1028

Y 4
W36
WMCP
95-22

GOVERNMENT
Storage

95t
1s

COMMITTEE PRINT { WMCP:95-22

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

TAX ASPECTS OF THE PRESIDENT'S ENERGY PROGRAM
HEARINGS

DOCUMENTS
MAY 31 1977
FARRELL LIBRARY
KANSAS STATE UNIVERSITY

PREPARED STATEMENTS OF ADMINISTRATION WITNESSES
(Appearing May 17, 1977)

MAY 17, 1977

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
89-800 O WASHINGTON : 1977

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

COMMITTEE ON WAYS AND MEANS

AL ULLMAN, Oregon, *Chairman*

JAMES A. BURKE, Massachusetts
DAN ROSTENKOWSKI, Illinois
CHARLES A. VANIK, Ohio
OMAR BURLESON, Texas
JAMES C. CORMAN, California
SAM M. GIBBONS, Florida
JOE D. WAGGONNER, JR., Louisiana
OTIS G. PIKE, New York
J. J. PICKLE, Texas
CHARLES B. RANGEL, New York
WILLIAM R. COTTER, Connecticut
FORTNEY H. (PETE) STARK, California
JAMES R. JONES, Oklahoma
ANDY JACOBS, JR., Indiana
ABNER J. MIKVA, Illinois
MARTHA KEYS, Kansas
JOSEPH L. FISHER, Virginia
HAROLD FORD, Tennessee
KEN HOLLAND, South Carolina
WILLIAM M. BRODHEAD, Michigan
ED JENKINS, Georgia
RICHARD A. GEPHARDT, Missouri
JIM GUY TUCKER, Arkansas
RAYMOND F. LEDERER, Pennsylvania

BARBER B. CONABLE, JR., New York
JOHN J. DUNCAN, Tennessee
BILL ARCHER, Texas
GUY VANDER JAGT, Michigan
WILLIAM A. STEIGER, Wisconsin
PHILIP M. CRANE, Illinois
BILL FRENZEL, Minnesota
JAMES G. MARTIN, North Carolina
L. A. (SKIP) BAFALIS, Florida
WILLIAM M. KETCHUM, California
RICHARD T. SCHULZE, Pennsylvania
BILL GRADISON, Ohio

JOHN M. MARTIN, JR., *Chief Counsel*
J. P. BAKER, *Assistant Chief Counsel*
JOHN K. MEAGHER, *Minority Counsel*

C O N T E N T S

Page

Statement of The Honorable Charles L. Schultze, Chairman, Council of Economic Advisers 1
Statement of The Honorable Julius L. Katz, Assistant Secretary of State 20
Statement of The Honorable Douglas M. Costle, Administrator, Environmental Protection Agency 29
Statement of The Honorable Charles W. Duncan, Jr., Deputy Secretary of Defense 34
Statement of The Honorable Brock Adams, Secretary of Transportation 41
Statement of The Honorable Cecil D. Andrus, Secretary of the Interior 48

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20506

TESTIMONY OF

CHARLES L. SCHULTZE, CHAIRMAN
COUNCIL OF ECONOMIC ADVISERS

BEFORE THE

HOUSE WAYS AND MEANS COMMITTEE

May 17, 1977

National Energy Plan

Mr. Chairman, my colleagues and I are here today to discuss with you the overall economic implications of the President's energy proposal. Before I turn to the detailed economic projections, however, I would like to say a few words about the difficulties that we face in the use of energy resources in the United States.

The Setting

Up to 1973, the United States economy operated in an environment of relatively low energy prices. Moreover, energy prices had been falling over time. With the effective cartelization of the international oil market,

the environment changed dramatically, with the result that oil prices have been pushed to approximately four times their real levels before the rise of OPEC.

The most important fact of energy policy since 1973 is that we have adjusted only partially to the new energy environment:

- o Energy consumption in the United States fell 5 percent from 1973 to 1975, primarily because of the recession. But with the strong recovery in 1976, energy consumption increased by about 5 percent, and in the absence of the energy program would continue to increase at about 3 percent per year.
- o Oil imports have increased extremely rapidly over the last year. In 1975, imports averaged 6 million barrels a day; in 1976, they increased to 7.2 million barrels a day, and they are still growing.
- o We continue to hold oil prices below the world level. Moreover, our entitlement system actually subsidizes oil imports to the tune of approximately $2.70 per barrel. The system requires refiners with access to low-cost domestic crude oil to pay refiners using high-cost imported oil an amount sufficient to equalize costs to all refiners of crude oil.
- o There has been relatively little progress in switching to coal, although this is an extremely slow process in any event. Coal consumption increased by 6.7 percent between 1974 and 1976.

The Major Goals of the Energy Program

Our energy program has three fundamental goals. First, we wish to reduce the dependence on imported oil. Second, we wish to conserve our oil and gas resources, especially through conservation techniques, as these resources are our premium fuels. And third, we wish to enhance the efficiency with which we use energy resources. Techniques for meeting these goals are many, but the underlying strategies are relatively simple.

In the short run, over the next ten years, the major technique that we will use to meet our goals is energy conservation. Conservation can be achieved through the use of both price and nonprice measures. The use of prices is relatively straightforward: By imposing taxes on oil and gas, we will raise U.S. prices, in phases, up to the world price levels for oil and gas thus ending the subsidy of imported oil. In February, American users of petroleum products paid a price of $11.80 per barrel of crude oil, but every barrel of foreign-produced petroleum they used added $14.50 to the Nation's import bill. The discrepancy is even greater in the case of gas. By raising U.S. prices to the world level, we will give incentives for consumers, firms, and governments to take measures which will reduce their energy consumption.

It should be emphasized that our price and tax measures are concentrated mainly on reducing the demand for crude oil and natural gas through conservation or by the substitution of coal, solar, geothermal and other abundant energy resources, the use of which is actually being promoted by the use of tax credits.

The second part of our strategy is to encourage conservation through nonprice methods such as the automobile fuel efficiency standards strengthened by the gas-guzzler tax; residential, commercial, and Federal building standards; and mandatory standards on appliances. Whether the technique is price-induced or nonprice-induced conservation, the underlying theme is that there is great short-run payoff in making our capital stock more energy efficient.

During the period until the end of the century, our objective is to make the transition from an oil and gas based economy to one based on other fuels. At the present time, approximately 75 percent of our energy consumption takes the form of oil and gas. By the end of the century most analysts feel that not much more than one-quarter of our energy consumption will be provided by domestic gas and crude oil. Two alternative sources of energy are already in use, and

we are relatively familiar with them. These are coal and nuclear power. It is likely, however, that we will need to convert to new energy sources, such as oil and gas synthesized from coal, if we are to make a smooth transition over the next few decades.

Overall Impact of the President's Program

Our assessment of the overall impact of the President's program on the economy focuses mainly upon the impact during the period out to approximately 1981. Beyond 1981, the uncertainties involved in forecasting the basic economic variables themselves are so large as to make virtually impossible any accurate estimate of how those variables will be affected by the energy program, particularly since that impact is, on balance, quite small.

In our macroeconomic assessment we focus primarily on the outlook for the growth of real GNP, the prospects for employment, the outlook for inflation, and the budgetary impacts. We have used large-scale econometric models to assess the effects of the program. But this did not preclude the need to make a number of critical assumptions and to exercise judgment at various points in the analysis. At each stage in the presentation I shall identify the key assumptions and judgments that were made, and try to point out the major uncertainties which remain.

