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30. <u>Miscellaneous -- Strategic Petroleum Reserve</u>

Q. Would you continue the Strategic Petroleum Reserve Project?

A. I favor the continuation of the Strategic Petroleum Reserve Project. Such a reserve could serve as a deterrent to foreign oil supply interruptions, and as a domestic buffer for those which do occur.

However, the Department of Energy's current reserve program suffers from severe mismanagement, as I have indicated. This is a disgrace. As President, I would provide careful supervision of the program to ensure that it is put back on track.

Most important, we must remember that unless we increase domestic oil production, storing extra oil will only raise prices and hasten short supplies <u>now</u>, in order to avoid them in the future. Thus, our prime objective must be increased domestic production.

Draft National Energy Policy Speech
SAMPLE QUESTIONS AND MODEL ANSWERS
Prepared by: Kevin Hopkins
Policy Development - National Headquarters
January 7, 1980

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1. <u>Decontrol -- Prices to the Consumer</u>

Q. Since decontrol raises prices at the wellhead to the world price, how can you contend that it will not raise prices to the consumer?

A. As I noted, consumers already pay the world price for refined oil products such as gasoline and heating oil. As it is now, refiners who purchase price-controlled crude oil receive a subsidy, because they can "buy low and sell high." That is, they can buy oil at an artificially cheap price, but then sell it as refined products at the world price.

Decontrol will eliminate this subsidy, so that all refiners will have to pay the world price for the crude they use. But since refined products are traded relatively freely throughout the world, any attempt by U. S. refiners to raise the price of their products above the world price likely would bring into the U. S. an influx of cheaper foreign refined products, forcing U. S. refiners to return to the world price.

Thus, U. S. refiners would have to absorb the increased costs of crude, and could not pass them on to U. S. consumers. Hence, decontrol would not raise consumer prices.

2. Decontrol -- Inflation

Q. If decontrol does raise prices, won't that run counter to your goal of curbing inflation?

A. First, there is no consensus that decontrol would raise consumer prices; as I noted, most likely it won't. In fact, because decontrol will reduce our need for oil imports, it would tend to stabilize prices, rather than increase them.

Besides, high prices do not cause inflation; they are a result of inflation. Inflation stems primarily from the money supply growing faster than the economy's productivity. Decontrol has nothing at all to do with this.

3. <u>Decontrol -- Reimposition of Controls</u>

Q. If decontrol raises prices but does not significantly increase supplies, would you support a reimposition of price controls?

A. No. Whatever the supply situation is under decontrol, it would be much worse <u>with</u> price controls. But if the Energy Antitrust Unit were to find evidence of monopolistic practices by the oil companies which were thwarting the effect of price decontrol, then I would pursue action vigorously to eliminate these practices.

4. Decontrol -- New Oil

Q. Why not decontrol just new oil?

A. Costs of producing old oil are going up, too. Price controls on old oil thus may prevent much of that oil from being pumped out once it is discovered.

But more important, having price controls on old oil and not on new oil drives a wedge between the two. If the profit margin on new oil were greater than for old oil, many of the oil companies would invest in and produce new oil regardless of the cost of producing old oil. The problem is, much of that new production may well come from overseas. So price controls on just old oil still would encourage foreign oil production at the expense of domestic old oil production.

5. <u>Windfall Profits Tax -- Tax on Consumer</u>

Q. You call the windfall profits tax a tax on the consumer. Yet even without the tax, won't the consumers be paying the same price? And at least with the tax, is it not true that the consumers, through their elected representatives, get to spend the money, whereas they have no voice in oil company spending decisions?

A. The windfall profits tax is a tax on consumers because it deprives the U. S. of as many as one million barrels or more of oil each day -- oil that would be produced here if there were no tax. Reducing domestic production will increase our demand for foreign imports, thereby driving up OPEC's oil prices. The extra money consumers have to pay would not go to reinvestment and increased domestic production, but only to the OPEC and U. S. government treasuries. That, by any reasonable definition, is a tax. It's just hidden, that's all.

