to focus on an eventual maximum feasible figure of about 2 mbpd based on water limitations and social impact factors in the main. It should be noted, however, that EXXON in its white paper, "The Role of Synthetic Fuels in the United States Energy Future," projects an eventual 8 mbpd from the Green River deposits. This question should be carefully examined in the development of the SFC strategy. No comparable estimate exists to date for Devonian shales. Until very recently the general engineering consensus has been that Devonian shales were of interest only in terms of gasification projects. But it appears now that the technology may also be available for the extraction of liquid fuels.

The choice between liquid fuels and gaseous fuels as synthetic products raises an interesting question for the SFC in terms of developing its overall strategy. Clearly the incentive for establishing a Synthetic Fuel Corporation stems from the dangers associated with our enormous import of petroleum from increasingly insecure foreign countries. Our import of natural gas is negligible by comparison. On the other hand, the Act as written does not specify "crude oil" per se for SFC goals; it stipulates that a given number barrels equivalent be produced. The definition of synthetic fuel given in the Act is, "any solid, liquid, or gas or combination thereof which can be used as a substitute for petroleum or natural gas." As remarked earlier, biomass products are specifically excluded from this definition in

the Act. Somewhat clarifying the intent of Congress is the joint Explanatory Statement of the Committee of Conference which worked to produce the compromise bill. Here we find the statement that, "For projects for coal-oil mixtures, MHD, and hydrogen for water, the President is to use a test that the projects will result in the replacement of a significant amount of oil" (emphasis supplied). It might be logical in terms of responding to national security needs for mobility fuels to apply this test across the board in the selection of fuel categories for project development and to limit the production of synthetic gaseous products to no more than what can be demonstrated to displace current oil use. On the other hand, in the coal reduction area it is simpler, cheaper, and faster to produce gas than, say, gasoline or jet fuel. There will be considerable pressure on the SFC, therefore, to use gas production to boost its production figures particularly in the early years of operation when meeting production goals may be deemed essential for survival of the corporation. A review of the accelerated feasibility projects for synthetic fuels that DOE has embarked upon prior to the formation of the SFC indicates that synthetic gas production has already received substantial comparative initial stimuli in that 31 (of some 99 projects with a total \$200 million budget) focus on gas production at a support level of about \$35 million. There is even heavier emphasis on ethanol and methanol production, but the emphasis on liquid fuels derived from coal, shale, and tar sands is relatively low

(9 projects at a support level of about \$21 million). R & D and feasibility study support for the SFC's ostensible main line effort has yet to appear.

Inasmuch as SFC efforts with coal, shale, and heavy oils will be involved, to say the least, with DOE and Department of Agriculture efforts to produce gasohol, it seems appropriate at this point to lay out the general feasibility parameters for gasohol production as they now appear.

Wallace Tyner of Purdue has calculated that about 164,240 bpd of ethanol could be produced using existing surplus agricultural production capacity. A combination of various estimates indicates that perhaps 1.2 mbpd of ethanol could eventually be produced through utilization of crop residues, cropland not used, "set-aside" acres forage, forest wastes, and municipal solid wastes without impinging on the current production of food and with only minor impact on food prices. The food/fuel relationship is the key here and should logically be regarded as the basic limiting or controlling parameter on ethanol production. Manifestly, because of demographic factors in this country and elsewhere, the relationship is not a static one.

Methanol production from wood is of at least equivalent interest. Direct experience using methanol as a gasoline additive is not as extensive as it is with ethanol, but it is already known that methanol can be used to produce gasohol albeit some additives are necessary to ensure proper operation of existing

internal combustion engines. Recent studies for the North East sector of the United States indicate that about 154,000 bpd could be produced from tree farms using no more than 2% of the total forest land available in that sector.

Norman Rask of The Ohio State University has calculated that by the time half of what Congress expects the country to produce in the way of ethanol from grains is on the market, severe upward pressures would occur in food prices. This underscores the necessity for emphasizing methanol production immediately since the state of the art here is less developed than in the case of ethanol in commercial terms.

To summarize what has been said and in order to gain appreciation of the overall feasibility picture, reference should be made to Table 1 concerning national synthetic fuel production potential in the near term.

These figures, even though they are very inexact, seem to indicate little difficulty in meeting the mandated 1987 minimum production goal although it remains a moot question at this point that plants will be constructed rapidly enough to be in operation by the specified date without the following major assisting actions:

- Establishment of an Energy Mobilization Board or some comparable agency to cut through the tangle of hearings, protests, and court actions which predictably evolve over each synthetic fuel plant.

TABLE 1

National Synthetic Fuel Production Potential

<u>Mandated SFC Minimum Production Goal 1987</u>	500,000 bpd
Potential from Excess Coal Capacity (present)	820,000 bpd
Potential from Western Shale (ultimate)	2,000,000 bpd
Potential from Devonian Shale	Not established
Potential from Domestic Heavy Oil	Not established
Potential from Increased Coal Production	Not established
Potential from other Western Hemisphere Sources	Not established
Potential from Ethanol Biomass Production	164,250 bpd
Potential from Methanol Biomass Production (North-East Sector)	154,000 bpd

- Invocation of the Defense Production Act by the President to provide material priorities for the building of synthetic fuel plants.