89-800 O - 77 - 2

1. Prices. The major foreseeable impact of the program on the economy as a whole is the effect of the increased prices for petroleum, petroleum products and natural gas. The first effect of the higher prices, as we learned in the 1973-74 period with the OPEC price increase, is to siphon off purchasing power from consumers. The resulting decline in real income leads to a reduction in consumer purchases of other goods and services. Should these decreases cascade through the economy as a whole, there would be a reduction in total output and employment. In the President's program, we have counteracted this effect by providing that the revenues raised by wellhead, and gasoline taxes be recycled back to consumers through tax credits and transfer payments. As a result of the recycling, the real incomes of consumers will remain approximately unchanged, or perhaps even increase slightly. Therefore, the potential decrease in consumer expenditures will be avoided.

While recycling can prevent the output and employment declines associated with higher petroleum prices, it cannot erase the price increases themselves. Since other prices are unlikely to fall when petroleum prices rise, the average price level will necessarily increase. Over the next two years -- to the end of 1978 -- the only major price-raising aspect of the program is the wellhead tax on crude oil, which comes at the beginning

of 1978. After 1978, there are additional increases in the wellhead tax and potential conservation taxes on large users of oil and gas. If the President's gasoline goals are not met, the gasoline tax will also be triggered after 1978.

Over the next four years, oil and gas prices would have increased substantially under current law and regulations. The estimates we present measure the effect on the overall price level of the additional increase in oil and gas prices that would be forthcoming under the President's program.

Taking these increases into account, together with the effect of the taxes on industrial uses of natural gas and oil, we expect that over the next two years from 1977 to 1979 the annual rate of inflation would be 0.3 to 0.4 percent higher

with the program than without it. In the subsequent two years, the price impact under the program would be smaller, with an increase in the annual rate of inflation of between 0.1 and 0.3 percent.

All of the estimates so far omit the standby gasoline tax. Although there is considerable hope that the gasoline tax will not be triggered over the period under examination, an analysis has been performed of the impact of the tax on the assumption that it is triggered each year, beginning in 1979. Our analysis indicates that the annual rate of inflation over the period 1977 to 1981, as measured by the GNP deflator, would be 0.2 to 0.3 percent higher than otherwise. The major uncertainty in this figure is the extent to which wages and other prices would respond to such an increase.

There are a number of uncertainties in the projections, some of which may mitigate the effects of the program on the economy:

- The assessment assumes that less than the full amount of the wellhead tax will be passed through into increased product prices. A full pass through of the wellhead tax would, in our best judgment, put U.S. refined product prices well above world prices for the same products. World markets will probably exert some pressure on U.S. prices and prevent a full pass through.
- It is reasonable to expect that over the next decade reduced dependency on imported oil may

restrain OPEC price increases. For purposes of analysis, however, we have assumed that OPEC pricing will be unchanged by the plan.

In estimating the effects of energy price increases upon the overall rate of inflation, it is necessary to look not only at direct but indirect effects. That is, to what extent do initial increases in the cost of living induce increases in wages, which, in turn, lead to price increases across a broad range of products quite unrelated to energy? In the past, we have seen that some part of an externally-imposed price increase does get passed through into wages. Experience from the 1972-74 food and fuel inflation, however, indicates that the pass through was less than had been feared. The specific extent of such second round effects is a matter upon which there is much contention and little agreement among economists. To avoid underestimating the effects, our estimates build in considerable second round impacts via subsequent wage and price effects.

2. Investment. The provisions of the energy plan contain a number of measures that affect the outlook for investment. There are some sectors of the economy in which the plan will result in additional investment, and others in which investment will be decreased.

We expect that the recent, relatively low levels of investment in new capacity on the part of electric utilities will continue. The reason for this is that the peak load

provisions of the energy plan, as they are implemented by State public utility commissions, will allow electrical utilities to flatten the peaks and raise the troughs of electricity consumption, reducing the need for new capacity. By smoothing loads the same electrical energy can be produced with less generating capacity. We must emphasize that this development is one which should be encouraged, as it implies a much more efficient utilization of our capital stock, and lower costs of electricity.

In addition, industries which are energy-intensive will find their costs and prices increasing faster than average. Growth in these industries may be slowed, and investment plans reduced.

On the positive side, there are a number of areas in which investment will be encouraged. Consumers have very strong incentives to insulate and weatherize their houses, and we expect a strong increase in this sector. Similarly, there will be considerable increase in expenditures on facilities to produce, transport, and cleanly burn coal. These will be induced by conservation taxes on oil and gas, rebates and investment tax credits on coal conversion

equipment, and more favorable relative prices of coal in general. Industry generally will be given an additional tax credit for investment in energy saving processes and equipment.

Summing all these factors, we anticipate that the positive impacts of the program will outweigh the negatives during the early years. For the period through 1980, we expect a net stimulus to investment to be in the range of from $0 to $2 billion a year. After 1980, however, the positive impacts may taper off as conservation expenditures stabilize while other types of investment, especially the investment by electric utilities in new capacity, begin to decrease.

Other elements of the investment outlook are less certain:

- During the period when Congress is debating the energy program and its final form is still uncertain, some firms may decide to postpone investments that critically depend on energy policy, awaiting the final outcome. Conversely, once the program is enacted, and we have in place a long-run energy policy, some of the uncertainties that have dampened investment in recent years should be removed, providing a general spur to investment.

o We have assumed that energy-related investments would not be substantially inhibited by financial barriers. With respect to those firms which have weak financial positions this may be an overly optimistic assumption.

o We have also assumed, with respect to investment generally, that monetary policy is not tightened in response to the moderate increase in the price level resulting from the program, and that as a consequence, financial conditions and interest rates remain conducive to investment.

3. Imports. One of the major goals of the program is to reduce imports of oil and gas. According to the projections of the Office of Energy Policy and Planning the program should reduce imports by approximately 4-1/2 million barrels a day in 1985. If by 1981, the program cuts U.S. oil imports by 1 million barrels per day, expenditures on foreign oil will be reduced by $6 billion a year. In effect, we will be spending $6 billion more on domestically produced goods and services -- such as coal and home insulation -- and $6 billion less on foreign oil. As a consequence, GNP will rise.

4. Impact on the Automobile Industry. A central element in the Administration's energy policy is the attempt to change the pattern of transportation activities. Our roads are full of cars that were designed for acceleration rather than weight, and more lately for emissions control rather than fuel economy. Only in the period since 1974 has there been even a modest effort to increase fuel economy. This must change.

There are a number of elements in the energy program which will directly or indirect affect the level and composition of output of the domestic automobile industry. The most important of these is the gas-guzzler tax, which is intended to affect the type of car purchased by Americans without causing a major change in the number or real value of automobile sales. The tax and rebates are designed to put economic teeth into the fuel economy standards imposed by the Energy Policy and Conservation Act passed in 1975. Our analyses indicate that the tax will cause the mix of vehicles purchased to shift significantly from fuel inefficient to fuel efficient vehicles, but that the total number of vehicles sold will remain largely unaffected. Executive agreements entered into with respect to rebates on foreign cars are required by Section 1202 of the proposed legislation to be designed "...to assure that manufacturers of domestically manufactured automobiles are not disadvantaged ..."

In our analysis we have assumed that the share of imports in the American market would not change significantly.

