

1 of oil. We could do the same thing for the gas.

2 The Chairman: Let me ask you this question.

3 My impression is, you have 5 million cubic feet of gas as
4 the same number of BTU's as the same barrel of oil. Is that
5 right?

6 Mr. Lubick: That is roughly correct. About 5.6, I
7 understand it.

8 The Chairman: 5.6.

9 Then do you get that 50 cents by dividing the 5.6 into
10 the 6?*

11 Mr. Lubick: We were trying to come up with a comparable
12 figure for the oil shale.

13 Mr. Wetzler: It is about 6 million BTUs.

14 Six cents of gas equals one barrel of oil, roughly. That
15 is how they got 50 cents.

16 The Chairman: All right. That is fair. I thought it
17 should be 60 cents.

18 Five million cubic feet of gas. That is fair.

19 Mr. Lubick: We have also suggested to Senator Talmadge
20 -- I believe he agreed yesterday -- that if the Energy
21 Security Corporation is subsidizing that particular project,
22 it ought not to be eligible fo the credit.

23 Senator Talmadge: I agree with that, if we choose the
24 route you are going. If they are going to be subsidized by
25 one method, they will not choose two.

1 The Chairman: They will go one way or the other.

2 Senator Danforth: What are we voting on, Mr. Chairman?

3 The Chairman: The Talmadge amendment that we discussed
4 yesterday.

5 Senator Danforth: May I ask a question?

6 The Chairman: Go ahead.

7 Senator Danforth: This is an important matter, Mr.
8 Chairman.

9 The Chairman: Go ahead.

10 Senator Danforth: We are providing a \$3 per barrel
11 credit for oil produced from shale. Is that right?

12 Senator Talmadge: Shale and geopressurized gas.

13 Senator Danforth: We have shale and geopressurized gas.
14 Now, is there not a proposal floating around for a credit for
15 biomass?

16 Senator Talmadge: Yes, sir. That is my next amendment.
17 This is part of that same bill.

18 We are considering, as I undersatnd it now, only two
19 amendments. The administration is not now prepared to
20 recognize the sound judgment behind biomass. That is the only
21 short-range alternative we have got. These others are long
22 range.

23 If we can be making alcohol throughout this country in a
24 matter of months -- I see Mr. Lubick raising his hand.

25 Mr. Lubick: Senator Talmadge?

1 The Chairman: Let's vote on one thing at a time.

2 Senator Danforth: Mr. Chairman, I respectfully disagree
3 with that. I want to be persuaded -- if I can be persuaded --
4 that there is some rational basis from distinguishing between
5 a barrel of oil produced from shale and a barrel of oil
6 produced from garbage.

7 I do not understand it. I do not see why we should be
8 subsidizing one form of energy versus another, if there is no
9 distinction between them. To do so stacks the deck as far as
10 economic decisions are concerned.

11 I am not persuaded as yet that it is justified.

12 The Chairman: Senator, I could not persuade you of
13 everything, and nobody else can. You have your own mind. I
14 just want to vote. Let's just call the roll.

15 Senator Chafee: May I ask a question? What are we
16 proceeding on, then? Are we going to take on a whole series
17 of tax credits?

18 Yesterday, as you know, we spent considerable time -- I
19 wanted to go ahead, as you said. I was trampled over. We
20 were going to get some statistics on what each of these tax
21 credits would produce in the form of oil. Now we are going in
22 to taking this group of tax credits.

23 Every tax credit we adopt today whittles away the total
24 amount of money that is going to be available for future tax
25 credits. So I am curious as to how we are going to proceed.

1 be made to go into production on the basis of cost
 2 calculations and the primary incentive is to assure them that
 3 they are going to get this \$3 spread, and they will make
 4 their investments and their plans and will make their
 5 investment in immediate dollars, current dollars, and the
 6 important thing is to make the investment into the heavy
 7 capital equipment necessary to produce the oil from the shale.

8 If they know that they have this competitive edge of \$3,
 9 that has been indicated to us to be a sufficient inducement
 10 for them to make these capital investments.

11 Senator Talmadge: All right. Let us do a little
 12 arithmetic, then.

13 We will just assume, for the sake of argument now, that
 14 it costs \$25 to produce petroleum from shale today. It would
 15 be good business, with this tax credit, to get in business now
 16 and start producing petroleum from shale. We agreed on that,
 17 because the landed price of petroleum is \$22.50 so if you have
 18 a tax credit of \$3, that gives him a little margin to go into
 19 the shale business.