- Establishment of oil import quotas by the President to ensure that synthetic liquid crudes are accepted in U.S. refineries.

WHICH WAY FIRST FOR THE SFC

Logically, the first emphasis would seemingly lie on coal reduction provided the transportation infrastructure already exists to support this emphasis. It is clear, however, because of the transportation requirement for one thing, that coal alone

cannot be relied upon at this stage of our knowledge to reach the 1992 mandated goal of 2,000,000 bpd. Shale development and heavy oil extraction and the "other" Western Hemispheric sources must obviously be pursued simultaneously. In actual fact, on-going surface retorting shale projects will almost immediately make a contribution here; the great bridge in the shale oil area, at least for Western shales, lies in ascertaining whether or not the modified in-situ process pioneered by the Occidental Petroleum Corporation with its low water requirements and minimal environmental impact will in fact provide a reliable underpinning for a very large expansion of shale oil production.

It is not clear in the Act, as pointed out recently by Richard Bliss, writing for the National Council on Synthetic Fuels Production, whether the "other" Western Hemisphere projects will count towards the SFC goal or, for that matter, whether the fuels produced under the Defense Production Act (DPA) or by the DOE under Public Law 96-126 do or do not count either. Taken all together, the goals set for the SFC are probably physically attainable, the main question being the rate at which they can be attained. Resort to DPA override material delivery priorities may become necessary early on and should be contemplated by the SFC board in terms of implementing mechanisms. Here it should be noted that if the Reagan Administration chooses to support the MX Project in the western states, there is a potential conflict with SFC needs for material (and manpower) priorities in western

coal and shale areas.

At this point it is probably well to interject that, while the goals mandated by the Congress for the SFC are probably susceptible to physical implementation, it need not be supposed that these minimum goals, in themselves, provide any guarantee of national security in terms of mobility fuels. Current EXXON projections for 1990 (a far more modest assessment than made in earlier years) estimate oil demand in this country at about 17 mbpd. Of this no more than 7 mbpd is expected to be supplied from conventional petroleum production. If because of war or other emergency up to 90 percent of our imports is cut off for a prolonged period (a year or more), we would likely suffer (without a strong synthetic fuel industry) a deficit of about 22 percent in our overall energy supply and about 50 percent in our mobility fuel supply or some 4 mbpd. It is quite common to point out that in peacetime our military forces now use no more than about 600,000 bpd. At the height of World War II direct military consumption amounted to about 2 mbpd. What is often neglected is the fact that the U.S. industrial machine converted to support the war effort burgeoned in its fuel demands during the war from 20 Quads to some 35 Quads--an increase of about 7.5 mbpd oil equivalent. This was not necessarily solely in terms of mobility fuels since, in 1941, much of our industry was coal-fired. It could be again, of course, if the infrastructure were to be built up and environmental problems contained (there is no such thing as solving

environmental problems in the realm of energy transfers). This will not occur overnight. It may not occur at all. Note also that an increased coal demand by industry in time of war would impinge directly on the SFC's ability to produce mobility fuels as will the current trend towards exporting coal. Thus the need to emphasize shale, heavy oils, and "other" Western Hemispheric sources of synthetic fuels becomes even more acute. Even if exploration for domestic oil becomes much more successful than most experienced observers expect and the present level of production is more or less maintained at about 10 mbpd, the necessity for synthetic supplements remains acute if we are to avoid war or to be able to successfully prosecute a war if forced into one. Thus one might conclude that the rapid development of a synthetic fuel industry should be effectively considered as a major element of our defense. There are many in Congress who have reached precisely such a conclusion. The Carter White House is more ambivalent. The Reagan White House position is uncertain. The civilian bureaucracy in the Department of Defense, however, does not, apparently, concur.

In the eyes of many civilian DOD planners and policy-makers the issue of synthetic fuel production is not a vital one in terms of military defense because, in plain words, they calculate that with some 7 to 10 mbpd of petroleum being produced in this country, the Armed Forces would be assured of all of the mobility fuels they could reasonably need from domestic resources. It is

accepted that priority would be accorded military needs in the event of war (a war not necessarily thought likely by many planners because of the nuclear stalemate with the Soviet Union). It is forgotten, however, that the matter of war may not be our choice and that a vigorous industrial base with a mobile citizenry is necessary for the support of a war effort. The ability to face the rigors of a major conventional war and to prosecute it successfully depends implicitly upon the vitality of the civil sector. Unable to produce munitions or crippled by energy deprivations on the "homefront," the disaffection of the civil sector could preclude successful conduct of the war. Of even more import in the overall sense, of course, is that security in mobility fuels could well preclude the necessity for war. This may be the single most important contribution of the synthetic fuel industry since today, thanks in good measure to the same bureaucracy of semi-professional civilian defense managers who scoff at synthetic fuels, we are ludicrously weak in our military ability to fight a conventional war involving the defense of oil imports upon which we have come to depend; we have little reason to believe that the necessary allies would join us in such a war if it confronted us; and we must understand that the war itself would probably visit severe energy and other energy-dependent deprivations upon our people--far beyond their experience in this century.