Another major provision of the energy plan is the standby gasoline tax. That tax is designed to supplement the other provisions of the program; it will be triggered only if gasoline consumption rises above a realistic goal set by the President. A review of the econometric work on automobile purchases indicates that an increase in the gasoline tax initially reduces car sales by a modest amount, but that car sales then return to the prior level. This is true even if the revenue is recycled to consumers. It is possible, however, that the standard econometric studies overestimate the impact of the gasoline tax when that tax is reinforcing the gas-guzzler tax. The effect of the reinforcement may be to encourage consumers to scrap their old energy-inefficient automobiles more rapidly. In other words, while the gas-guzzler tax will induce many consumers to switch from fuel inefficient to fuel efficient cars, some consumers who are in love with gas-guzzlers may decide to keep their old gas-guzzler longer. The gasoline tax increases the cost of doing so, and therefore reduces the incentive to hang onto old gas-guzzlers for a longer period of time.

Summary

The President's Energy Plan is a comprehensive initiative which will have major effects on the energy-related sectors of our economy. At the same time, we have attempted to design it so that it has a neutral effect on the overall levels of economic activity. To summarize:

- The plan, excluding the gasoline tax, will have no significant impact on the growth of real GNP or upon unemployment over the next four years. We estimate that (without the gasoline tax) the effect will range from minus 0.1 percent to plus 0.1 percent on the annual growth of real GNP. The impact on real output is so small because the program changes the prices of energy products relative to non-energy products without changing the overall level of demand for goods and services.
- The gasoline tax, if it is triggered every year, would have a slight contractionary effect over the period 1977 to 1981. Our analysis indicates that, taken by itself, it would tend to lower the annual growth rate of real GNP by somewhere between 0.0 and 0.2 percent. This results from a projected reduction in vehicle miles driven, which extends the life

of the automobile stock and lowers automobile sales. These reduced automobile sales could be offset if -- as I explained earlier -- the gasoline tax reinforces the gas-guzzler tax and rebate, and so spurs consumers to acquire fuel efficient cars more quickly.

- The plan necessarily will have some impact on the rate of inflation. The annual rate of inflation in calendar year 1979 over the rate in calendar year 1977 would be 0.3 to 0.4 percent higher than it would be otherwise. In the subsequent two years, the price impact would be smaller, with an increase in the annual inflation rate of about 0.1 to 0.3 percent.
- Our analyses cannot take into account the effects on the economy of turning to energy sources which are dependable, environmentally acceptable, and in sufficient abundance to support economic growth for many decades to come. That is what we are proposing. Despite short-run inconveniences, once we have completed the transition to a more sustainable pattern of energy use, our future economic growth will be on a much sounder foundation.

It must be emphasized that the economic projections that I have outlined are subject to great uncertainty. We feel that the effect on economic growth is minimal over the next four years. But it is not essential that our projections

be accurate to the last decimal point. If the economy is off the path, we can make midcourse corrections. In setting its fiscal policy over the next few years, the Administration is committed to returning to full employment with moderating inflation.

This testimony has concentrated on the overall economic impact of the President's energy program in the next four years. The impacts are slight. But what about the longer period ahead? What difference does the program make to the long-term future of the economy?

By 1985, without the program, the United States would likely be importing 11 to 13 million barrels of oil per day -- at a balance of payments cost between $80 and $90 billion a year, even if world oil prices rise no faster than inflation generally. The economic consequences of that kind of annual drain would be horrendous -- in terms of output, employment, and financial recycling problems. Imports would amount to some 60 percent of U.S. oil consumption, which itself would be too high. The political and strategic consequences of such dependence might be worse than the economic.

If one accepts the CIA forecasts of a large deficiency in world oil supplies by 1985, prices of oil would begin rising very sharply. The initial inflationary consequences

of such a rise, and its subsequent effect on output and employment, are all too familiar to us from the 1973-74 experience.

Even if one believes the CIA forecasts to be too pessimistic, this only postpones the time when oil prices start to rise sharply. The American economy can begin <u>now</u> to make its capital stock more energy-efficiency and less oil-dependent, on a carefully phased and gradual basis. If it does not, the subsequent adjustments will be infinitely more painful and disruptive than the measures now being proposed.

There is another fact to remember. Even though world oil prices are set by a cartel, the ability of that cartel to increase prices is dependent on the size and growth of the world's oil market. The President's program is designed to remove 5 to 6 million barrels a day from world market demand. While not alone decisive, that amount is large enough to make a difference. In the world of the future, in which the supply of oil is both increasingly limited and controlled by a producers' cartel, the interest of consuming nations lies strongly in taking actions which restrain the growth of demand.

Econometric models cannot very well project the long-run consequences of the President's program. But everything we know about what the future is likely to

bring by way of oil prices and supplies, suggests that the failure to enact a sensible energy policy now could have far-reaching adverse consequences on the economy of the 1980's. We are now learning how long it takes to make the necessary adjustments. The more we postpone, the more likely it is that instead of adjusting smoothly with a modicum of pain, we shall be forced to adjust sharply with a maximum of inflation, unemployment, and reduced growth.

*****

STATEMENT OF JULIUS L. KATZ
ASSISTANT SECRETARY OF STATE
BEFORE THE WAYS AND MEANS COMMITTEE
OF THE HOUSE OF REPRESENTATIVES
MAY 17, 1977

DEAR MR. CHAIRMAN:

I AM PLEASED TO HAVE THIS OPPORTUNITY TO TESTIFY ON BEHALF OF THE PRESIDENT'S COMPREHENSIVE ENERGY PROGRAM. I PROPOSE IN THIS STATEMENT TO SPEAK TO THE INTERNATIONAL ECONOMIC IMPORTANCE OF ENACTMENT OF THE PRESIDENT'S ENERGY PROGRAM. OTHER ADMINISTRATION WITNESSES ARE ADDRESSING THE DETAILED OPERATION AND IMPACT OF THE SPECIFIC TAX PROPOSALS IN THE PACKAGE BEFORE YOU.

THE PROPOSALS BEFORE YOU FOR TAXES, REBATES AND CREDITS ARE, OF COURSE, CRITICAL ELEMENTS OF THE TOTAL ENERGY PROGRAM. THEY ARE THE WAYS BY WHICH CONSERVATION WILL BE MADE EFFECTIVE AS THE CORNERSTONE OF OUR NATIONAL ENERGY POLICY. THEY ARE THE MEANS BY WHICH REQUIRED BURDENS WILL BE SHARED FAIRLY AMONG ALL SECTORS OF THE POPULATION. THESE MEASURES WILL RESULT IN A CHANGE FOR THE BETTER IN THE WAY WE REGARD, VALUE, AND USE ENERGY. WHILE QUESTIONS WILL BE RAISED ABOUT WHETHER THE COUNTRY NEEDS TO UNDERTAKE THE PROGRAM PROPOSED OR WHETHER IT CAN AFFORD IT. THE MORE APPROPRIATE QUESTION IS: CAN WE REALLY AFFORD TO

DO LESS THAN WHAT THE PRESIDENT PROPOSED, CONSIDERING THE ENERGY PROSPECTS WE FACE AND THE LIMITED TIME WE HAVE TO MAKE ADJUSTMENTS?

THERE HAS BEEN A FUNDAMENTAL SHIFT IN GLOBAL SUPPLY AND DEMAND FOR ENERGY IN THE 1970's. THE US IMPORTED LITTLE MORE THAN 3 MILLION BARRELS A DAY IN 1969. HOWEVER, DOMESTIC OIL PRODUCTION PEAKED IN 1970 AND THE IMPORT LEVEL RAPIDLY INCREASED TO OVER 6 MILLION B/D IN 1973. BY THAT TIME, THE UNITED STATES HAD BECOME THE WORLD'S LARGEST OIL IMPORTER. US DEMAND, PLUS THE EXPONENTIAL GROWTH IN EUROPEAN AND JAPANESE DEMAND OVER THE PREVIOUS TWO DECADES, CREATED A SITUATION WHICH WAS EXPLOITED BY THE OIL PRODUCERS IN 1973-74. THE AVERAGE COST OF OUR OIL IMPORTS ROSE FROM $3.22 TO $12.52 A BARREL BETWEEN 1972 AND 1974.