But more important, the question presupposes that government is better able to spend the fruits of private risk-taking than is the risk-taker. That logic could be applied to any industry. The price to the consumer would be the same regardless of whether a private firm kept its profit, or the government taxed the profit away. The difference is, in the latter case, the next time around there would be no firm to tax. While the government may have the right to impose a reasonable tax on a firm's profit, it has no more right to expropriate that profit, which is a result of risk-taking investment, than it would have to expropriate the interest from personal savings accounts.

6. Windfall Profits Tax -- Phaseout

Q. The Senate windfall profits tax bill provides for a phaseout of the windfall profits tax. Isn't that sufficient to allay your fears that the tax would be made permanent?

A. Hardly. Let me remind you first that the Federal Energy Office was originally created as a temporary agency, and now, seven years later, it has grown into the $11-billion, 20,000-employee Department of Energy. There is no assurance that even a tax specifically designed to be temporary would ever be eliminated, especially when Congress finds out how magical a "money machine" it would be.

In fact, the Senate bill's provision for phaseout provides little assurance that the tax would be eliminated. The bill says the tax will be phased out when net receipts reach 90 per cent of their projected levels. If the tax severely impedes domestic production -- and there is every likelihood that it would -- then the tax may not raise the expected revenue until well beyond the expected 1990, if then. All the while, the production disincentives of the windfall profits tax would continue unabated.

7. Windfall Profits Tax -- Return to People

Q. The Senate windfall profits tax bill provides various types of tax credits, and establishes a Taxpayer Trust Fund and a Trust Fund for rebates to the poor? Isn't this returning the money to the people?

A. No, it is not. Many of the tax credits are of such limited application -- the one for wood stoves comes to mind -- that they will benefit only those few with houses having easily convertible heating systems, or those wealthy enough to pay for the cost of conversion not covered by the credit. Even the Congressional Budget Office says the credits will benefit mainly the middle- and upper-income households, so certainly a large segment of the population would be excluded.[1]

The Low Income Assistance Trust Fund is just a grab bag for doling out tax money at the whim of the Congress. And the so-called Taxpayer Trust Fund is specifically to be held in reserve for when the the government needs extra revenue for supposedly tax relief schemes that are often politically motivated.

Besides, all these programs will suffer from the federal government's extracting its administrative expenses first, which could reduce dramatically the amount actually returned.

How much better to return <u>all</u> of any tax windfall resulting from decontrol or higher world prices, <u>directly</u> back to all the people in the form of tax rate reductions and increased assistance payments.

1. CONGRESSIONAL BUDGET OFFICE, THE WINDFALL PROFITS TAX: A COMPARATIVE ANALYSIS OF TWO BILLS, November 1979, pp. 60-61.

8. <u>Windfall Profits Tax -- Department Stores</u>

Q. How can you ensure that oil companies will not just spend their windfall buying department stores?

A. Oil companies have historically reinvested about 93 per cent of their earnings in petroleum-related areas.[1] There is no reason to expect that percentage to fall under decontrol. In fact, since decontrol increases the profitability of producing oil, it is likely that oil companies would reinvest even more of their profit in exploration and development.

1. Rep. Dan Marriott, Weekly Column, July 2, 1979, p. 2.

9. Windfall Profits Tax -- Exemption for Independents

Q. Would you support a windfall profits tax if it included an exemption for the independents?

A. No, I would not. Once the tax were approved, it would likely become a permanent part of the tax system. When a future Congress is strapped for revenue, one of the easiest -- and least politically offensive -- actions it could take would be to close the exemption for the independents -- by then it will be called a "tax loophole" -- and keep it closed. The independents realize this, and may well keep production at the level they would operate if they already were subject to the tax. At the very least, they likely would not engage in any long-term drilling projects that might suffer heavily if the exemption were eventually closed.

