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Congressional Record S. 1891 - Jackson's Remarks on Oil Roll Back - Energy Crisis

Mike Mansfield 1903-2001

Mr. JACKSON. I yield myself such time as I may require.

Mr. President, the administration's failure to impose ceilings on crude oil prices is incomprehensible for a wide variety of reasons.

First, it is costing consumers $20 million a day, $7.7 billion a year, in overcharges.

Second, it is bad economic policy. Uncontrolled oil prices at artificially high, cartel-set levels feed inflation.

Third, the administration's decision to deregulate one-third of all domestic crude oil is illegal. Section 4 of the Emergency Petroleum Allocation Act requires that all crude oil be under price controls.

Today the Senate will have a chance to reverse this policy that overcharges consumers, that benefits only the oil industry, and which violates a law Congress adopted only 4 months ago.

Mr. President, if firm and decisive action is not taken to roll prices back to reasonable levels, this unconscionable overcharge will cost American consumers $7.7 billion over the next year. This is $35 for every man, woman, and child in the country. For the average family, this will mean an additional $140 to $200 a year increase in their fuel bill for gasoline, heating oil, and propane. This increase is over and above, and in addition to, the major increases in fuel prices which were experienced late last year.

Current domestic price levels for unregulated crude oil of $10 per barrel and up are totally artificial prices. These prices are not determined by the forces of competition. These prices are rigged. They are being dictated by an international cartel of Arab nations. These are the same nations that imposed the oil embargo against the United States in retaliation for our aid to Israel.

Respected oil analysts on Wall Street and elsewhere say that these price levels will not buy increased supply. The real constraint on supply today is not price. At $5.25 a barrel, there is plenty of incentive to bring in new supply. This is 32 percent higher than the price of crude oil last May, less than a year ago. The constraints today are shortages: shortages of trained manpower, tubular goods, drilling rigs, and practically every other material a high technology industry needs.

The unregulated and artificially high price of domestic crude oil is counterproductive. It is retarding exploration for and development of new oil discoveries. Instead of encouraging the development of new wildcat acreage, the present price structure does the opposite. It encourages the drilling of new wells on old reservoirs that are already in production.

These new wells divert scarce drilling rigs, pipe, other equipment, and manpower away from new exploration for the sole purpose of taking advantage of major loopholes in the price system. These loopholes enable the unscrupulous to take advantage, to double the value of their "old" oil—their presently producing fields—by simply drilling and pumping the oil through new wells.

Pursuit of this loophole enriches owners of producing fields. It does not produce more oil. There is no requirement under the administration's program that 1 cent of this windfall be put back into the ground to develop new supplies. And the facts are that precious little is being put back into the ground.

Mr. President, over the past year, average crude oil prices have doubled. They have gone from $3.40 per barrel in January 1973, to $6.75 in January 1974. And while domestic crude oil prices have doubled, domestic production has remained constant. A doubling of prices has failed to elicit any new supply. In January 1973, total domestic production was 10,859,000 barrels per day. In January 1974, total production stood at 10,893,000 barrels—an increase of only 34,000 barrels.

This is what the American consumer is getting in the way of new supply at a cost of $20 million a day.

Mr. President, the present system is the worst possible of all price systems, from the standpoint of developing new energy sources.

It is common knowledge in the oil industry and elsewhere that today's unregulated prices are artificial and unstable, and that they do not provide benchmarks for long-term investment decisions. Instead, they provide only a short-term opportunity for taking windfall profits and investing these profits elsewhere, where there is more stability—in land development, in circuses, in the stock market, and in Government bonds.

Why is there wide recognition on Wall Street and in the industry that these prices will not hold up for long?

First, the administration's exemption of three of the major categories of crude oil from price controls is illegal. It is in direct contravention of the provisions of the Emergency Petroleum Allocation Act, which became law on November 27, 1973. It is only a matter of time until litigation is initiated to require the administration to comply with the law.

Second, as noted above, these artificial cartel price levels serve no economic purpose. They are, in fact, counterproductive. They reduce longer term supply. They compel cynical and foolish distortions in the allocation of capital, material, and labor.