NEVERTHELESS, THE FULL IMPACT OF THESE MASSIVE PRICE INCREASES ON THE UNITED STATES WAS BLUNTED BECAUSE IMPORTS ACCOUNTED FOR LITTLE MORE THAN ONE-THIRD OF TOTAL US OIL CONSUMPTION. HOWEVER, OUR DEPENDENCE ON OIL IMPORTS HAS CONTINUED TO GROW. IMPORTS MADE UP 42 PERCENT OF OIL CONSUMPTION IN 1976 AND REACHED 50 PERCENT FOR THE FIRST TIME IN THE DEPTH OF THE PAST WINTER. IF WE DO NOT PUT POLICIES IN PLACE NOW TO CORRECT THIS TREND, OUR VULNERABILITY TO SUPPLY INTERRUPTIONS AND SHARP PRICE INCREASES WILL BE FAR GREATER IN THE 1980's THAN IT WAS IN 1973-74.

THE PRESIDENT HAS MADE AVAILABLE THE CIA FORECAST OF A GAP IN THE 1980'S BETWEEN THE PRODUCTION AND DEMAND FOR OIL. INDEPENDENT ANALYSES BY THE OECD AND THE INTERNATIONAL ENERGY AGENCY HAVE REACHED THE SAME CONCLUSION. THIS IS A PRUDENT FORECAST WHICH SHOULD REST AT THE FOUNDATION OF US ENERGY POLICY.

UNFORTUNATELY, THIS FORECAST HAS BEEN MISUNDERSTOOD. NO ONE IN GOVERNMENT, NOT THE PRESIDENT NOR THE CIA, HAS SUGGESTED THAT THERE IS AN IMMEDIATE DANGER OF EXHAUSTING WORLDWIDE OR EVEN DOMESTIC OIL RESERVES. RATHER, THE CIA ESTIMATE DEALT WITH PRODUCIBLE CAPACITY IN RELATION TO PROJECTED GROWTH IN GLOBAL DEMAND FOR OIL. BECAUSE OF THE LONG LEAD TIMES, THE ABILITY TO INCREASE CAPACITY BY THE MID-80'S IS CONSTRAINED. THUS, UNLESS THE RATE OF GROWTH OF DEMAND IS SLOWED SUBSTANTIALLY, THE WORLD WOULD FACE SEVERE SUPPLY SHORTAGES OR SHARP INCREASES IN OIL PRICES BY 1985, AND PERHAPS EARLIER IN THE DECADE. OTHER NON-GOVERNMENTAL STUDIES WE HAVE SEEN OF THE LONG TERM PROSPECTS FOR PRODUCING CONVENTIONAL AND SYNTHETIC OIL AND GAS DO NOT CONTRADICT THIS FORECAST. ALL SERIOUS STUDIES ACKNOWLEDGE THAT THERE ARE MAJOR ECONOMIC, TECHNOLOGICAL, ENVIRONMENTAL AND OTHER CONSTRAINTS ON FULL EXPLOITATION OF POTENTIAL WORLD OIL RESERVES IN THE MEDIUM TERM.

THE ENERGY CHALLENGE IS A GLOBAL CHALLENGE. ITS SOLUTION REQUIRES GLOBAL COOPERATION. THE UNITED STATES

CANNOT SOLVE THE GLOBAL IMBALANCE BY ITS OWN EFFORTS ALONE. AT THE SAME TIME, THE ABILITY OF THE WORLD TO CORRECT THE GLOBAL IMBALANCE REQUIRES OUR STRONG CONTRIBUTION TO THE EFFORT TO REDUCE DEPENDENCE ON IMPORTED OIL AND TO ACCELERATE THE TRANSITION TO OTHER SOURCES OF ENERGY.

THE UNITED STATES AND ITS INDUSTRIALIZED ALLIES SHARE A COLLECTIVE VULNERABILITY. AS A RESULT, ENERGY HAS BECOME A CENTRAL ELEMENT IN OUR CLOSE POLITICAL, ECONOMIC AND SECURITY RELATIONS WITH THEM. WE MUST COOPERATE IN ENERGY FOR OUR MUTUAL BENEFIT OR ENERGY WILL BECOME A DIVISIVE ISSUE THAT UNDERMINES AND WEAKENS OUR OVERALL STRENGTH.

THE FOCUS OF COOPERATION AMONG INDUSTRIALIZED COUNTRIES IS THE INTERNATIONAL ENERGY AGENCY, MADE UP OF 19 MAJOR OIL IMPORTING NATIONS. THE IEA NOW HAS IN OPERATIONAL READINESS AN INTERNATIONAL EMERGENCY PROGRAM TO MITIGATE THE IMPACT OF SUDDEN SUPPLY INTERRUPTIONS THROUGH THE USE OF STOCKS AND RESERVES, DEMAND RESTRAINT MEASURES AND THE ALLOCATION OF AVAILABLE OIL.

THE IEA HAS ALSO AGREED TO DEVELOP A PROGRAM OF LONG TERM ENERGY COOPERATION THROUGH JOINT EFFORTS IN CONSERVATION, ACCELERATED DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES AND RESEARCH AND DEVELOPMENT. FOR EXAMPLE, IN CONSERVATION, MAJOR STUDIES HAVE BEEN UNDERTAKEN IN DISTRICT HEATING, CONSERVATION IN INDUSTRY AND COGENERATION.

IMPLEMENTING AGREEMENTS HAVE BEEN SIGNED FOR PROJECTS IN ENERGY CONSERVATION IN BUILDINGS, ENERGY CASCADING AND THE APPLICATIONS OF HEAT PUMPS.

THE IEA HAS UNDERWAY SECTORAL STUDIES ON THE SUPPLY AND DEMAND FOR NATURAL GAS AND COAL IN THE IEA AREA AND THE IDENTIFICATION OF COOPERATIVE MEASURES THAT WILL OPTIMIZE COAL CONSUMPTION IN THE MEDIUM TERM. IMPLEMENTING AGREEMENTS HAVE BEEN SIGNED FOR R&D PROJECTS IN SUCH AREAS AS HYDROGEN PRODUCTION, SOLAR HEATING AND COOLING, CONSTRUCTION OF AN INTENSE NEUTRON SOURCE, THE EXCHANGE OF INFORMATION ON NUCLEAR SAFETY, AND OTHERS. IN ADDITION, THE IEA HAS COMPLETED DESIGN WORK FOR A $5 MILLION FLUIDIZED BED COAL COMBUSTION TEST FACILITY.

THE IEA IS NOW ENGAGED IN A PROCESS WHICH WILL RESULT IN ITS ADOPTING A COLLECTIVE OBJECTIVE FOR REDUCING THE OIL IMPORT DEPENDENCE OF THIS GROUP OF COUNTRIES BY 1985. TO SUPPORT THIS GOAL AND ENSURE THAT IT WILL BE ACHIEVED, IEA GOVERNMENTS WOULD ADOPT AN OVERALL FRAMEWORK WITHIN WHICH NATIONAL ENERGY POLICIES WOULD BE FORMULATED AND REVIEWED. IN THIS PROCESS, EACH IEA MEMBER GOVERNMENT WOULD MAKE AN APPROPRIATE CONTRIBUTION TO THE COMMON OBJECTIVE.