Of course, even with the exemption, the windfall profits tax still would inhibit domestic production, it still would be a tax on the consumer, and it still would encourage foreign oil production. Remember, the big oil companies could escape the tax. All they would have to do is reduce drilling in the United States and increase their foreign operations. That is not going to help the U. S. energy shortage.

Finally, there's the exemption in the Senate bill for the first 1,000 barrels of oil per day produced by independents. As of now, this will cover most of the independents. In the future, though, their capacity to produce may well increase, but there would be a terribly strong incentive for them to limit the output of their wells to qualify for the exemption. And limiting domestic oil production is no way to solve the energy crisis either.

10. Windfall Profits Tax -- Plowback

Q. Would you support a windfall profits tax with a plowback provision?

A. No, I would not. Once the tax were approved, it likely would become a permanent part of the tax system. When a future Congress is strapped for revenue, one of the easiest -- and least politically offensive -- actions it could take would be to close the exemption for reinvestment in domestic production -- by then you'll hear it called a "tax loophole" -- and keep it closed. Thus, you would have a full-blown windfall profits tax, with all its disincentive effects.

With the plowback provision, however, the windfall profits tax may become even more slanted toward the big oil companies than it already would be without the provision. Of course, all the majors would have to do to avoid the tax is shift their investment overseas. If the big oil companies wanted to make non-oil investments, they could do so out of their foreign profits which would not be touched by the tax. Even domestically, they could easily alter their balance sheets: just reinvest all retained earnings in exploration -- they already reinvest 93 per cent anyway[1] -- and escape the tax, but use capital from their loan proceeds to make non-oil investments.

But the plowback actually could hurt the independents, since they depend on individual investors for most of their capital.[2] If investors see that they may be subject to the windfall profits tax if one year they decide not to reinvest their earnings in oil, they may well not invest in oil in the first place. A lot of the independents' sources of capital would dry up.

Finally, I don't like the idea of the federal government telling private companies where to invest their money. It sets a very dangerous precedent. If the government can tell the oil industry where to invest its money, then why not steel, or automobiles, or any other industry? Karl Marx would have loved that idea.

1. Rep. Dan Marriott, weekly column, July 2, 1979, p. 2.

2. Jude Wanniski (President, Polyconomics, Inc.), "Why Big Oil Is Caving In," WALL STREET JOURNAL, June 18, 1979.

11. Tax Policy -- Fuel Cost Aid

Q. Do you favor special aid packages to help the poor meet the high cost of energy?

A. Rising fuel bills are a burden on all Americans, especially the poor and the elderly. I support increases in current federal assistance payments to help these people meet their higher fuel costs. This can best be accomplished by raising the cost of living adjustments in current programs to reflect the significance of energy in recipients' overall cost of living.

As I noted, I will dedicate all increases in federal tax collections resulting from real per-unit increases in oil company revenues to helping alleviate the impact of higher fuel costs. One part of that return of money to the people involves just such increases in assistance payments.

12. <u>Tax Policy -- Return of Additional Taxes</u>

Q. Just what does your program to return taxes to the people involve and how long will you keep it in effect?

A. Oil company revenues over the next few years could increase for two reasons -- decontrol, which is unlikely to increase revenues, and increases in world oil prices, which probably will increase oil company revenues. On these increased revenues, the oil companies will pay increased federal taxes. After adjusting such tax collections for inflation, there will be an amount left over -- <u>how much</u> will depend on the inflation rate and the amount of increase in world oil prices -- which will represent a real increase in federal tax collections. This entire amount will be returned to the people through across-the-board tax rate reductions and proportional increases in assistance payments.

Oil company revenues, of course, may also increase because the oil industry produces more domestic oil. Additional tax collections from this source of revenue will not be counted except to the extent that oil prices increase faster than the inflation rate.

I would keep the tax return program in effect at least throughout my first term.

13. <u>Tax Policy -- Gasoline Tax</u>

Q. Just why do you oppose a 50¢ per gallon gasoline tax?

A. I believe that rapidly rising prices are one of the most devastating effects of the energy crisis. Yet the stated purpose of the gasoline tax is to raise those prices still further to force people to sacrifice even more. It does not make any sense for the government to mandate significantly higher prices <u>now</u> in order to achieve some theoretical price advantage a long time in the future.