20 But suppose the inflationary factor continues at 14
 21 percent a year and compound that for three years from now.
 22 The cost of producing petroleum from shale might be, if you
 23 use that arithmetic, say \$35.

24 Then your \$3 tax credit would be virtually useless, would
 25 it not? It would be valueless unless you index it, would it

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1 not?

2 Mr. Lubick: \$3 would be worth less, obviously. The
3 important thing, as I understand it, is to give them the
4 assurance that they are going to have the immediate edge over
5 the conventional sources.

6 Ultimately, I would think that they would expect that
7 prices would rise so that this credit would phase out and they
8 would not need it.

9 Senator Talmadge: I would hope that that would be true.

10 Mr. Lubick: The price would be sufficient. What we are
11 trying to do is give them the assurance that they have this
12 immediate edge so that they can be induced to make this
13 initial investment.

14 Once they have established their process as economical
15 and competitive, then they will be able to fly on their own,
16 and I think that is the point.

17 Senator Talmadge: We want to do that.

18 What you are talking about is an investment of \$1 billion
19 for one of these plants.

20 The Chairman: You are talking about, if you do not index
21 it, when you vote for this thing and somebody makes an
22 investment thinking in terms of a \$3 subsidy by the time he
23 gets the thing onstream four years down the road, it might
24 prove that you only have given him \$1.50 subsidy. It seems to
25 me it ought to be indexed.

1 If he is making a ton of money he will pay the income tax
2 on it.

3 Senator Talmadge: We can always repeal it if he is
4 making too much money.

5 Mr. Lubick: Similarly, we can increase it, too, but
6 there are some substantial revenue impacts, Senator Talmadge.

7 The Chairman: The one thing you can rely on, if it does
8 not work, it is not going to cost you much, very, very little,
9 if it does not work.

10 Senator Talmadge: If it does not work, it would not cost
11 anything.

12 Mr. Lubick: We would not propose it if we did not think
13 it would work. Our discussions were that the \$3 was what they
14 thought was necessary to give them the inducement to come
15 onboard.

16 The Chairman: That is all we are talking about, but if
17 we are talking about preventing it from being wiped out as a
18 result of inflation.

19 Mr. Lubick: If we have substantial price rises again,
20 they will have made their investment in the earlier years.

21 Senator Talmadge: They are not going to make their
22 investment, Mr. Lubick, unless they can look down the road. A
23 man is not going to spend \$1 billion expecting to get his
24 money back today. This plant will not be in being for several
25 years.

1 Mr. Lubick: You make your calculations on what your
2 expectations are is their price, and they have indicatd to us
3 if they could get some assurance of having a \$3 edge -- I
4 assume they have made their calculations contemplating some
5 measure of inflation, that that would be sufficient to induce
6 them to make these investments.

7 If we give them more than \$3, we are committing ourselves
8 to a substantial amount of revenue, and it would seem to us it
9 is an amount of revenue more than necessary to induce them to
10 make this investment. I take it that what we want to do is to
11 give them -- we want to have a sufficient incentive to induce
12 them to make the investment, but we do not want to have more
13 incentive than they are actually asking for.

14 The Chairman: The Senator can amend his amendment as he
15 wants to offer it.

16 Senator Talmadge: I want to index it.

17 The Chairman: Call the roll.

18 Senator Danforth: Mr. Chairman?

19 The Chairman: Yes.

20 Senator Dole?

21 Senator Dole: I wonder if you could respond to the
22 question Senator Danforth raised earlier on biomass, that part
23 of it?

24 Mr. Lubick: I thought there was some relationship.
25 These are processes that are not immediately economically

1 viable. It was our judgment, and our judgment as to which
2 persons can differ, that the \$3 would be sufficient to induce
3 this investment to make the oil shale and the unconventional
4 gas economically viable.

5 The biomass we think is economically viable today. It is
6 being used.

7 Our figures indicate that by a biomass credit that is
8 comparable, it would result in a revenue loss that is
9 comparable, it would result in a revenue loss of \$815 million
10 by 1985.

11 It is simply because the technology is there, it is
12 available. The price is an incentive to use it. People are
13 starting to do it.

14 It is simply a question as to whether or not we need to
15 furnish an additional subsidy to bring the technique onstream.
16 it is here.

17 Senator Talmadge: I am not offering biomass now. I will
18 in due course. It is a part of this omnibus bill that I
19 offer. I agree with the Senator from Missouri. I think we
20 have to offer a substitute for every alternative that can
21 possibly work.