THE UNITED STATES ACCOUNTS FOR ONE-HALF THE ENERGY CONSUMED BY IEA MEMBER COUNTRIES AND IS THE LARGEST SINGLE IMPORTER OF OIL. THE UNITED STATES CONTRIBUTION WILL OBVIOUSLY BE THE MOST IMPORTANT SINGLE ELEMENT IN THE ABILITY OF THE GROUP TO ACHIEVE REDUCED DEPENDENCE. THE

PRESIDENT'S PROGRAM TO REDUCE US OIL IMPORTS TO 6 MILLION BARRELS A DAY BY 1985 WOULD REPRESENT A SUBSTANTIAL CONTRIBUTION BY THE US TO THE COMMON GOAL. ENACTMENT OF THE PROGRAM WILL CLEARLY DEMONSTRATE US LEADERSHIP AND WILL GIVE A STRONG IMPETUS TO OTHER INDUSTRIALIZED COUNTRIES TO SET AND MEET THEIR OWN NATIONAL GOALS.

THE PRESIDENT'S ENERGY PROGRAM WILL ALSO BE A KEY ELEMENT IN ELICITING COOPERATION FROM THE PRODUCERS IN SUPPLYING ADEQUATE QUANTITIES OF OIL AT MANAGEABLE PRICES IN THE YEARS AHEAD. MASSIVE OIL PRICE INCREASES IN THE 1980'S WILL BE AVOIDED ONLY IF THE UNITED STATES AND OTHER MAJOR CONSUMING COUNTRIES SHOW DEMONSTRABLE PROGRESS TOWARD REDUCED DEPENDENCE THROUGH CONSERVATION-BASED ENERGY POLICIES AND IF KEY OIL PRODUCING COUNTRIES ACCEPT THAT THEIR SELF INTEREST IN GLOBAL ECONOMIC STABILITY AND GROWTH REQUIRES RESTRAINT IN OIL PRICE INCREASES.

IN THIS CONNECTION, THE PRESIDENT'S PROPOSALS TO MOVE DOMESTIC OIL PRICES TO WORLD LEVELS THROUGH PHASED TAX AND PRICE INCREASES DO NOT CONSTITUTE AN ENDORSEMENT OF OPEC PRICES OR A JUSTIFICATION FOR FURTHER OPEC PRICE INCREASES. THE PRESIDENT'S OIL PRICING PROPOSAL HAS TWO MAIN FEATURES:

1. THAT THE PRICE OF DOMESTIC OIL TO CONSUMERS SHOULD REFLECT ITS REPLACEMENT COST, WHICH IS THE PRICE OF IMPORTED OIL.

2. THAT RETURNS TO DOMESTIC PRODUCERS SHOULD REFLECT INCREASES IN THEIR COSTS. CONSEQUENTLY, AN ADJUSTMENT IN RETURNS TO PRODUCERS WILL BE MADE TO COMPENSATE FOR DOMESTIC INFLATION.

THE SITUATION IN THE OPEC COUNTRIES IS FAR DIFFERENT. THEY ARE TODAY RECEIVING SEVERAL TIMES THE COST OF PRODUCING THEIR OIL. EVEN IF PRICES WERE TO REMAIN FIXED IN NOMINAL TERMS FOR A NUMBER OF YEARS, THERE WOULD REMAIN SUBSTANTIAL INCENTIVE FOR THEM TO CONTINUE TO PRODUCE AND, IN FACT, TO INCREASE PRODUCTION.

AS WE HAVE SEEN, MASSIVE OPEC PRICE INCREASES HAVE A SEVERE IMPACT ON GLOBAL ECONOMIC GROWTH AND PRICE STABILITY. OIL-IMPORTING COUNTRIES HAVE PAID $367 BILLION IN OIL IMPORT BILLS SINCE 1973. THIS INCOME TRANSFER IS EQUIVALENT TO A HUGE EXCISE TAX. THE IMPACT REDUCED THE ANNUAL GROWTH RATE IN OECD COUNTRIES BY 1.2 PERCENT AND ACCELERATED THE AVERAGE RATE OF INFLATION IN THESE COUNTRIES BY 3 PERCENT.

OIL-IMPORTING DEVELOPING COUNTRIES WERE HURT EVEN MORE BY THE MASSIVE OIL PRICE INCREASES OF THE RECENT PAST. WHILE THEIR OIL IMPORT COSTS SOARED, THEIR OWN EXPORTS SUFFERED BECAUSE OF THE OIL PRICE-INDUCED RECESSION IN INDUSTRIALIZED COUNTRIES. THE PRICES OF THEIR IMPORTS OF MANUFACTURED GOODS ROSE AS ENERGY COSTS ROSE AND THEIR DEBT

BURDEN MOUNTED. FROM 1973-75, THE DIRECT AND INDIRECT FOREIGN EXCHANGE LOSSES TO THESE COUNTRIES FROM HIGHER OIL PRICES WAS $30 BILLION, PUSHING THEIR TOTAL FOREIGN DEBT TO PRECARIOUS HEIGHTS. ENERGY BURDENS HAVE BECOME A CRITICAL CONSTRAINT TO THEIR DEVELOPMENT PROSPECTS. MOREOVER, IF OIL SHORTAGES AND MASSIVE PRICE INCREASES ARE ALLOWED TO DEVELOP IN THE 1980'S, THEY WILL AGAIN BE THE LEAST ABLE TO COMPETE AND TO COPE. THUS, THEIR INTERESTS TOO ARE AT STAKE IN THE WILLINGNESS AND ABILITY OF ALL NATIONS TO PURSUE POLICIES WHICH WILL ENSURE A SMOOTH ENERGY TRANSITION PERIOD AND ADEQUATE, SUSTAINABLE ECONOMIC GROWTH.

THE LESSON WHICH THE OIL PRODUCERS MUST DRAW FROM RECENT GLOBAL ECONOMIC HISTORY IS THAT THEIR NEW FOUND POWER MUST BE EXERCISED WITH RESTRAINT AND RESPONSIBILITY. EVEN SHORT TERM GAINS FROM FURTHER ADDITIONS TO THEIR ANNUAL $125 BILLION IN OIL EARNINGS THROUGH PRICE INCREASES ARE UNDERMINED BY THE EFFECTS ON GLOBAL INFLATION AND DOMESTIC INFLATION IN THE OPEC COUNTRIES THEMSELVES. MORE IMPORTANTLY, THE LONG TERM INTEREST OF THE PRODUCERS IN MAINTAINING THE VALUE OF THEIR FINANCIAL ASSETS AND INVESTMENTS AND IN ACHIEVING THEIR ASPIRATIONS FOR ECONOMIC AND INDUSTRIAL DEVELOPMENT AS FUTURE EXPORTERS OF NON-OIL GOODS DEPEND UPON A STABLE AND GROWING WORLD ECONOMY.

THE DEPARTMENT OF STATE WILL BE MAKING THE STRONGEST POSSIBLE EFFORT IN BILATERAL AND MULTILATERAL DEALINGS WITH THE PRODUCERS TO ENLIST THEIR POSITIVE COOPERATION AND RESPONSIBLE CONTRIBUTION DURING THE GLOBAL ENERGY TRANSITION IN WHICH THE INTERESTS OF ALL NATIONS ARE AT STAKE. NOTHING IS AS CRUCIAL TO THE CREDIBILITY AND EFFECTIVENESS OF THIS DIPLOMATIC EFFORT AS ENACTMENT OF THE PRESIDENT'S PROGRAM TO DEMONSTRATE US LEADERSHIP AND ACCEPTANCE OF OUR SHARE OF RESPONSIBILITY IN MEETING THE GLOBAL ENERGY CHALLENGE.