Of course, people should conserve, and as I pointed out, they are doing just that. But there is widespread doubt among economists that higher taxes would substantially reduce consumption too much further -- certainly not enough to compensate for the economic loss to the poor and urban dwellers who have no choice but to drive, and to the economy as a whole. Europe has gasoline taxes ranging up to $1.50 and more, yet their oil use <u>increased</u> by 3% last year, while oil use in the U. S. <u>fell</u> by 8%. Granted, the Europeans start from a lower level of consumption, but they live on average closer to their work, have more developed mass transit systems, and a lower standard of living.

Finally, the gas tax would do nothing to increase domestic energy production, and thus would not help solve our long-term energy crisis. It would only institutionalize high gasoline prices, and provide the government with an unearned $50 billion per year tax windfall.

14. Tax Policy -- Other Conservation Credits

Q. If you support a tax credit for insulation, what about tax credits for heat pumps, coal furnaces, wood stoves, and the like?

A. Home insulation is a certain energy-saver because it reduces the absolute need for heat -- that is, for the output of an energy process. But the tax credits you mention -- those in the Senate windfall profits tax bill -- subsidize different energy-producing technologies -- that is, the input of the heating process. The absolute heat requirement for a house would be unchanged; it would just be produced by a different source. And I'm not convinced that these other input technologies would be that much more energy efficient.

Moreover, increasing insulation is something virtually every homeowner can do to improve his home's energy efficiency, so the tax credit is equitable. But only a limited number of people have homes which are easily converted from their current method of heating to, say, wood-burning stoves. The tax thus would be a subsidy to only those few fortunate enough to own such a house, or those wealthy enough to have the cash on hand to pay for that part of the heating-system overhaul not covered by the tax credit.

15. Tax Policy -- Production Credits

Q. Would you support production tax credits, such as for synthetic fuels?

A. No, I would not support production tax credits. As the two MIT professor point out, when the technology is ready, private producers will develop it, regardless of the existence of a federal program. And if the federal production credits artificially speed production before the technology is ready -- which is likely, given the purpose of the credits is to speed production beyond what the private companies at present consider is reasonable -- then you likely would face all the environmental problems I mentioned.

Besides, as I indicated, big oil companies would be doing most of the production of synthetic fuels, and so would be receiving most of the tax credits. I do not think it is fair for taxpayers to subsidize the big oil companies for things the oil companies already are doing with their own money. It is at best hypocritical for an administration that bleats so piously about the so-called windfall profits of the big oil companies to offer these same companies an outright federal subsidy.

16. Conservation -- Short-Term Solution

Q. You have ridiculed conservation, but some authorities, including the Harvard Energy Project -- contend that conservation is the only short-term policy that can forestall energy shortages. If you don't force conservation, what would you do?

A. First, let me note that I don't agree that conservation is the *only* short-term answer to energy shortages. For instance, as of May 1979, about a third of the oil wells in California were closed down because the Department of Energy could not calculate the proper gravity differential on which to base the oil price. But the independents in California say that more than three-fifths of the closed-down wells -- 15,000 out of the 23,000 that have been closed -- quickly could be redrilled or fixed if only DOE price regulations were eliminated.[1] So the market *can* respond quickly.

But with regard to conservation, let me emphasize that I am wholeheartedly in favor of conservation. I believe people should use energy wisely, and should not waste it. But the individual should be the one to make the choice, according to how and how much he can afford to cut back. There is no way mandatory government restraints on energy use, such as gasoline rationing, can possibly account for individual circumstances, such as the inner city worker who has to drive 50 miles a day to a suburban job. Mandatory federal restraints, by their very nature, will be arbitrary, and thus can be quite harmful.