22 The only thing that can work short-term is biomass. We
23 can have those plants in being throughout this country with
24 the national will to do so in a matter of months, and we have
25 the raw materials available right now, and we can do it with

1 wood and any other agricultural product that can be fermented.
2 You can run an automobile on 100 percent alcohol. It does not
3 have to be a ratio of nine to one.

4 . Senator Danforth: Why do we care if it is done with
5 shale if we can do it with garbage?

6 Senator Talmadge: I want to go everywhere we can. I
7 want to produce energy in America instead of Saudi Arabia. We
8 cannot pay \$60 billion for imported energy.

9 . . The Chairman: We cannot equate everything with
10 everything if we do not have anything to equate with, so let
11 us call the roll.

12 - Senator Danforth: Mr. Chairman?

13 Senator Baucus: Mr. Chairman?

14 The Chairman: I have the power, under the Rules, just to
15 call the roll.

16 Senator Danforth: Mr. Chairman, of course you do. I
17 wonder if we could just discuss this for a little while. I
18 think it is an important question.

19 The Chairman: We discussed it yesterday.

20 Senator Danforth: For about 15 minutes.

21 The Chairman: I am happy that the press did not report
22 any of the activities of the Senate Finance Committee
23 yesterday. All they could have reported was the Finance
24 Committee just engaged in further conversation. No votes,
25 nothing happened. Just talked.

1 Senator Danforth: Mr. Chairman, I thought we
2 accomplished a lot that was at Senator Boren's suggestion,
3 that we try to put everything on some sort of basis so we can
4 make a determination as to how much energy we are producing
5 with what kinds of revenue losses, so we would be able to see
6 the total picture, so all the cards would be dealt face-up and
7 we would know what the game is going to be.

8 Now, I take it, we have abandoned that plan and we are
9 going to proceed piecemeal on each little tax credit that
10 anybody can think of.

11 The Chairman: Senator, I am trying to get all the
12 information we can get from everybody. We will do everything
13 we can to get information.

14 All we are talking about is something that we did before,
15 something the Senate approved, something the administration is
16 willing to go along with, at least in the main.

17 Do you think we could vote on something just to cover
18 some ground we have already covered in previous years?

19 Senator Danforth: Let me ask you this. What was the tax
20 credit when we agreed to it then. How many dollars a barrel?

21 The Chairman: Exactly the same.

22 Senator Danforth: What was the world price of oil then?
23 What was the price of a barrel of oil when we first agreed to
24 the \$3 credit?

25 Mr. Wetzler: About \$13 or \$14.

1 Senator Danforth: What is it today?

2 Mr. Lubick: \$22.50.

3 Senator Danforth: Should the credit be the same at a \$13
4 world price and a \$22 world price?

5 Mr. Lubick: In our discussions with the affected
6 industries, which have been held recently, where the \$3 credit
7 is sufficient to do the job --

8 Senator Danforth: I am sure it was, if it was sufficient
9 at \$13 at world price, obviously it would be sufficient at
10 \$22. Why do we have to go to \$3?

11 The Chairman: Let us call the roll.

12 Senator Baucus: Mr. Chairman?

13 Senator Danforth: Mr. Chairman?

14 The Chairman: Let us vote on the amendment. Let's call
15 the roll.

16 Senator Danforth: Mr. Chairman, can we not find out some
17 information?

18 The Chairman: You asked a question. He answered it, did
19 he not?

20 Senator Danforth: No.

21 Mr. Lubick: Senator Danforth, it is a matter of
22 judgment. I do not think that it is provable as a scientific
23 proposition exactly what the point is where we will make this
24 infant industry viable. It is our judgment that \$3 is right.

25 Senator Danforth: All I am asking you is this. Why do

1 you think that the credit should be exactly the same number of
2 dollars when the world price is at \$13 a barrel, as when the
3 world price is at \$22 a barrel?

4 Mr. Lubick: We did not make our judgment on the basis
5 that \$3 was adequate at \$13. We opposed it at \$13. We are
6 now endorsing it at \$22. Maybe it has gotten into a better
7 ratio.

8 Senator Danforth: Who made that decision?

9 Mr. Lubick: The Department of Energy has been meeting
10 with those persons in a position to undertake these projects
11 and they came to the judgment, in reflecting upon this, that
12 the \$3 credit was the appropriate amount.

13 The Chairman: This much is certain. If the Senators are
14 just going to keep asking more questions as fast as we have
15 them, we are going to be here for days and not have one vote.