STATEMENT OF
DOUGLAS M. COSTLE
ADMINISTRATOR
ENVIRONMENTAL PROTECTION AGENCY
BEFORE THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRSENTATIVES
MAY 17, 1977

Mr. Chairman, members of the Committee:

I appreciate this opportunity to appear before your Committee to present the Environmental Protection Agency's views on the tax provisions of the proposed National Energy Act.

The thrust of many of these provisions will be to create incentives for oil and gas users to shift to the use of coal. I support this goal of the President's energy proposal, noting especially a corollary of the proposal is that the mining and combustion of coal must be done with environmental controls. At a time of markedly increased coal use, it is especially important that environmental and health values be protected.

The energy conservation and fuel efficiency impacts of the President's plan are quite compatible with environmental interests. For every ton of coal or barrel of oil that is not burned, we save all the detrimental environmental effects from mining, drilling, transportation, and combustion of that amount. The environmental benefits from conservation are a very valuable by-product of this program.

The section establishing a system of graduated taxes and rebates on new automobiles and light duty trucks in relationship to their fuel economy performance is of particular interest to EPA, because we will have a large role in administering this program. I will, therefore, focus my remarks on this section, first, very briefly outlining EPA's involvement in the fuel economy field, and then offering some specific comments on this section.

The Federal government's involvement in the fuel economy of cars had its genesis in work done by EPA, beginning in 1971. This work evolved from an effort to determine exactly what effect emission controls had on fuel economy. By using fuel consumption data tests that had been conducted under a consistent set of test conditions, we were able to isolate many factors that had an important bearing on the fuel economy of cars.

In 1973 several Federal agencies including EPA were directed to make available to the public data on the energy efficiency of various consumer products. EPA responded by publishing the Mileage Guide and by sponsoring the voluntary mileage labelling of new cars in showrooms. We did this work in cooperation with the Federal Energy Administration. Our jointly published Mileage Guide has become one of the most popular and widely distributed Federal publications.

When the Energy Policy and Conservation Act (EPCA) was passed in 1975, EPA was assigned the responsibility to determine the average fuel economy value for each manufacturer for each model year, beginning with the 1978 model year. These data are forwarded to the Secretary of Transportation, who administers the provisions that require that any manufacturer who fails to meet the applicable fuel economy standard for the model year be fined $5 for each car for every 1/10 mile per gallon by which his calculated average is below the standard.

The President's energy proposal benefits from the experience gained from the earlier legislation and the earlier work on fuel economy by EPA.

Of particular importance is the fact that the graduated excise tax on new fuel inefficient motor vehicles in the President's proposal is imposed directly on manufactuers and not on individual purchasers. In that manner the need to establish a high degree of certainty with respect to each individual model's type fuel economy values is less pressing. This means that we can avoid the cost of a substantial expansion of testing of cars beyond the testing that is already contemplated for purposes of determining compliance with the fuel economy portions of EPCA.

Let me explain this rather technical but very important point. If, instead, the government were to be required to collect taxes from each individual purchaser of inefficient automobiles, there would be a much higher burden on the government to demonstrate that the amount assessed is appropriate. In such a scheme, a very high degree of confidence would be required in the fuel economy value assigned to each of hundreds of individual model types. Achieving a sufficient degree of statistical confidence in effect would require thousands of additional tests and would be very expensive. However, if the transfer of actual funds is to be as the President has proposed--between the government and the manufacturer--then the net amount of the tax imposed on the manufacturer for all of his cars is a function of the sales-weighted average fuel economy of each manufacturer, and a modification of the EPCA test procedures can be used for both programs.

In summary, if the President's proposal is adopted, the currently existing fuel economy measurement programs being carried out by EPA would be adequate to provide the data base needed to implement the so-called gas guzzler tax, without significant new costs being incurred.

Let me make one final point. I am confident that the fuel economy standards for future years can be met, together with the Administration's proposed emission standards.

Whether the fuel economy standards will be met depends on how the industry responds, as well as on how the public responds in terms of buying the more fuel efficient cars. The President's proposal for a gas guzzler tax will help shape that public response.

I will be pleased to answer any questions you may have.

STATEMENT OF

HONORABLE CHARLES W. DUNCAN, JR.

DEPUTY SECRETARY OF DEFENSE

There is no clearer or more serious threat to the long-term security of the United States and to its Allies than that which stems from the growing deficiency of secure and assured energy resources. The Department of Defense strongly supports the Administration's energy legislative program which is designed to reduce the energy vulnerability of this nation.

A high and growing rate of energy consumption is the hallmark of industrialized societies as we know them today. Even the most rigorous conservation programs are unlikely to do more than slow the future rate of worldwide energy demand growth. The standard of living that now exists in the more developed nations, and to which the developing nations of the world aspire, is a very recent phenomenon. It first appeared in the United States about 50 years ago, and in the other parts of the world where it exists at all, only since the end of World War II. At present it rests on fossil fuels. More specifically, the advanced way of life which we enjoy is chiefly dependent on oil and natural gas, which account for 75% of U.S. energy consumption.

The enormous economic development which the world has seen in the twentieth century and particularly since World War II, including the phenomenal German and Japanese economic resurgence, has been almost entirely based on the availability of unrestricted and inexpensive supplies of energy. For the most part development has relied on exponential growth in the supply of oil and natural gas, with oil by far predominant. It follows

therefore that a cutoff or deep reduction of oil and gas supply would result in the destruction or at least the crippling of the world's advanced free-market economies within a relatively short span of time. In 1973-1974 we had a very brief and very small example of what an oil shortage can do. There is now, I believe, a general awareness of the fragile nature of the world's economic balance and its critical dependence on oil. That awareness gives added credence to the potential for political, economic or military pressure on oil dependent nations by those who have, or are perceived to have, the ability to halt or at least substantially reduce the global distribution of oil. Steps which reduce this dependence -- conservation and enhanced efficiency of use, substitution of coal for oil and gas, and development of new, renewable energy resources, are therefore vital. We in the United States are fortunate to have the technology and resource base needed for those measures which can substantially reduce our dependence on distant and insecure oil sources, if we take the necessary steps in accordance with the President's program. In the foreseeable future, our European and Japanese allies do not have such favorable prospects.

The threat to national security, the economy and our way of life which arises from the energy crisis is not yet fully recognized by all. Some refuse to accept the fact that the energy crisis is real, and that its solution will require the development of a national policy and purpose commanding the dedication of the nation, its resources and its people over many years. Ultimately, the only alternative is disaster.

We are all familiar with the continuing risk of oil supply interruptions and upward pressures on prices from politically motivated embargoes such as we experienced four years ago. Much less attention has been given to the potential for a much more serious interruption of oil supply by hostile forces in time of war. In the event of some future confrontation the Soviet Union might be able to restrict access of the Western world to its essential oil supplies to a degree of severity and duration greater than any embargo by the oil producers. The USSR might attempt to deny access to the oil of the Persian Gulf by direct attack on the facilities of the major oil loading ports which lie near to Soviet territory. Simultaneous action to interdict on the high seas tanker movement of oil from other exporting nations could vastly exacerbate the oil supply situation for the U.S. and its Allies.

