

4/19/86

OKLAHOMA TALKING POINTS

* THIS IS THE FIRST GOP STATE CONVENTION IN OKLAHOMA TO BE HELD IN A GUBERNATORIAL ELECTION YEAR. IT IS OPEN TO ALL REGISTERED REPUBLICANS IN OKLAHOMA WITHOUT PRIOR ATTENDANCE REQUIRED AT PRECINCT MEETINGS OR COUNTY CONVENTIONS.

* AFTER THE NEWS CONFERENCE, YOU WILL MEET WITH GOP WOMEN LEADERS. YOU WILL BE INTRODUCED BY JUDITH BINGHAM WHO HAS CONTACTED ALL THE ATTENDEES. THIS IS A MIX AND MINGLE EVENT. THE FOLLOWING IS A BRIEF LIST OF THE VIP WOMEN:

NANCY APGAR- IMMEDIATE PAST REPUBLICAN STATE CHAIRMAN.

DOROTHY ZUMWALT- CO-CHAIRMAN OF REAGAN-BUSH '84.

PAULA UNRUH- FORMER STATE AND SOUTHERN REGION REPUBLICAN CHAIRMAN, CURRENTLY DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR FOREIGN AND DOMESTIC SERVICE.

HELEN COLE- STATE SENATOR AND MOTHER OF STATE GOP CHAIRMAN.

* YOU WILL THEN ATTEND A MEETING WITH THE OKLAHOMA YOUNG REPUBLICANS. CLINTON KEY, WHO SERVES AS STATE CHAIRMAN WILL INTRODUCE YOU. CLINTON WILL BE THE CAMPAIGN MANAGER FOR SENATOR NICKLES. HE IS CURRENTLY ON STAFF WITH SENATOR NICKLES.

THIS WILL ALSO BE A MIX AND MINGLE EVENT. YOU MAY WANT TO TOUCH ON THE RECENT LIBYAN RAID. THAT SEEMS TO BE A HOT TOPIC WITH THE YRS.

***MAIN TOPICS OF DISCUSSION AT THE CONVENTION:

- * KEEPING THE NICKELS SENATE SEAT.
- * THE OIL CRISIS. PARTICULARLY THE SMALL "STRIPPER WELL" PRODUCERS.
- * THE LIBYAN RAID.

SPEECH SUMMARY

GOOD TO BE HERE: SOMEWHERE (MAKE BED, ETC.)

ARE GOOD THINGS: SUCCESSFUL PRESIDENT AND SUPPORTIVE SENATE.

NOT THROUGH: TELL HOW I SEE FUTURE.

BEGAN WITH REAGAN'S LOWER TAXES, LESS REGULATION,
FISCAL DIET -- NOT VOODOO. WORKED.

NOW NEED CONTROL SPENDING, NOT TAXES:

TO BUILD SOLVENCY -- CAN CUT: HARD CHOICES
DID IN WH/SENATE BUDGET; NOT DRACONIAN.
CURRENT ISSUES (CHOOSE) AG, FINANCE, GUNS, ETC.

NEED: BALANCED BUDGET AMENDMENT; LINE ITEM VETO,
GRACE COMM, PRIVATIZE, A REPUBLICAN MAJORITY

ELSE WE LEAVE OUR PROBLEMS TO OUR CHILDREN

CROSSROADS: REAGAN PROSPERITY OR PRE-1980?
LIMIT TO WHAT CAN SPEND: CAN'T WISH GROWTH

TIME TO TAKE CARE OF REAGAN AMERICA:

ENDURING AMERICA FROM VALLEY FORGE TO GRENADA -- AND
TO FREEDOM FIGHTERS TODAY: CONTRAS, AFGHANS, UNITA

THAT AMERICA IS NOT SPECIAL INTERESTS; BUT FREE COMMUNITIES
WHICH CARE AND SACRIFICE.

FASHIONABLE TO SAY FREEDOM WITHOUT COST. NOT SO.