16 Senator Danforth: I am prepared to offer a substitute.

17 The Chairman: Under the rules, we will vote on what we
18 have now. Let's call the roll.

19 Senator Baucus: Mr. Chairman?

20 The Chairman: Call the roll.

21 Mr. Stern: Mr. Talmadge?

22 Senator Talmadge: Aye.

23 Mr. Stern: Mr. Ribicoff?

24 (No response)

25 Mr. Stern: Mr. Byrd?

1 (No response)
2 Mr. Stern: Mr. Nelson?
3 (No response)
4 Mr. Stern: Mr. Gravel?
5 Senator Gravel: No.
6 Mr. Stern: Mr. Bentsen?
7 Senator Bentsen: Aye.
8 Mr. Stern: Mr. Matsunaga?
9 (No response)
10 Mr. Stern: Mr. Moynihan?
11 (No response)
12 Mr. Stern: Mr. Baucus?
13 Senator Baucus: No.
14 Mr. Stern: Mr. Boren?
15 Senator Boren: Aye.
16 Mr. Stern: Mr. Bradley?
17 Senator Bradley: No.
18 Mr. Stern: Mr. Dole?
19 Senator Dole: Aye.
20 Mr. Stern: Mr. Packwood?
21 (No response)
22 Mr. Stern: Mr. Roth?
23 (No response)
24 Mr. Stern: Mr. Danforth?
25 Senator Danforth: No.

1 Mr. Stern: Mr. Chafee?

2 Senator Chafee: No.

3 Mr. Stern: Mr. Heinz?

4 Senator Heinz: No.

5 Mr. Stern: Mr. Wallop?

6 (No response)

7 Mr. Stern: Mr. Durenberger?

8 (No response)

9 Mr. Stern: Mr. Chairman?

10 The Chairman: Aye.

11 Well, we have five yeas and six nays and we will permit
12 the absentees to record themselves when they are available.

13 Yes, sir.

14 Senator Danforth: Mr. Chairman, I would like to offer --
15 what would we call them? Amendments, or what?

16 I would like to offer the following tax credit, \$3 a
17 barrel for oil or its equivalent from shale or from any other
18 source.

19 Senator Gravel: Would that include oil and gas?

20 Senator Danforth: No.

21 Let us just start with substitutes for the traditional
22 fossil fuels.

23 The Chairman: Any alternative source?

24 Senator Gravel: If I may speak to the amendment, there
25 are two problems that I have. One is the information that

1 came to light yesterday, that was that the cost of the margin
2 between an American-produced barrel of oil and an outside
3 produced barrel of oil was 5 cents and \$1.50.

4 As I see it, if you are going to have a subsidy, or any
5 device, it has to be within that range, because if we make it
6 beyond, if we make it \$3, what happens, you are competitive to
7 \$25 oil, but it takes \$3 for the taxpayers to do that.

8 You subtract already what we are losing, \$1.50. It means
9 the American taxpayers are disadvantaged by \$1.50 for the
10 honor of producing a substitute.

11 So that is a tax increase, so incrementally it is cheaper
12 using energy to produce steel in Germany, or in France, or in
13 Japan, than it would be in the United States because we are
14 taxing people in order to pay for a higher cost of energy.
15 That obviously is wrong. We are subsidizing again, not only
16 subsidizing foreign oil, we are subsidizing foreign production
17 in manufacturing, which will, of course, lead us to disaster a
18 lot quicker.

19 That is the first point I would like to make on the \$3
20 amount which obviously was proven capricious because it was a
21 \$3 amount when it was \$13 a barrel and now it is \$3 when it is
22 \$22 a barrel. Somebody was not telling us the truth from
23 industry at one point -- or not the truth, they did not have
24 very accurate figures, then, and I doubt their figures are any
25 more accurate now, at least what I read in general literature.

1 The other point, just very simply, is if we are producing
2 oil and gas now and we know, from an environmental point of
3 view, that is very sound, then why should we give a \$3 edge to
4 rip up the soil, squeeze rock, and come out with the same
5 point than if you are producing a barrel of oil. If you are
6 going to provide an incentive for energy, then it should be
7 for oil energy, not for an energy that is less environmentally
8 sound than the energies we are presently producing.

9 So if we have a goal here, it is to arrive at more
10 energy, not necessarily more oil shale energy at the expense
11 of oil or gas or gasification, at the expense of what Mother
12 Nature gave us..

