



NEWS from U.S. Senator Bob Dole

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STATEMENT OF SENATOR BOB DOLE THE ENERGY EMERGENCY ACT

The Energy Emergency Act contains some of the basic authorities needed by the government to deal with the problems of energy scarcity and fuel shortages in America. It would establish the Federal Energy Administration as a separate government agency. It provides the basis for putting rationing into effect if necessary. It deals with allocations, unemployment assistance, environmental regulations and a number of other important features of our framework for dealing with energy-related questions.

The Energy Emergency Act passed the Senate on November 19, 1973. On December 17 it was approved by the House. Since then, a House-Senate Conference Report has come before the Senate in two different forms, and the bill has still not been sent to the President for signature.

SECTION 110

But the story of this bill is not only that it has failed to become law. The full story involves the attitudes and tactics of some Senators and Congressmen who -- given the choice between the public interest and political opportunism -- have repeatedly set their own narrow ambitions above the country's interest of having a sound national energy policy. And to understand this point we need look no further than Section 110 of the bill.

Section 110 did not exist when the Energy Emergency Act passed the Senate in November. At that time the atmosphere in the Senate supported enactment of a basic, straightforward bill to provide needed statutory tools for handling the energy crisis. The vote of 78 to 6 is a good indication of the serious bipartisan attitude that prevailed then.

But when the bill went to the House, a successful effort was made to turn it into an emotional and empty play on the concerns held by many Americans over possible windfall profits to the energy industry as a result of the fuel crisis.

LEGITIMATE PUBLIC CONCERN

Let me say at the outset that I believe the concern over windfall profits is proper and legitimate. There is no reason, excuse or justification for any industry, business or corporation to get rich on the sacrifices and hardship the energy situation imposes on millions of Americans.

The public has a perfect right to expect that they will be protected from profiteering, price gouging or any other unfairness. If sacrifices are called for, then equality and basic justice must be guaranteed. This is the American way, and in this sense the energy crisis is no different from World War II or any other great challenge to our abilities and resources.

SUPPORT FOR EXCESS PROFITS TAX

As a Member of the Senate Finance Committee, I have already spoken out in support of a technically sound and administratively effective means of taxing excess profits, with a plowback provision to encourage greater efforts toward increasing energy supplies. Hearings have already begun, and I am confident that we will be able to write a bill which is effective in providing this necessary protection while contributing to the overall energy effort at the same time. Any such measure must be written so it assures more energy for America, not less.

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But there is a difference between identifying a broad public concern and doing something responsible and effective to deal with it. And the case of Congressional action on the windfall profits issue, so far, shows how great that gap can be.

EASY POSTURE

With much publicity and pious rhetoric Section 110 was unveiled in the House as the great cure-all for this problem. Its supporters went on television to proclaim how it would protect the average citizen, hold the corporate giants in check and provide the answer to profiteering in the energy crisis.

Of course, this sounded good. How can anyone lose by being for the little guy and against the forces of corporate greed? But a look beneath the surface revealed an astounding example of pure political hokum. Instead of holding the promise of public protection, this provision actually hid a grave threat of wholesale economic disruption. Section 110 was not a tax. It was not a means of providing more energy. It did not even go into effect until 1975. In fact, a panel of tax experts who appeared before the Senate Finance Committee could not tell us exactly what Section 110 was -- other than a sure-fire prescription for disaster.

It was a prescription written by someone who either had no real idea of the problems we are facing -- or did not really care about solving them.

MEANINGLESS MECHANISM

The heart of Section 110 was the Renegotiation Board, an obscure federal bureaucracy which has not done much of anything since being created in 1951. The Board was to hear complaints from citizens who felt they had been charged too much for "petroleum products." And if the Board agreed with the complaint and found that the price was too high, it could order a refund of the "windfall profit."

But what petroleum products were covered? What sales were included? What was a windfall profit? Who could bring a complaint?

