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NEWS from U.S. Senator Bob Dole

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STATEMENT BY SENATOR BOB DOLE AT THE SENATE FINANCE COMMITTEE HEARING ON H.R. 6860, THE ENERGY TAX BILL

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Mr. Chairman, I am pleased that we are moving progressively in these hearings on H.R. 6860, the Energy Tax Bill. The intensive schedule this week is a prompt and comprehensive way to deal with the issue that affects the life of every American everyday. Your leadership is to be commended. I am hopeful that the product of our labor will be proportionate to the intensity of our effort.

For the two years since the imposition of an Arab oil embargo brought the energy crisis to the forefront of public concern, Congress has done substantially nothing to further a permanent resolution.

At best, we have legislated around the problem and applied a few band-aids. But the Congress has not so far shown a willingness to commit itself to a long-term program and to ask the American people to make those sacrifices that will certainly go along with any substantive and realistic program.

Instead, the Congress which has never shown any reluctance to pass what are commonly referred to as give-away proposals has shown scant enthusiasm for legislation which might be considered a "take-away" proposition, no matter how necessary, no matter how urgently needed, no matter even how much it may end up saving the American people in the long term.

COST OF DOING NOTHING

I have heard about the "high cost of the President's program." I have heard about the "high cost of foreign oil," the "high cost" of certain other proposals which have been offered.

But I haven't heard much yet -- nor have the American people -- about probably the most expensive proposition of them all -- the cost of pursuing the course the Congress has followed for the past two years, the cost of doing nothing.

Every day that goes by without passage of a meaningful bill to increase domestic oil production, the consumer pays.

This year, the United States will pay approximately \$25 billion for the oil it is forced to import. In less than a decade, unless we act responsibly and promptly, that annual cost could rise to \$60 billion. And that could mean a loss of jobs to American workers.

Our failure to act in the past has meant higher prices at the gasoline pump in the present. And our failure to act in the present, will inevitably mean still higher prices at the pump in the future. It will also mean a steadily deteriorating balance of payments problem, retarded domestic economic growth, diminished job opportunity for many American workers and more problems for all American consumers.

COST OF HALF MEASURES

The House Energy Tax Bill would require that we simply limit -- to my mind arbitrarily -- the amount of oil which can be imported into this country through imposition of quotas. According to Finance Committee Staff estimates, the quota could reduce our consumption by 2 million barrels per day by 1985. This would save us an estimated \$7.4 billion a year on our annual bill for foreign oil.

But it could cost this country something between \$30 and \$60 billion a year in lost Gross National Product. That translates into an estimated possible loss of 250,000 jobs, a substantial loss in Federal tax revenues, resultant higher Federal deficits, probable higher interest rates, all of which most economists would agree would set us off on another round of higher inflation. And there would be a recessionary impact as well since there would be inadequate fuel to meet industry needs. We do need to reduce foreign oil imports. That is what energy independence is all about.

But that by itself could be disastrous. We must develop and expand our own domestic supply capabilities at the same time to replace the diminished imported oil quantities if we are to have any successful energy program.

The high cost of doing nothing to expand domestic production should be obvious. The estimates I have just cited, however, are based on the relatively conservative circumstance in which OPEC prices remain stable, and OPEC shipments remain constant.

POSSIBILITY OF WORSE

What if the OPEC countries raise their price, as they have said they will, or even worse, what if they impose a second embargo?

Then, it's apparent, the cost of doing nothing goes even higher.

Currently, we import 35 to 40 percent of our daily oil consumption from foreign sources, a significant portion of that from OPEC countries. A substantial increase in their price to us could certainly cost the American consumer much more than any of the legislative plans that have been proposed.

The cost of a second embargo would be harder to calculate but certainly much more expensive to this country, especially in terms of its impact on employment and production.

To remove this liability to the American consumer, Congress has to act and act fast to establish a program to encourage increased domestic production. Any such program is likely to carry with it increased costs. That cannot be denied. But the cost of such a program, over time, will look like a bargain compared to the cost of doing nothing.

COST OF UNCERTAINTY

There are other factors that relate to inadequate action by Congress. The very uncertainty which now surrounds what Congress may do in the energy picture is costing consumers money. Not knowing what kind of legislation Congress may pass, if any, everyone concerned with petroleum from the private producers to the retailers to the Federal regulators find themselves unable to make the plans or find the capital necessary for expanded energy production in future years. And with an energy intensive economy, our use of oil and gas must undoubtedly increase in the short term at least, if our economy continues to grow.

But while we muddle along without expanding energy production, the allocation and price control program is creating distortions and inequities in the industry. For example, the Federal Energy Administration currently operates a crude oil entitlements program designed to equalize prices within the industry by equalizing costs for crude oil. Under this program, refiners who have a source of controlled-price crude oil -- "old oil" -- must share their good fortune with those whose supply is reliant on the higher priced "new oil" or imported oil that is not subject to regulation. Although the crude oil entitlement program may make sense within the narrow context of a two-tier pricing situation -- may be even be essential to insure equity to refiners -- it has had an adverse impact on the consumer and has actually been counterproductive to the Nation's efforts to reduce dependence on foreign oil.

Under the program, refiners with a reliable source of less expensive old oil have a disincentive to use the less expensive oil since they are required to share the savings with their competitors in any event. As a result, those refiners have been increasing their use of foreign oil and cutting back on domestic production.

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The result should be obvious -- higher costs to the consumer.

And, as I understand, the entitlements program has an added detriment of discouraging oil importers from holding reserve stocks. This has to do with the problem of replacing the lower priced domestic stocks being used up with higher priced foreign oil, and the inherent disincentive in doing that.

Again the result should be obvious -- we are even more vulnerable to an embargo because of our lower volume of reserve stocks.

The possibility that more regulation -- not less -- may lie ahead for the Nation's energy industry has also tended to keep prices high. Specifically, the FEA has established a set margin or amount of money a retailer can make per gallon. The Federal Energy Administration regulation states that an operator can charge the same margin that was in effect on May 15, 1973. At the present time, many of the operators are hesitant to reduce their margin because they are fearful the Federal Energy Administration will establish a new date for margins and they would be forced to market their fuels at the new lower margin.

In short, the regulations prevent normal competition and normal market operation. The problem is further complicated as another layer of regulation is created to remedy the earlier layers.

Every minutes, every hour, every day that we delay on this pressing problem we add to the American energy bill.

Are we really so paralyzed by our hesitation to ask the American people to willingly undergo a short-term hardship in their long-term interest that we, the Congress will not act in their long-term interest? How long do we think we can dodge the issue?

I believe there is no choice but to act decisively on this problem, and to do it quickly. To delay is just to make the problem worse, the costs to consumers higher, and the respect and public confidence in the Congress' ability to act seriously on serious matters lower.

In all that we have done so far in the last two years, we have stimulated the production of not one additional thimbleful of oil.

It is time we stop hiding our heads in the sand. It is time we stop pretending to ourselves and to the American people that we can buy something as important as energy independence in the bargain basement.

And I am convinced that many in Congress seriously have misread the will of the American people -- and perhaps insulted them in the process -- by our timidity to ask sacrifices of them when sacrifices are clearly needed.