Also, if markets are allowed to properly function, prices will adjust to supply and people will eliminate their least necessary uses of energy, according to _how they can best do so_. And people do conserve. As I said, gasoline demand rose half as fast from 1973 to 1976 -- after the significant gasoline price increases began -- as it had in the two previous decades.[2] And since 1974, industry has become 10 to 15 per cent more energy-efficient.[3]

Finally, as the Harvard Energy Project notes, some government policies actually inhibit conservation. Among those I mentioned were tax structures which discourage investment, the 1978 National Energy Act's ban on more utilities getting into the insulation business, and the complex rules which discourage industrial cogeneration. Eliminating or modifying some of these barriers also could speed conservation.

1. WALL STREET JOURNAL, May 16, 1979, p. 20.

2. Paul McCracken (former Chairman, Council of Economic Advisers), WALL STREET JOURNAL, May 16, 1977.

3. Unnamed DOE official quoted in WALL STREET JOURNAL, January 17, 1979.

17. Conservation -- Oil Cutoff

Q. If there is another oil cutoff, would you not need to allocate the scarce supplies?

A. No. If the price system is allowed to work, people would cut back their consumption to the extent they could, and would do so automatically as the price rose. It is better to have nearly adequate supplies at higher prices, than to have significantly insufficient supplies at a price almost equally as high. Yet this is what we saw last spring. Allocation controls prevented neither shortages nor higher prices. In fact, they were an important cause of the shortages.

But look at how well in contrast the price system would handle an oil cutoff. Take a particular example: the Arab oil embargo of 1967. This embargo did not get the headlines that the 1973 embargo received. One of the reasons was that the price of oil was free to rise. During the Arab-Israeli war, the Arabs embargoed Europe. Some oil destined for the U. S. was shifted to Europe in response to the higher price, and consequently the price in the U. S. rose. The result? The market cleared with a lower supply. No shortages, no lines.[1]

1. David Henderson (Assistant Professor of Economics, University of Rochester), "Government Intervention In Energy: Savior or Villain?" THE LIBERTARIAN REVIEW, July/August 1979, p. 19.

18. Competition -- Oil Industry

Q. Is the oil industry competitive?

A. My impression is that the industry is at least fairly competitive. But that's the purpose of the Special Energy Investigator--to determine how competitive the industry is, to determine which new laws, if any, are necessary, and to determine which federal rules impair competition. On the basis of the Investigator's work, I will be prepared as President to take swift and effective action to correct any anticompetitive rules or practices.

19. <u>Competition -- Too Much Profit</u>

Q. Are the big oil companies making too much profit?

A. Saying a company is reaping "excess profits" is equivalent to saying that a worker is making "excess wages" -- neither concept makes sense because there is no fixed standard for profits or wages. The fact is, of course, that the oil industry's profit margin on sales is not exceptional. In fact, for 1977, 1978, and the most recent quarter of 1979, oil's profits as a percentage of sales have been below the average for all manufacturing.[1]

The one instance when "excess profits" has any meaning at all is when these profits are earned through monopolistic or anticompetitive practices in violation of the antitrust laws. That's the purpose of the Special Energy Investigator-- to focus efforts to determine whether the major oil companies are violating the antitrust laws or whether new antitrust standards are required. If in either case the Special Energy Investigator's answer is affirmative, I will take swift and forceful action. It is crucial that energy markets be allowed to operate competitively.

1. "Embarrassment of Riches," TIME, November 5, 1979, p. 36.

20. <u>Competition -- More Agencies</u>

Q. You say that more agencies are no answer to the energy crisis, but isn't your Special Energy Investigator in effect just another agency?

A. No, especially not in the sense in which I have criticized the other energy agencies. The Special Energy Investigator is a special agent of the President commissioned, with appropriate staff, to investigate and advise. In this respect, he will serve as a catalyst to more effective competition policy as created and enforced by Congress, the Justice Department, and other executive branch agencies.

The Special Energy Investigator is not, however, another superstructure, rule-making agency like the Department of Energy, or an independent, grant-dispensing agency like the Energy Mobilization Board.