DANGEROUSLY VAGUE

Section 110 did not answer these questions. But the experts who appeared before the Finance Committee agreed that it would give anyone the right to file a complaint against any dealer, merchant or company that sold petroleum products. And this right extended all the way down from the major international oil company to the corner service station.

There have been some logjams in administration of many laws. The National Labor Relations Board fights a continuing backlog of labor-management cases. The Cost of Living Council and the Federal Trade Commission all are faced with weeks and months of docketed cases. But can you imagine the tidal wave of complaints that would have swept over the Renegotiation Board if it was told to decide whether every tankful of gasoline sold in America resulted in windfall profits to the seller or his company?

No one knows the answer to that question, and fortunately we will never find out. But a rough estimate can be gained from the fact that it now takes some 3-1/2 years for the Renegotiation Board to decide one of its cases.

After looking at this provision it is not hard to understand that its impact on America would have been totally devastating. It would have brought every element of the petroleum industry to a grinding halt in a web of red tape. And the American people would have been left high and dry with no fuel and no real protection against unfair profits. This is not hard to see.

The point that is hard to understand is that any serious Member of Congress could have proposed such a scheme -- or that it would have been sold to a majority of the House.

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Fortunately, the Senate was able to recognize this hoax and the threat it represented, and by a 57 to 37 vote refused its approval.

Those of us in the majority on that vote were hopeful that any alternative to Section 110 would have to be an improvement. But we were mistaken.

CRUDE OIL ROLLBACK

When the bill re-emerged from the Conference Committee, the windfall profits provision was gone. But it had been replaced by a so-called "rollback on crude oil prices.

Of course, it sounds good to say "let's roll back the price of the crude oil which makes all of our fuels, fertilizers and other petroleum products so expensive." But before jumping on this bandwagon, it would be wise to look at the details and effects of such a plan.

LIMITED EFFECT

In the first place more than five-sixths of the oil consumed in this country would not be affected by this rollback. A third of our oil comes from imports, and no act of Congress is going to change the prices charged by Canada, Venezuela and the other exporting countries. Furthermore, two-thirds of the oil produced domestically in America is now under price controls at levels equal to or below the rollback level, so there would be no effect on this oil. Together, imports and old oil add up to more than 82 percent of our consumption from both foreign and domestic sources.

This leaves only one-sixth of all the oil in the United States to be covered by a rollback. And what oil is this? It is the so-called "new" oil which represents the new discoveries and increased production which are needed to expand domestic supplies and avoid dependence on costly imports. And it is the production of the small, marginal stripper wells. There are hundreds of thousands of these wells. And although they each produce less than 10 barrels per day, they supply some 12 percent of our total domestic production -- an extremely critical margin in these days of embargoes and other uncertainties. In addition these stripper wells constitute more than 90 percent of all the oil wells in Kansas.

In consumer terms it is estimated that this rollback would mean less than a penny per gallon on all oil products -- hardly a significant measure of relief and hardly worth the price of undermining our efforts to expand our domestic petroleum supplies.

ANOTHER HOAX

So the Congressional opportunists have struck again by promising a simplistic cure-all for the energy crisis. This rollback would affect very little of the oil produced by the major oil companies whose profits are such a great concern to many of the more prominent "energy experts." It would make no difference at all on the prices of the growing volume of imports. But it would have a massive impact on the system of incentives that have been set up to expand the search for new oil within our borders. And it would probably mean a substantial reduction in the numbers and production of the thousands of small stripper wells in Kansas and elsewhere.

PRICE SHOULD BE REASONABLE

I do not believe \$10 per barrel prices for oil in this country is some sort of a magic figure so far as adequacy of our domestic supplies is concerned. There is such a thing as a reasonable incentive, and beyond that there is unnecessary gravy. But a sizeable difference exists between the incentives in a \$5 barrel of oil and in oil priced in the neighborhood of the long-term equilibrium level for oil which is estimated to be somewhere in the \$7 to \$8 range.

Today's prices for new and stripper oil average \$9.51. The rollback proposed in the Energy bill would mean a 45 percent reduction in the price of this oil -- and make it no different than the so-called oil oil that involves no expense or risk to produce. This sort of approach simply does not make sense.