13 So I would suggest that if you are going to put a \$3
14 incentive across-the-board on all forms of energy except oil
15 or gas, what you are telling the productive industry in this
16 country is for some reason -- we have a bias against getting
17 cheap environmentally sound energy and we want other forms of
18 effort to be made to make it competitive to those forms. I do
19 not think that is very logical.

20 The Chairman: What is the Treasury attitude towards that
21 amendment?

22 Mr. Lubick: Basically we think there are certain infant
23 industries that need some incentives to come onstream.
24 Ultimately we would look to elimination of the subsidies,
25 because they would all be competitive. To get these

1 technologies going in areas such as the one that you first
2 voted, on the shale oil, the geopressurized, the
3 unconventional gas, we need to give an extra boost to get them
4 going.

5 We would expect, and hope, that ultimately they would not
6 need the subsidy anymore. It would phase out and everybody
7 would compete on the basis of price.

8 But to get this technology going, we need the initial
9 boost.

10 Now, if we had a general credit that applies
11 across-the-board for everything, whether it is needed or not.
12 then you are not giving the extra boost to those infant
13 industries that really need a little bit of an edge to get
14 started, that need the extra incentive.

15 I think you simply have chased your own tail and have
16 defeated your own purpose.

17 Senator Gravel: Mr. Chairman, on that theory of the
18 extra boost, if you just let them make a profit, then that
19 would give it boost enough. Why would you have to turn
20 around --

21 Mr. Lubick: That is what the boost is.

22 Senator Gravel: To regulate excess profits and take away
23 profits from any part of the energy industry.

24 Obviously, following your theory, once they are going, if
25 they are making any profits, you are going to come in with

1 legislation to take it away. Let them produce.

2 Basically, industry takes the attitude if the government
3 would get the heck out of the way, they could go produce
4 energy. You insist on intervening and then you turn around
5 and say we have to give them an extra boost somewhere else.
6 Just get out of their way. Do not tax any profits.

7 There are people in this country who spend all the money
8 that they have going looking for energy, if they can get the
9 rewards of that risk, but you insist on taking that away, and
10 then you come in and say we are going to give them a little
11 boost.

12 They do not need any boost. Just leave them alone.

13 Senator Danforth: Mr. Chairman, first, with respect to
14 the point that \$3 is a capricious price, of course, I think we
15 have just gone through that drill with respect to shale. If
16 \$3 is the appropriate credit at \$13 a barrel oil and \$3 is the
17 appropriate credit for \$22 a barrel oil, obviously it is
18 capricious; we are guessing. But I hope we made the right
19 guess.

20 Secondly, why treat these alternative sources differently
21 than oil and gas? The basis for doing that is we are going
22 eventually, I take it, run out of the traditional fossil fuels
23 and therefore it is in the national interest to produce energy
24 from sources other than oil and gas. I think that is the
25 basis for any decision for synthetic fuels, or solar, or

1 shale, or whatever.

2 Thirdly, why apply -- what I want to do is apply exactly
3 the same tax strategy that Senator Talmadge would apply to
4 shale to all sources of energy to be produced.

5 Senator Talmadge: If the Senator would yield at that
6 point?

7 Senator Danforth: If I could finish one sentence, then I
8 would be happy to yield the Floor, but I think that the result
9 that we should seek is to produce energy, and the process of
10 producing energy is something that we are not capable of
11 making the decision on.

12 I do not feel comfortable making the decision on that.

13 So therefore, you simply set up a market system or you
14 skew a market system to get anybody who can find the most
15 reasonable and logical process for producing the equivalent of
16 a barrel of oil. If somebody can do it more efficiently and
17 cheaply by converting old microphones into a barrel of oil,
18 fine, let them have at it.

19 I do not think we should say we are for subsidizing a
20 barrel of oil, or the equivalent of a barrel of oil, if it is
21 produced from a pile of rock, but we are against the
22 production of a barrel of oil or the equivalent of a barrel of
23 oil if it is produced from garbage, or from anything else.

24 The Chairman: Senator Talmadge?

25 Senator Talmadge: I will ask the Senator a question. I

1 Would you recommend that this much subsidy for
2 wood-burning stoves?

3 Mr. Lubick: No. We have a credit on the purchase price
4 of the wood-burning stoves, not a credit for the production of
5 the wood.

6 Senator Bradley: Mr. Chairman, I do not think that you
7 can make this a neutral amount, \$3 for any form of energy. I
8 think the complexities are too great. I think there are other
9 judgments that have to be brought to the issue other than
10 simply finance.