CONCLUSION

In an overall sense the great adventure that the U.S. Synthetic Fuel Corporation now embarks upon may be considered as exceeding in scope, risk, and ultimate implication the Manhattan project and the Apollo Program. The success or failure of the SFC will have a great deal to do with what sort of country we live in by 1990. The decision concerning what sort of country the majority of our countrymen want to live in will evolve not simply through value debates amongst the intelligentsia but most assuredly through a running pragmatic assessment by the man or woman in the street. As has been written, people don't know what they want until they know what they can get. It is the function of the SFC to avoid the more drastic shrinking of choice while the energy situation is sorted out and the ultimate contribution of renewable energy resources is ascertained.

The strategy of the SFC should respond to a sense of current urgency while realizing that the synthetic fuels which the Congress has directed it to produce are not inexhaustible in themselves and that their production and use may encounter limitations because of pollution. This even though it now appears that the direct use of some resources, for instance coal, might pose a greater insult to the atmosphere than its reduction and use as liquid fuel.

In a more specific short term perspective it is the sense of this essay, that the following problems (beyond those of a

technological category and listed without regard to relative importance) will initially confront the SFC in the performance of its historic task:

- The usual organizational problems confronting the establishment of a major corporation but exacerbated by a) the legal limitations on the size of the professional staff, b) the uncertainties as to optimum staff composition (technically-oriented, business-oriented, or politically-oriented), c) the source of staff (government, business, academe, etc.), d) the extent to which authority can be delegated in the corporate structure in conformance with the enabling Act, e) uncertainty as to the ability of the staff itself to invest in the venture.

- Uncertainty as to the understanding of the national defense aspects of SFC operations by the incoming administration.

- The research and development relationship between the SFC and the DOE or its successor agency plus the large degree of control by DOE which the SFC will face upon commencement of operation.

- The ambiguities in the enabling Act as to whether the SFC should become a profitable enterprise in its own right.

- The expected persistent opposition to the

mission of the SFC from environmental groups as well as possible, more covert, obstructionism by the major oil and gas enterprises in the private sector if they are not afforded a larger role than envisioned in the original act.

- The question of developing "other" Western Hemispheric resources outside the United States with the probable emphasis on the heavy oil interpretation of the Act as applicable to the Venezuelan deposits.

- The strategic balance of the international oil trade and its influence during the eighties on the major western alliances.

- The limitations imposed by the Act on the number of government-owned, company-operated plants (GOCO) as well as the general question of limitations on plant size which may preclude beneficial economies of scale.

- The failure of the Congress, so far, to pass the bill creating an Energy Mobilization Board. The EMB was clearly envisioned by the authors of the Energy Security Act as important to the operation of the SFC.

- The question of the intended end-use for synthetic fuels. The military establishment cannot absorb the programmed output of the SFC. The SFC should not be penalized by requirements to produce "ultra" fuels for the military when its mission can be accomplished by supplying cheaper grades to the civil sector. A variable import quota system

will probably be necessary to force acceptance of synthetic fuel stocks by domestic refineries.

- The enabling Act is ambiguous as to the proper distribution of gaseous and liquid synthetic fuels. The SFC should obtain support for emphasis on liquid fuels.

- Funds currently appropriated may be inadequate for the SFC's proper operation. Public support through the purchase of "Energy Defense Bonds" may be necessary.

- The decision of the Congress to remove gasohol production from the jurisdiction of the SFC may prove erroneous. The SFC may have the gasohol program thrown upon it.

- Although many uncertainties are involved, it is probable that the production goals for the SFC established by Congress are too low rather than too high as suggested by many critics.

- The strong political forces supporting coal utilization will inhibit the SFC in developing shale resources although demonstrably ultimate production goals cannot be achieved without substantial input from shale. Little is known concerning the development of Devonian shale deposits; controversy surrounds the feasible ultimate production capacity of western shales.

- The leasing of federal lands for coal and particularly shale development will require considerable attention, lobbying, and, probably, changes in the laws involved.

• Besides the role of law and regulation adjudication envisioned for an EMB which has yet to materialize, the SFC will probably find it necessary to have invoked the material supply priority system provided under the Defense Production Act if it is to produce synthetic fuels on schedule.

The Romans wrote that "the mark of a strong people is a base ingratitude towards their great men." Americans are a strong people. They are an impatient people. In times of stress they willingly depart from constitutional processes as we know from our experience under Lincoln in the Civil War and Roosevelt after the attack on Pearl Harbor. The directors of the SFC, once they take their oaths, will have seized the tail of "the tiger in the tank." It will be dangerous to let go because, although the success of their mandated mission is uncertain and beset by many pitfalls, should a national emergency occur, the American public will predictably regard any unreadiness on the part of the SFC as tantamount to an act of treason. The U.S. taxpayer is paying for this venture and he or she will demand action or retribution. The issues of war and peace, poverty or plenty will be weighed in the balance.

NOTE: Portions of this manuscript were taken from the forthcoming book, Energy and the National Defense, by permission of the University Press of Kentucky.