Third, the Congress at some point will act to protect the public by rolling these prices back by legislative action.

Mr. Simon, the FEO Administrator recognizes that present price levels are unreasonable. Reports in the national press and in trade journals contend that within the administration he has advocated a price rollback but has been turned down by Roy Ash, Herbert Stein, and the White House palace guard.

The trade associations for the oil companies' own studies and data recognize that current deregulated prices are $3 to $5 per barrel above long-term price levels required to achieve domestic self-sufficiency and to bring in alternate sources of energy such as oil shale, coal liquefaction and gasification, and geothermal resources.

The Federal Government's studies also conclude that there is no justification for average oil prices of $10 per barrel.

The FEO says:

> The long-term supply price . . . is $7 per barrel. . . . (January 1974.)

The Department of the Treasury says:

> Our best estimate is that it would be in the neighborhood of $7 per barrel *within the next few years.* (December 1973.)

The Independent Petroleum Association of America says that—

> . . . an average price of about $6.65 per barrel for crude oil would be required in the long run to achieve 85% self-sufficiency . . . by 1980. (1973 projections.)

The National Petroleum Council says that—

> For maximum attainable self-sufficiency by 1980 a price of $4.05 would give a 10 percent rate of return, while a price of $5.74 per barrel would give a 20 percent rate of return. (December 1973.)

Mr. President, it is ludicrous for the administration to be asking Canada, Venezuela, Iran, the Arab nations, and other producing countries to lower the prices of their oil—something we have no control over—when the administration refuses to limit domestic oil prices—something we do have control over.

The producing nations' best argument for maintaining artificially high prices for their oil is that their prices are about equal to the price of uncontrolled U.S. crude oil. Why, they ask, should they sell to us for less than we allow domestic producers to charge? That is exactly what the Canadians told us to our faces a few days ago when we asked them to cut back their prices.

This administration is still committed to the 19th century notion that the way to deal with the energy shortage is to limit demand by raising consumer prices.

The White House either does not know or does not care that this foolish and intellectually indefensible policy has cruel and disastrous consequences for the poor and the middle class. It is a stupid policy because it is counterproductive to the national interest. It is an unfair policy because it enables the affluent to buy their way out and, at the same time, it gives the oil companies billions of dollars in unearned profits.

The only relief in sight for the consuming public is congressional action on the conference report on the Energy Emergency Act.

The price rollback provisions of the report will bring uncontrolled oil—new oil, released oil, State royalty oil, and stripper well oil—under a reasonable system of price ceilings. At present, these four categories of oil constitute 29 percent of our domestic supply and are selling at an average price of about $10 per barrel—2½ times the level of less than a year ago. By the end of the year if Congress fails to act, at least 44 percent of all domestic oil will be selling at world cartel prices.

Mr. President, the way to deal with the unreasonable windfall profits the major oil companies are receiving is for the Congress to roll back unreasonable prices.

Today the Senate has that opportunity.

The debate over the price rollback provisions of the bill should not be allowed to obscure the fact that other provisions are of critical importance in dealing with the shortage, spiraling prices, growing inflation, and the confusion and near panic facing the country.

These provisions include:

UNEMPLOYMENT ASSISTANCE BENEFITS

The bill provides authority for $500 million in grants-in-aid to the States to provide minimum of 6 months' additional unemployment compensation benefits to individuals left jobless as a result of the energy shortage. This assistance will enable the 249,000 working men and women who are unemployed as a direct result of the shortage to meet essential food and housing needs. It will also provide assistance for many of the additional 2 million working people that economist Walter Heller predicts will be added to the unemployment rolls this year.

NEW LEGAL PROTECTION FOR SERVICE STATION DEALERS

The bill provides valuable new legal rights and judicial remedies designed to prevent arbitrary and unreasonable actions by large oil companies against service station dealers. This provision assures fair dealing, due process and, where necessary, guarantees that dealers will have a day in court to protect their interests. This provision will slow and halt the arbitrary lease and franchise cancellations which have shut down thousands of stations across the country.