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It would mean that all the incentive differential for new and stripper oil would be removed, and prices would be held below the expected long-term equilibrium level. Of course, the provision contains a discretionary feature allowing the President to raise oil prices by 35 percent.

But this is only an attempt to let Congress off the hook and put the monkey for high fuel costs on the President's back. Practical pressures would probably make it impossible for him to do this. So we would wind up being locked into a situation which would provide no real price relief to the public and would seriously undermine the effort to expand domestic energy supplies.

This rollback is not good sense on any count. It would mean nothing to the giants of the oil industry whose sales in this country are mostly of foreign oil -- at from \$10 to \$20 per barrel -- and old oil which is not affected at all by the rollback.

EFFECTS ON INDEPENDENT PETROLEUM INDUSTRY

But it would have an immediate and crushing impact on the independent petroleum industry. These small operators account for 80 percent of the exploratory wells drilled in this country and they operate some 80 percent of the nation's 350,000 stripper wells. The annual cost of the rollback to these independents would be an estimated \$3 billion -- much of which would go to further expand their domestic exploration and drilling operations.

Aside from these direct costs, the rollback would further cripple the independents by reducing their ability to attract outside financing for their operations. A 45 percent reduction in the price they could expect to receive for their product would seriously alter their attractiveness to any investor with money to place in possible profit-making activities.

This two-pronged attack on the independent petroleum industry would only harm our nation's energy posture -- and deal a crippling blow to an industry that is vital to the economy of Kansas and which is crucial to the energy outlook for every American.

CONCERN IN KANSAS

Mr. President, I do not wish to appear overly concerned with the impact of this proposal only in Kansas. But it is difficult to observe these proposals and the statements of some Senators without becoming concerned for the welfare of my State -- as well as the future of our entire nation.

It is easy for someone from a State which produces no oil or gas to stand up in the Senate and say "roll back the price of oil." They can say this and then go home and tell their constituents of heroic efforts to reduce the prices of gasoline and heating oil and other petroleum products. It is very easy to do this. And it is popular with the folks back home -- that is, unless a major segment of your State's economy happens to be the business of finding and producing oil or the people in your State know the difference between irresponsible appeals for publicity and serious efforts to gain more energy supplies for this country. And I assure my colleagues in the Senate that this difference is clearly understood in Kansas.

UNFAIR DEMANDS

What is not so well understood by myself and by other Kansans is how much punishment is going to be inflicted on our State.

First, there is a major call for expanded reserves and production of domestic petroleum.

Second, the Kansas independent oil industry is whipsawed on the prices for its oil.

Next, there is talk that the oil produced in Kansas will be forced out of the State by allocation regulations, so the cars and homes in non-producing States can be kept supplied.

WANTING IT BOTH WAYS ON ENERGY

Needless to say, the people of Kansas -- and quite understandably -- are beginning to wonder what is going on. They are beginning to wonder if some in the Senate are not embarked on a campaign to have it both ways on this energy issue. And I wonder myself sometimes.

If one state or region does not want to make a contribution to expanding energy supplies within its borders -- that is its business. But I do not believe they should be heard to complain about the incentives offered for those elsewhere to explore for and develop new energy supplies.

The people of Kansas are aware of these attitudes, and I suspect that they are becoming rather tired of hearing people say "we want you to produce more oil, but we want it all for ourselves and we want it at prices that we like."

The people of Kansas are generous. They do not want their fellow citizens in Connecticut or Washington, D.C., or anywhere else to suffer unnecessary hardships. But the people of Kansas are not stupid, either. And they see little reason for their precious crude oil and natural gas being subjected to punitive pricing regulations and then being forced out of the State to supply people who support policies which work against finding real solutions to our energy problems.