MY VISION: POISED FOR GREATNESS IF CARE, IF DEVELOP FREEDOM,
AND BUILD ON WHAT HAS BEGUN.

(BOB DOYLE STORY)

I DID GO INTO POLITICS; SPENT LAST TWO DECADES TRYING
TO CARE FOR AMERICA AND ITS IDEAL OF FREEDOM
WHICH MADE IT GREAT -- AND WILL IN FUTURE.

I MAY HAVE BANGED MY HEAD A COUPLE OF TIMES; NOT PERFECT
BUT I'VE USED COMMON SENSE TO GET JOB DONE.

LET'S GO FORWARD TOGETHER AND CONTINUE THE JOB RONALD REAGAN STARTED:
OF CARING FOR AND BUILDING A FREE AMERICA.

APRIL 15, 1986

TO: THE MAJORITY LEADER
FROM: SHEILA BAIR
SUBJECT: MEETING WITH GOP WOMEN IN OKLAHOMA CITY

You will be meeting with about 25 women, most of whom are conservative and staunch supporters of President Reagan. The four issues of primary interest to them are:

Central America

Balanced Budget Constitutional Amendment

Energy Crisis -- they are pro-free market and do not support an oil import fee. They are concerned about tax reform proposals adversely impacting on the energy industry.

Bank Failures -- they are very concerned about bank failures resulting from the farm crisis.

Attached are your talking points on these issues.

April 18, 1986

OIL AND GAS TALKING POINTS

Congressional Response To The
State of The Industry

In General

- Particularly among energy state Members, there is a keen awareness in Congress of the depressed state of the oil and gas industry and of the effect that this depression is having on banks and other segments of our region's economy.
- This Congressional concern has led to changes to the House-passed tax reform bill and to independent efforts to take other emergency steps to aid the industry.

Tax Reform Bill

- Treasury I, the Treasury Department's initial tax reform proposal, would have summarily repealed current law percentage depletion, and expensing of intangible drilling costs.
- It was estimated that these provisions of Treasury I alone would cost the industry about \$44 billion over 5 years.
- The Administration considerably softened the impact of tax reform on the industry when it submitted the President's tax reform proposal.
- The tax reform bill that passed the House last year (HR 3838) attempted to address some concerns of the industry, but the Rostenkowski bill would still phase out percentage depletion for nonstripper wells over a 3-year period and would limit expensing of IDCs to costs incurred prior to production closing.
- The Senate Finance Committee has acted on the energy portions of the tax reform legislation and overwhelmingly approved retention of current law on percentage depletion and the expensing of IDCs.
- The Finance Committee decisively rejected, by votes of 12-3 and 14-2, Senator Bradley's motions to phase out depletion and cut back on IDC expensing.
- Therefore, at least in the Senate, the tax reform effort will do relatively little harm to the industry, although there are still issues outstanding, such as the minimum tax, that may be of concern.

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Legislative Efforts to Provide Relief

- While the tax reform bill may do little harm, there are other legislative efforts to provide affirmative relief to the industry.
- Those of us from stripper oil states are particularly concerned that unless some positive steps are taken, stripper wells will be permanently shut in and the United States will lose an important national security resource.
- A recent industry study estimated that with sustained oil prices of \$10 a barrel, about 180,000 stripper wells would be plugged by the end of the year.
- Emergency relief legislation has already been introduced in the House and a bipartisan group of Senators (including both Senators from Oklahoma and Kansas) have been meeting to fashion a relief package and a fast track procedure to get that legislation quickly enacted.
- Probably the best chance for enactment of such legislation is if the legislation is initiated in the Senate with some prior understanding that the House will not simply bury the proposal.
- Many of the relief suggestions involve changes in the tax code -- but it is difficult to provide effective relief through the tax system for producers who are not making any money and thus have no tax liability.
- There have been other suggestions to provide tax credits, such as a marginal well tax credit, that would essentially be refundable -- that is the Treasury would write a check to the producer even though he had no tax liability.
- This approach could provide effective relief but it would be difficult to enact (new refundable credits must be annually appropriated by the Appropriations Committees) and would subject the industry to charge of being on corporate welfare.