MANDATORY DISCLOSURE OF OIL INDUSTRY DATA

The bill requires, for the first time, the mandatory disclosure by the oil industry of reliable data and information on reserves, production levels, refinery runs, stock levels, imports, prices, and other information essential to understanding and dealing with the energy shortage. Information furnished under the bill is to be made available to the Administrator, the Congress, the States, and the public. This new authority will bring to an end the comedy of errors and the confusion of the present voluntary reporting systems. Present systems find the oil industry and the Federal Government hundreds of thousands, and sometimes millions of barrels, apart on the volume of oil imports and other vital categories of information.

STRINGENT ANTITRUST SAFEGUARDS

The bill contains mandatory standards and procedures designed to insure that agreements among and common courses of action by the oil companies to deal with the shortages do not result in permanent violations of the letter and spirit of the antitrust laws. In recent years, the oil industry has experienced a whole series of major adjustments and market realinements which pose serious threats to competition. Under shortage conditions these threats can become reality as the big companies grow stronger and more profitable and the small companies grow weaker, more dependent and more vulnerable. This provision of the Energy Emergency Act will insure that this does not happen.

AUTHORITY FOR REGULAR GAS STATION OPERATING HOURS, ENERGY CONSERVATION, PLANS, AND GASOLINE RATIONING

The bill provides the basic legal authority for a wide range of actions designed to conserve scarce energy resources in a manner that is fair to all classes of consumers and all regions of the country. These actions must be proposed in specific terms and are subject to Congressional review and veto. One of the most important actions contemplated is a program to provide the American people with certainty and regularity as to service station hours.

The bill also provides authority for the establishment of a national, stand-by gasoline rationing program. Implementation of rationing may prove inevitable in the months ahead if shortages persist and if other State and Federal programs do not serve to bring some sense of order to the chaotic situation which exists in many regions of the country.

ADDITIONAL AUTHORITY

Other major provisions of the bill which are vital to effectively dealing with shortages include statutory authority for:

Allocation of fuels and essential materials to those engaged in developing new energy supplies;

Convention of stationary powerplants from oil and natural gas to coal in a manner consistent with the goals of the Clean Air Act;

Accelerated domestic oil production;

Insuring that all emergency actions are taken in an equitable manner which prevents arbitrary and unreasonable action;

Restricting exports of needed fuels;

Increasing the use of carpools;

Grants-in-aid to assist State and local governments;

Low-interest loans to home owners and small businesses to assist in improvement projects which are designed to conserve energy.

Mr. President, the Nation is looking to Congress for leadership and action. We are in a national emergency, make no mistake about it. The Gallup poll shows Congress at its lowest level in history so far as its standing with the American people is concerned. We are now confronted with a grave emergency.

If this Congress sends this conference report back to conference so that it is there for a third time, I know what the American people are going to say. They are going to say that Congress cannot deal with a national emergency, and they will be right in saying so. Every provision in this bill relates to things happening to people each and every day. To say, "Leave things alone and everything will be fine," provides no answer; that is what is going on now. Prices are going up and the supplies available to meet the needs are going down. We are having fist fights in gas stations and we will soon have riots in the streets unless we pass this emergency legislation.

Mr. President, I ask unanimous consent that a telegram from Mr. Leonard Woodcock, the president of the United Auto Workers, be printed in the RECORD.

There being no objection, the telegram was ordered to be printed in the RECORD, as follows:

FEBRUARY 18, 1974.

Hon. HENRY M. JACKSON,
Chairman, Senate Interior Committee,
Washington, D.C.:

UAW strongly supports unemployment compensation provisions of the emergency energy conference report and urges Congress to enact S. 2589. With unemployment rising at frightening rates, especially in the automobile industry, the type of assistance for workingmen and women proposed in S. 2589 is desperately needed. We urge most strongly an affirmative vote on the conference report when it comes to a vote on Tuesday of this week.

LEONARD WOODCOCK,
UAW International Union.