RESPONSIBLE RESTRAINTS NEEDED

I certainly understand the concern of many Americans over the vastly increased prices they have been forced to pay for gasoline, propane, heating oil and other petroleum products. To most people, these items are not luxuries but absolute essentials in their daily lives. For the elderly, the poor and all those living on fixed or limited incomes, these price increases have been especially severe and burdensome. So I believe every effort must be made -- in a responsible way -- to restrain the increases in fuel costs.

As I have said, a wholesale rollback on new and stripper oil is not a responsible approach, because the measures of relief it would provide consumers would not be commensurate with the toll it would take on the independent petroleum industry and on the long-term need of America to expand its energy supplies. One of the fundamental tests that must be applied to any measure in this field -- whether an excess profits tax, a price rollback or any other approach -- is whether it is compatible with our additional efforts to provide more energy for America. And in the case of the broad rollback proposed by Section 110, the answer clearly is that it would work against these energy-expansion efforts.

LIMITED ROLLBACK

But as I said earlier \$10 per barrel is not a magic figure. And I do not believe that all the oil produced in America -- or even a major portion of this oil -- needs to sell at this price to assure success in our energy campaign. Therefore, I have voiced my support for a limited rollback on new crude oil prices as a means of showing the American consumer that the controllable price structure will not be allowed to run wild. But such a rollback, to reasonable levels which would maintain an adequate incentive for continued exploration and development, would also be an indication -- particularly to the independent petroleum industry -- that its economic future is not going to be jeopardized by unrealistic and short-sighted congressional action.

My detailed views on this matter were contained in a letter I sent to Mr. William Simon last week, and I ask unanimous consent that the text of the letter be printed in the Record at this point.

I have noted reports that the Federal Energy Office is considering the implementation of a rollback on crude oil prices.

Since the intent of any such action is to provide relief to consumers from the burdensome rise of fuel prices, I would prefer to see a rollback on the end product itself included in your considerations. If this proves unworkable, however, I would support a crude oil rollback, provided it meets two conditions: 1) the rollback be limited to so-called "new and released" oil and not apply to the oil produced by the more than 350,000 stripper wells in America; and 2) such a

rollback be reasonable so as to maintain an adequate incentive for increased discovery and production of new domestic petroleum supplies.

While protection for consumer interests may require the imposition of some limitations on new and released oil, it should be kept in mind that greatly expanded supplies of new oil will be necessary to meet America's energy needs from secure domestic sources. Therefore, the return on this oil should be greater than on the "old" oil which requires no risk or significant new expenditures to produce. Some current prices for new oil may exceed the requirements of an adequate incentive, and I should think that a price level in the range of long-term equilibrium price estimates would be appropriate.

In my opinion an uncontrolled free market price should be allowed for stripper oil. The wells currently producing this oil -- some 12 percent of domestic output -- can only be kept in operation through a price structure which fully justifies the costs of their upkeep and maintenance. But more important, the Senate Finance Committee was told yesterday that a strong price for stripper oil can lead to the reactivation of many abandoned wells and increased production from them of some 250,000 barrels per day. I believe the need to maintain existing stripper production and the hopeful prospect for expanding our domestic production from abandoned wells fully justifies a free market price for stripper oil. And I would urge that this oil, therefore, be exempted from any rollback.

I would appreciate having your comments on the points I have raised and urge that they be taken into consideration as you study petroleum price matters.

SUPPORT FOR RECOMMITTAL

Mr. President, I do not believe the Energy Emergency Act with the present provisions of Section 110 is a constructive or responsible approach to America's energy problems.

I regret that the Conference Committee has twice failed to come to grips with these problems in a manner which would provide real solutions rather than publicity or partisan advantage.

I will vote to recommit the conference report in the hope and expectation that the conferees will at last arrive at a workable, fair and constructive means for dealing with America's energy needs.

This is an important piece of legislation, and there are strong pressures for its enactment at the earliest possible date. But the stakes in this energy area are too high for us to allow an unwise and harmful measure to become law.

We must have the best possible legislation and the most sound policies to support our efforts to establish America's energy independence. With continued work and sense of serious purpose by the House and Senate, the Energy Emergency Act can come much closer to meeting these necessarily high standards.