The military, political and economic risks of oil interruption are very real, and are steadily increasing as dependence on imported oil continues to grow. We must do what we can to mitigate those risks during the years which must pass before the U.S. can again develop an acceptable degree of energy self-sufficiency. The potential adverse impacts on national security can and must be eased by adoption of the President's energy proposals, particularly those concerning the reduction of oil import dependence through energy conservation, the encouragement of domestic oil and gas production, substitution of coal and nuclear energy for oil and gas used in electricity generation and heating, and the development of a billion barrel strategic petroleum reserve as insurance against periods of supply interruption.

We recognize that the world oil crisis will affect the communist nations as well as those of the free world. The CIA has concluded that the Soviet Union will be forced to begin oil imports to meet its growing energy needs within the next five or six years. We might take some solace from the fact that in the event of some future confrontation the Soviet Union may also be vulnerable to interdiction of its foreign oil supply. At the same time, we should recognize that a Soviet Union itself dependent on imported oil is not an unmixed blessing. An earlier than anticipated arrival of the Soviets as competitors for the available world oil supply will serve only to bring closer the day when that supply will no longer be able to accommodate the world's seemingly insatiable appetite for oil. Further, in the general bidding for an inadequate supply, the presence of yet another large and powerful competitor, geographically proximate to most of the world's oil reserves, could have a destabilizing effect on what might then be a deteriorating world order.

There is a third and greater energy threat to the nation which has until recently received all too little popular attention, but which, as the President has said, should be the foremost consideration in development of national energy policy. This third threat is neither military nor political. It is, quite simply, resource depletion. A finite world supply of oil and gas will soon repeat the cycle so long evident in the United States. Growth in producible reserves will slow, halt and then go into decline as the remaining undiscovered resources grow smaller and the rate of discovery

diminishes in the face of steadily increasing demand. The annual expansion in worldwide production which has been the foundation of twentiety century world economic growth will level off and begin to decline.

Arguments that much greater hydrocarbon reserves remain to be discovered miss the point. An exponentially growing consumption rate assures that even if so, they too will be quickly consumed. There is every indication that these turning points in the world oil supply loom in the very near future. The time remaining to us to rectify the situation is very short. If the United States and the rest of the developed and developing world do not soon move strongly to reduce oil demand and increase supplies of energy from alternate sources, economic growth too will cease and the free-world economy will go into long-term stagnation and decline. The consequences for free world security are all too apparent.

The 1973 oil embargo and the world recession which it helped induce, arrested and indeed rolled back the growth in oil consumption for a brief two years. The free world was thus given more time to get its energy house in order - not by its own endeavors, but by the actions of the oil exporting nations. The pause was short. Driven by a 6.9% increase in United States oil consumption, world crude oil production again rose sharply in 1976 to an all time high of 57 million barrels per day. United States domestic demand, at 17.4 million barrels per day almost equalled the consumption rate prevailing just before the embargo. Renewed economic growth here and abroad raises the probability that demand growth will again rise exponentially at near pre-embargo levels unless conservation efforts

are maximized and shifts of energy demand to alternate fuels can be effected in accordance with the President's program.

Inevitably U.S. and allied needs for hydrocarbon imports constrain our foreign policy and create potential risks of confrontation and military conflict. DoD interest focuses primarily on maintaining the United States defense posture by avoiding disruptions or the threat of disruptions of energy supplies to the Armed Services and the industrial mobilization base. In the broader context of United States national security, DoD also wishes to avoid any policy which would adversely impact on United States Allies and thereby indirectly weaken the United States. Furthermore, the Department of Defense is crucially aware of the prospect for the depletion of world liquid petroleum reserves and the need to begin now to conserve energy resources.

We in Defense believe that:

- The United States needs to minimize its dependence on Persian Gulf oil and develop alternative sources of supply preferably in the Western Hemisphere.

- The United States should secure a billion barrel petroleum stockpile as quickly as possible.

- The United States should develop alternative supplies of energy, both conventional and non-conventional to reduce demand on a depleting world oil resource base.

I believe there is comparatively little time for the United States to respond to the President's call and move towards reducing its dependence

on imported oil. Failure to do so will impose increasing risks to our national security in the next few years and lead inexorably to the collapse of the world oil supply/demand balance in the next decade. Should that occur the effects on security and economic viability of this nation and the free world will be catastrophic.

STATEMENT OF BROCK ADAMS, SECRETARY OF TRANSPORTATION, BEFORE THE HOUSE WAYS AND MEANS COMMITTEE, REGARDING THE PRESIDENT'S ENERGY PROGRAM, TUESDAY, MAY 17, 1977.

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before this Committee to discuss the tax proposals in the President's Energy Plan. I would like to focus my discussion today on those tax proposals directly relating to transportation. However, before I address the details of those proposals I would like to comment briefly on the content of the total Energy Plan becuase it is from this broader perspective that the proposed taxes which affect transportation can be most effectively evaluated.

The reality of the energy crisis can no longer be denied. We must act quickly and firmly to reduce our dependence on foreign oil and to limit supply disruptions. Now is the time to plan and implement our strategies for weathering the eventual decline in the availability of world oil supplies.

The President's Energy Plan provides a comprehensive means for the achievement of these objectives. The Plan proposes the implementation of a national conservation program for all sectors of energy use in order to reduce the annual growth rate of energy demand to less than 2 percent. The Plan encourages domestic

production of existing oil and natural gas resources by proposing a realistic pricing policy that reflects the true replacement cost of energy. The Plan calls for the conversion by industries and utilities of old and new boiler systems using oil and natural gas to coal and other abundant fuels. The Energy Plan provides for a vigorous research and development program to provide renewable and essentially inexhaustible resources to meet long term energy needs.

As the President has stated, his Energy Plan demands that we make sacrifices and changes in our daily lives. These sacrifices and inconveniences will be painful, but I believe the American people will make the necessary sacrifices. Having faced the reality of the energy crisis, I believe they will give their support to the President's Plan which is unquestionably fair and which will result in the protection of jobs, the environment, and our basic standard of living for ourselves and for future generations.

I would like to turn now to those elements of the Energy Plan that concern tax proposals directly related to transportation. Those proposals will require some of the difficult sacrifices referred to by the President but are necessary to achieve the objectives of the Energy Plan.

The need for energy conservation measures in the transportation sector is illustrated by the amount of energy consumed by the transportation modes. Transportation consumes 26 percent of the energy used in the United States and approximately 53 percent of all U.S. consumption of petroleum based fuels. In terms of decreasing our dependence on foreign sources and looking ahead to a time when petroleum will no longer be available to us, it is this letter percentage which is of critical importance. Faced with these alarming figures the President has set, as one of the national goals of his Energy Plan, the reduction of gasoline consumption by 10 percent in 1985.

As you know, the Congress in 1975 enacted the Automotive Fuel Economy Program requiring that the average mileage of new cars be 20 miles per gallon by 1980, and 27.5 miles per gallon by 1985. This is in comparison to the 14 miles per gallon average for the 1974 model year.

To supplement the efforts we are making under the Fuel Economy Program, the President has proposed, and I strongly support, a graduated excise tax on new cars with fuel efficiency below the flat average levels required under the Fuel Economy Program. Graduated rebates would be given for new cars with mileage better than the standard. The tax schedule would be fixed

by statute, and taxes would begin in model year 1978, increase each year through 1985, and remain constant thereafter. The rebate schedule will be adjusted by the IRS each year in advance, so that total estimated rebate payments will not exceed the estimated tax receipts.

From the perspective of energy efficiency, a major problem with American cars is their weight and power. I believe that the mandatory fuel economy standards, together with the gas guzzler tax and rebate system, will effectively stimulate better designs, and other improvements that will make American cars considerably more fuel efficient.