21. Competition -- Justice Department Failures

Q. Can you cite instances where the Justice Department has not been able to adequately prosecute energy antitrust cases, and where your Special Energy Investigator would be able to do a better job?

A. The point is, we do not at present have a continuing survey of energy industry structure, a specific mechanism to produce the facts about any potential monopolistic practices in the industry, or a means of systematically examining the anti-competitive effect of both energy and more general federal regulations as applied to the energy industry.

The Special Energy Investigator would serve three functions. First, while he would not prosecute cases -- that responsibility would remain with the Justice Department -- he would focus on potential violations from a more broad-based perspective, free of purely legalistic thinking, and thus could increase the effectiveness of the prosecutorial process. Second, he would be able to help increase competition in the energy industry by recommending necessary new competition laws and elimination of anti-competitive rules. Finally, he would help cut through the muddle and confusion to provide reliable data so the public would know what really is taking place in the energy industry.

22. Competition -- New Laws

Q. If current antitrust laws prove insufficient to preserve competition in the energy industry, would you support enactment of additional antitrust laws?

A. I will support new antitrust laws if I feel they are justified on the basis of evidence produced by the Special Energy Investigator. In fact, one of the special strengths of the Investigator is that he will provide an ongoing investigation of the energy industry's structure, so that we will be rapidly notified of the emergence of any monopolistic practices. We can more easily correct these problems -- either administratively or legislatively -- if we do so early, rather than if we allow them to fester.

23. <u>Competition -- Merger Ban</u>

Q. Do you support Sen. Kennedy's measure to ban oil company acquisitions of firms with assets over $100 million?

A. No, I don't. The $100 million figure is purely arbitrary, and that's a very poor way to make policy. If bans on mergers are undertaken, they must be done so on a specific finding of fact that such mergers truly have monopolistic effects. The purpose of the Special Energy Investigator would be to determine just those facts.

24. Competition -- Divestiture

Q. Would you break up the big oil companies, or divest them of non-oil holdings?

A. I can't rule either action in or out. The important factor is that neither action -- nor any similar one -- be undertaken arbitrarily and without the support of facts. That's the purpose of the Special Energy Investigator -- to secure the facts upon which to base a fair and reasoned decision in these matters.

25. Foreign Oil -- Import Quotas

Q. If you oppose foreign oil imports, then why would you not support the Carter administration's oil import quota?

A. The oil import quota is, in effect, just another form of mandatory conservation. What we have now is a government bleating about the admittedly damaging consequences of energy shortages, and then threatening to actually aggravate the shortage by refusing to let Americans purchase the necessary foreign oil. In fact, as long as price controls remain on domestic oil, the shortage would worsen, since oil import quotas would do absolutely nothing to spur domestic production.

But if you have the Carter "decontrol" plan, then by 1985, according to a Library of Congress study,[1] the oil import quota could cost U. S. consumers more than $100 billion due to prices artificially inflated by the quota.

Government policies which are designed specifically to produce shortages and artificially raise prices to the consumer -- which is what the oil import quota will do -- are the last kind of energy program this country needs. For these reasons, I oppose the oil import quota.

1. Library of Congress report, July 16, 1979, cited in SEN. PAUL LAXALT, CURRENT ENERGY LESISLATION, November 1979.

26. Foreign Oil -- Investment

Q. If you oppose investment by the majors in foreign oil, why not just prohibit their investment in foreign exploration?

A. I don't oppose investment in foreign oil exploration per se. What I do oppose are federal energy policies which subsidize foreign oil exploration at the expense of domestic production. There are, for example, the proposed windfall profits tax and the disincentive effect of price controls, which I mentioned. Another example: while the federal government is holding down domestic oil prices, it has loaned money -- at half the prime interest rate -- to Venezuela, an OPEC member. That money is being used to finance oil exploration in Venezuela. Such subsidies of foreign oil exploration are bad enough in themselves, but in the context of growing U. S. dependence on foreign oil imports, they only accelerate this trend and should be eliminated.