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Specific Relief Suggestions

(1) Repeal of the Crude Oil Windfall Profit Tax

- The so-called windfall profit tax was enacted in 1980 when crude oil prices were rising sharply and the Federal Government wanted to grab part of the price rise by means of this excise tax.
- Now oil is selling below the base prices established for the windfall profit tax.
- Therefore, there are now no "windfall profits" -- only "windfall losses."
- While repeal of windfall profit tax now would not provide any immediate tax benefit since no tax is now due, it would relieve producers of a costly paperwork burden.

(2) Repeal of the Fuel Use Act

- The Fuel Use Act, which prohibits the construction of gas-burning power plants, has been a significant impediment to the utilization of excess natural gas.
- The Fuel Use Act is a relic of an earlier time when gas was thought to be in short supply.
- While in recent years there has been some consensus that the Act should be repealed, repeal has been bogged by price control battles and self-interested opposition of coal producers.
- It appears that coal producers would now be satisfied if new facilities are simply convertible to coal so one major roadblock has apparently been eliminated.
- Repeal would provide an expanded market for gas and should benefit both producers and consumers.
- The Senate Energy Committee has recently held hearings on this issue and may mark up a repeal bill shortly.

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(3) Repeal of the Depletion Transfer Restrictions

- Under current law, if an interest in a proven oil and gas property is transferred, the new owner is generally denied percentage depletion on the transferred property.
- If this restriction were repealed or suspended, it would increase the value of a proven property sold to another independent producer.
- This would give independents greater freedom to sell properties and may prevent some marginal production from being shut in.

(4) Repeal to 50% Net Income Limit

- Under current law, a deduction for percentage depletion cannot exceed 50% of the taxable income from the property.
- As income from oil properties drops with the price of oil, the 50% net income limitation will drastically reduce the value of percentage depletion.
- If the 50% limit is repealed, producers will be able to realize more after tax income from a marginal property.

(5) Permit Expensing of Geological and Geophysical Costs

- Under current law, the IRS insists that geological and geophysical costs (i.e., the costs of looking and testing for oil and gas prospects) should be capitalized.
- The industry has long regarded these costs as ordinary and necessary costs of doing business that should be permitted to be expensed just like intangible drilling costs.
- If these costs were permitted to be expensed, it would lower the tax cost of exploratory activity and would eliminate some burdensome allocation paperwork.

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(6) Strategic Petroleum Reserve

- Simply increasing the fill rate of strategic petroleum reserve may be good energy policy, but it is unlikely to have any beneficial effect on the price of oil.
- Requiring above market price purchases of stripper, heavy or tertiary oil from independent producers might deliver some relief, but it would involve a direct expenditure of federal funds and might be perceived as a bailout to producers.
- Even though SPR purchases could in theory be made from independents, they would in reality would simply get paid for a portion of their production and the actual purchases would be made on the open market for more convenient delivery to SPR storage locations.