The tax on fuel inefficient cars will not reach old cars and it will not directly influence the number of miles driven. Thus, in order to meet the goal of a 10 percent reduction in gasoline consumption by 1985, the President has proposed, with my full support, a program to establish annual targets for gasoline consumption, backed by a standby tax on gasoline. If gasoline consumption nationwide in 1978 exceeds the target set for 1978 by one percent or more, a 5 cents per gallon tax will be imposed in January, 1979. In any subsequent year, the tax will amount to 5 cents per gallon for each percent that consumption in the prior year exceeded the

target, except that the tax could not be increased or reduced more than 5 cents per year. The tax will rise, remain the same, or fall, depending on the prior year's record. The cumulative amount of taxes applicable in any one year may not exceed 50 cents per gallon.

I believe that this proposal will reduce gasoline consumption by encouraging the use of more fuel efficient cars, compliance with the 55-mile per hour speed limit, more efficient driving habits, and more frequent vehicle maintenance. It will discourage the unnecessary use of the automobile and encourage the increased use of car and van pools.

The President's Energy Plan also proposes that the existing excise tax preferences for general aviation and motorboat fuel be eliminated. This change would not affect commercial airlines or commercial fishermen. The tax on aviation fuel would increase from 7 to 11 cents a gallon. The current 2 cent rebate for motorboat fuel would be terminated and the revenues would be transferred to the Land and Water Conservation Fund. I believe that it is appropriate that these elements of our transportation system share the burdens of the overall fuel conservation measures.

Finally, the President's Energy Plan would remove the present 10 percent excise tax on intercity buses. I support this proposal

since it would encourage expansion in the use of intercity buses, which like the railroads, are a fuel-efficient form of transportation.

In this connection I would like to emphasize the Administration's commitment to the continued improvement of mass transportation. Well designed mass transportation systems will further encourage fuel conservation by providing a fuel efficient alternative to the automobile.

In closing I would like to acknowledge again that some of these tax proposals will require sacrifices and changes on the part of the consumers of the affected modes of transportation. As Secretary of Transportation, I support these proposals despite these consequences because I believe that they are a necessary part of a comprehensive, fair, and effective Energy Plan that must be implemented. By making adjustments in energy conservation now the U.S. can avoid a possibly severe economic recession in the 1980's. I believe that the conservation program in general, and specifically with respect to transportation, is moderate in scope and has been designed to take effect in a rational and orderly manner over a period of years. If we fail to take these measures now, and conservation is delayed until world oil production approaches its capacity limitation, then a more stringent conservation program would have to be implemented. Such a program would very likely

disrupt the flow of goods and services and reduce our standard of living.

This concludes my prepared statement and I would be happy to answer any questions that members of the Committee may have.

Statement of Cecil D. Andrus
Secretary of the Interior
before Hearings of

Committee on Ways and Means
U.S. House of Representatives
May 17, 1977

Mr. Chairman and members of the Committee:

My experience in tax matters is limited to the legislative and executive arena at the state level. So I appear before you today, not as an expert in matters of taxation, but as the Secretary of the Department that will play a major role in President Carter's energy plan.

The most important contribution I can make to your study is to emphasize that the tax program is an integral part of a comprehensive energy plan.

I believe that most members of this committee will agree that we must have integrated programs — in other words, a total policy — if we are to resolve both our short and long term energy problems.

The piecemeal approach of coping with the energy crisis will not work.

If one portion of the plan is deleted or altered drastically, then other portions of the plan will have to be changed drastically, or the plan will fail. Quite frankly, I don't know how we can make the rest of the plan work if we don't achieve our conservation goals — and for this we need the proper tax program.

In the past, we as a Nation have concentrated on increasing energy production.

Our solution was simple — if people want more oil and gas, we produce more. We could do that in an earlier era when the ratio of people to undeveloped resources was much different than it is today.

But today we know that the answer does not lie totally with increased production. Yes, we probably do have the resources to produce as much energy as the current generation of Americans could possibly burn and waste with unrestrained demand. But the cost would be tremendous-- it would mean, among other consequences --destroying the quality of life. It would mean degradation of air quality, pollution of rivers and oceans, destruction of prime agricultural land, desecration of scenic beauty, eradication of many lifeforms. It could also mean that we would sentence future generations-- quite literally -- to a living hell. We might well leave them a world not worth living in.

President Carter's plan includes programs which the Department of the Interior will administer to extract from the public lands and outer continental shelf as much energy as can be produced without undue environmental consequences.

All of you are aware that President Carter's plan includes the organization of a new Department of Energy to be headed by Dr. James Schlesinger. This new department will bring together in one structure the various agencies that now deal with the energy picture, and will permit the Federal Government to get a firmer grip on the problems and to provide solutions.

Some programs now under my Department will go into the new Department of Energy. Dr. Schlesinger and I have worked well together over the past several months on ways to implement this change to make the transition as efficient as possible.

I give this Committee my full assurance that I will cooperate with Dr. Schlesinger and do my utmost to assure maximum energy production from Federal lands, consistent with environmentally sound development.

But neither the Federal lands, nor the OCS, nor the private lands — not all them together — can provide enough energy to meet recent rates of growth in energy demand.

Without the proper tax incentives, and other conservation provisions in the President's plan, growth of demand for imported oil will continue to rise. And I know that members of this committee are much better versed than I concerning the consequences of tens of billions of dollars in expenditures for imported oil

I do know that as Governor of Idaho, I went over to Iran to try to promote the sale of our goods so we could get some of those petro-dollars back. But we hardly made a dent in the fortune Americans paid that country for oil.

President Carter's program starts this Nation on the road toward solving the energy crisis by reducing the rate of growth in our energy use and by greater use of our own energy resources, principally coal.

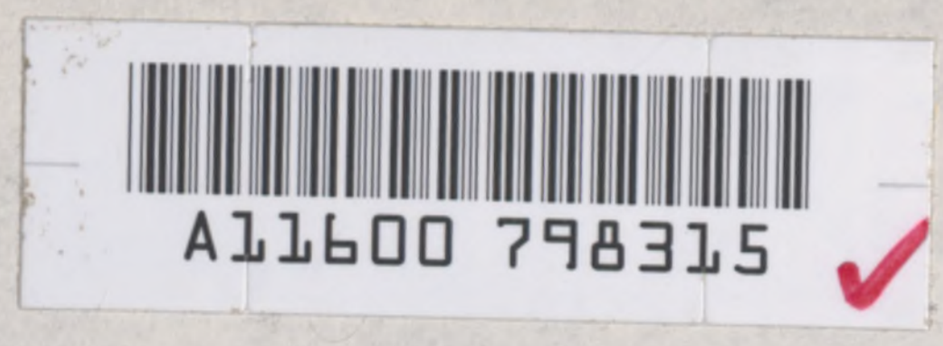
In addition to helping with our balance of payments, a slower rate of energy use growth in this country would exert a strong and positive impact on environmental and other problems. Production of energy has an adverse impact on the environment, and reduced energy demand means reduced environmental costs.

Mr. Chairman, it would appear to me that this program would provide the Congress and the Administration the proper means for directing the national energy policy. The cost of administration is low in comparison to a system of regulations, and it provides a minimum of government intervention in the private sector.

Mr. Chairman, I believe that conservation is the key to achieving a rational energy policy. Without conservation, the future is bleak. The President's plan — including the tax provisions — is essential to a healthy future for our country.

###

○


A11600 798315