27. Foreign Oil -- Import Fee

Q. Since you disapprove of foreign imports, would you favor an oil import fee to discourage such imports?

A. Until we are able to become energy self-sufficient, we will retain a very real need for foreign oil imports. The question we must ask of the import fee is whether it will increase domestic production. Because the fee will raise the price at which domestic crude will sell, it may have somewhat of a production incentive. However, that incentive is likely to be substantially more than offset by one of two factors. If the fee permits refiners to raise their refined product price above the world level, then prices to consumers are going to rise significantly -- up to $2.5 billion per year[1] for every $1/barrel import fee imposed. That's going to be a drag on the economy, and reduce all productivity, including that of the energy industry.

More likely, the refiners won't be able to pass along the increased cost of their crude, since consumers already pay the world price for refined products. This means the refiners are going to get sqeezed, and many may have to close or reduce their production. Thus, we will either have shortages, or will become dependent on imports of refined products, neither of which is a desirable alternative.

Therefore, I oppose the oil import fee.

1. $1/barrel equals approximately $0.02½ cents/gallon. This amounts to a tax per gallon on refined products. Even if only gasoline were affected, a 1¢ increase in the gasoline tax increases costs about $1 billion. Since all product prices would be affected, the $2.5 billion figure is a conservative estimate.

28. Miscellaneous -- Department of Energy

Q. Would you eliminate the Department of Energy?

A. Yes. Any worthwhile functions in the agency should be returned to other federal departments.

29. Miscellaneous -- Leasing

Q. You favor accelerated leasing of federal lands. Are you willing to override environmental protections and risk another oil spill similar to that off the coast of Santa Barbara?

A. Of course, we don't want another oil spill such as that, but it is important to remember that oil spills can be caused by an accident involving the collision of an oil tanker carrying imported oil, too.

The point is, there are some environmental rules which are very necessary to the protection of the environment, and certain ones prescribing proper procedures for offshore drilling may well be among them. But the entire energy-environment interface is so complex that we must undertake a thorough review of all environmental rules, rather than make ad hoc judgments on one or two of them out of context and without due scientific consideration.

When we do so, we'll find that some requirements should be maintained as is, and that the application of others should be narrowed. Small facilities probably should be exempted from all but the most limited review. And duplicate review should be eliminated where it is not essential.
By striking a fair balance between energy and the environment, we can ensure adequate production of the former, and sufficient protection of the latter.

30. Miscellaneous -- Strategic Petroleum Reserve

Q. Would you continue the Strategic Petroleum Reserve Project?

A. I favor the continuation of the Strategic Petroleum Reserve Project. Such a reserve could serve as a deterrent to foreign oil supply interruptions, and as a domestic buffer for those which do occur.

However, the Department of Energy's current reserve program suffers from severe mismanagement, as I have indicated. This is a disgrace. As President, I would provide careful supervision of the program to ensure that it is put back on track.

Most important, we must remember that unless we increase domestic oil production, storing extra oil will only raise prices and hasten short supplies now, in order to avoid them in the future. Thus, our prime objective must be increased domestic production.

31. Miscellaneous -- Synthetic Fuels

Q. Given your criticism of President Carter's synthetic fuels program, then, do you oppose development of synfuels?

A. No. I favor development of synthetic fuels. But today, an all-out push could severely damage the environment. Synfuels production would draw huge amounts of precious water from the nation's most water-parched farming and ranching areas in the West. Coal-liquids are thought to cause cancer. And the President's own Council on Environmental Quality has warned that synthetic fuels would produce twice as much carbon dioxide as do current fuels.

These problems can be worked out, but it will take time. In fact, these are among the major problems being attacked by private companies. These firms are now conducting ongoing work on 26 oil shale projects, 30 oil sands projects, and 261 coal projects -- all without the involvement of a federal corporation. I agree with economists Paul Joskow and Robert Pindyck of MIT, who point out that "as (synthetic fuels) become economical they will be produced by private firms with or without a program of government subsidies." We simply do not need an $88-billion federal corporation.