TALKING POINTS: CENTRAL AMERICA

- PRESIDENT'S POLICIES WORKING:
 - DEMOCRACY GAINING GROUND: DEMOCRATIC ELECTION OF PRESIDENT IN PANAMA; DUARTE GOVERNMENT IN EL SALVADOR.
 - NICARAGUA THE ONLY EXCEPTION TO DEMOCRATIC TREND.
- OBJECTIONS TO SANDINISTA REGIME:
 - OPENING COUNTRY TO SOVIET, CUBAN, LIBYAN AND OTHER FORCES AND "ADVISERS."
 - MASSIVE MILITARY BUILD-UP (SOVIET AND CUBAN ARMS) TO THREATEN AND POLITICALLY INTIMIDATE NEIGHBORS.
 - SUPPORT FOR INSURGENCIES IN NEIGHBORING DEMOCRACIES.
 - SUPPRESSION OF DEMOCRACY AT HOME.
- STRATEGY: MULTI-FACETED.
 - SUPPORT FOR FRIENDS (MILITARY AND ECONOMIC AID, POLITICAL SUPPORT.
 - SEARCH FOR NEGOTIATED REGIONAL SETTLEMENT UNDER CONTADORA.
 - THOUGH THAT PRETTY MUCH SCUTTLED BY SANDINISTA REJECTION OF LATEST CONTADORA REGIONAL PEACE PROPOSAL.
 - SUPPORT FOR CONTRAS AS PRESSURE POINT ON SANDINISTAS.
 - WITHOUT SUCH PRESSURE NO REASON IN WORLD FOR SANDINISTAS TO RESPOND TO OUR CONCERNS.
- HOUSE SHOULD ACT ON PRESIDENT'S PACKAGE NOW.
 - SANDINISTA INVASION OF HONDURAS SHOWED TRUE STRIPES.
 - SO DID SCUTTLING OF CONTADORA INITIATIVE.

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- THESE CALLS TO "GIVE PEACE A CHANCE" MAKE NO SENSE.
- SANDINISTAS DON'T WANT A NEGOTIATED SETTLEMENT, EITHER IN NICARAGUA WITH OPPOSITION OR IN REGION WITH NEIGHBORS.
- O'NEILL PROMISED REAL VOTE. WHAT HE DELIVERED WAS SHAM.
- HOUSE REPUBLICAN MANEUVER EXACTLY RIGHT MOVE.

-- STILL WILL BE TOUGH BUT OFFERS US SOME HOPE OF A REAL VOTE IN HOUSE.

BALANCED BUDGET AMENDMENT

- o The compromise amendment I urged the Senate to pass embodies a simple principle: in the normal situation, outlays of the Federal Government should not exceed receipts. Our amendment just required that to allow a deficit, Congress must by 3/5 vote authorize a specific excess of outlays over receipts. In addition, the Senate adopted a provision imposing a similar vote requirement to raise the debt ceiling. And to preserve a bias in favor of controlling spending we said that tax increases cannot be passed except by a majority of all Members of the House and Senate: not just those present and voting.
- o Unfortunately, by just one vote the Senate passed up an historic opportunity. This proposed Constitutional Amendment would restore a proper balance to the way we conduct the fiscal affairs of the Government. The proposal is not a quick fix, a response to a sudden shift in public opinion, or an attempt to evade our assigned duties under the Constitution with regard to decisions on taxing and spending. This is an idea that has been around for quite some time, but that has gained momentum in recent years because of the growing realization that there is something fundamentally wrong with the way we conduct fiscal policy.
- o Fundamental problems demand fundamental solutions. Those of us who have worked to develop a responsible Constitutional Amendment over the years have not taken lightly our duty to respect the form and the spirit of the basic law of the land. The language of this amendment is appropriate to the Constitution. It is not premised on any particular economic philosophy, but rather on the belief that Congress ought to make specific decisions on fiscal policy and be held accountable for those decisions. The amendment requires that we follow consistent procedures in setting fiscal policy, and establishes firm parameters to govern those procedures. That is all there is to it, and it is something we very much need.

A POPULAR MANDATE

- o The American people clearly are convinced that our fiscal house is not in order. Popular concern over runaway budgets is the reason why the drive for a Constitutional Convention to draft a fiscal restraint amendment is only a few states short of its goal. Polls consistently show that 70-80 percent of the American people support a balanced budget amendment. No one should maintain that we ought to take certain steps just

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because they are popular; but in this case it seems that the people are ahead of the politicians. They understand that Congressional spending habits have to be put under a firm limitation, and that only new procedures, externally imposed, can do the job.

- o I would also suggest that this amendment, if approved by Congress, would not be the end of the story. It is the beginning. Legislative implementation and compliance will be a complex and difficult matter--we should not deceive ourselves on that point. And we are learning from the experience of the Gramm-Rudman-Hollings law that enforcement is not a simple matter. But it can and will be done once we have a clear Constitutional obligation to fulfill.