11 If you are going to go route, solar is more
12 environmentally sound than is oil shale. Conservation is
13 another route.

14 You have to bring in environmental questions to bear.
15 You have to bring delivery mechanism measures to bear. There
16 are different products for different products. Therefore, a
17 \$3 credit will have different impact and I do not think we can
18 -- we only deal with the tax credit.

19 I think we have to decide which technology is in the
20 national interests, will back out oil quickest.

21 It is conceivable if you had a \$3 tax credit for 15
22 different technologies, the amount of revenue that you could
23 lose, you could lose half the amount of revenue and promote
24 one or two technologies that would back out more oil in a
25 particular period of time.

1 The Chairman: The point I have in mind, what is
2 something that we started out with, the early pioneers, were
3 using wood. People in this country were using wood before
4 they ever had coal.

5 They are still using wood.

6 I would hardly call wood an alternative source. People
7 have fireplaces all over America. So when you come up here
8 with a subsidy for wood, you are not talking about some new
9 technology that you hope to develop. You are talking about a
10 technology that is there right now, and you are talking about
11 substantially immediate cost.

12 It would seem to me, at a minimum, Senator, you would
13 want to leave wood out of it. At a minimum.

14 Do you want to leave wood out, or keep it in?

15 Senator Baucus: Mr. Chairman?

16 Senator Danforth: I would be happy to leave it out, Mr.
17 Chairman. I had not really thought about wood.

18 Senator Baucus: Mr. Chairman?

19 At the risk of confusing the matter any further, I voted
20 against the last amendment basically because I agreed with
21 Senator Danforth, that is, my view is it makes more sense to
22 have the kinds of figures that we have all been asking for in
23 the last couple of days so we can have some sense.

24 I feel that is where we should begin. I feel with you,
25 Mr. Chairman, that we have to begin somewhere. Everything has

1 to have some reference point.

2 I think Senator Bradley has some good points. Tax
3 credits are not the only way to address the problem.

4 I suggest that, because we have to leave in about five
5 minutes, that the staff get cracking and provide all the kinds
6 of figures that we asked for, projections versus revenue loss,
7 and beginning next Tuesday, we put all the cards on the table
8 and start making some decisions.

9 It may be that the oil shale \$3 per barrel credit makes
10 sense. It is hard for me to vote for it; that is why I did
11 not today.

12 The Chairman: The Democrats are all going to have to
13 go to the conference in the next seven minutes.

14 Senator Bentsen: Unless the Senator is going to press
15 for a vote, I would like to offer a five-minute amendment.

16 The Chairman: Do you want to vote on your amendment?

17 Senator Danforth: I would be happy to put it off.

18 Senator Bentsen: Then I have a five-minute amendment.

19 Senator Heinz: I would like to be heard, if I may, on
20 Senator Danforth's amendment, if you do not mind, just
21 briefly.

22 Mr. Chairman, first I would like to say that I think Jack
23 Danforth is headed in the right direction and, as I understand
24 his amendment, what he is talking about are fuels that are
25 substitutable for oil and are in a form that can be put into

1 the oil product and distribution stream.

2 There was some discussion of wood, and I guess that wood
3 really does not run through a refinery too well, but if it is
4 turned to methanol, I think there is a justification for a tax
5 credit, whatever biomass conversion method is involved.

6 But I particularly wanted to speak to Senator Gravel's
7 point regarding what is it worth to the United States to do to
8 reduce its dependence on foreign oil. There have been several
9 estimates that I have been able, ever since former Secretary
10 Blumenthal and former Secretary Schlesinger came before this
11 committee and said, we do not know.

12 They said what the value of not importing a barrel of oil
13 is.

14 My staff and I have assembled several estimates from the
15 Rotterdam spot market, the price of which is \$34, from the
16 Department of Energy, which estimates -- to make a long story
17 short, the DOE total incremental cost is between \$80 and \$90 a
18 barrel from the American Petroleum Institute, which is
19 somewhere above \$29.50 per barrel from the Harvard Business
20 School where, depending on what assumptions you make, the
21 range is between \$37 to \$87 per incremental barrel.

22 One of the things that is clear is, no matter who we have
23 talked to, the price is not 50 cents a barrel more, and with
24 opportunity costs involved here, it is not a dollar more,
25 but it is substantially more.

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1 We are talking about a difference between \$22.50 and \$30
2 and \$40 and on up, in some instances, to \$90, which, if you
3 believe that there is such a thing as an opportunity cost, it
4 means that Jack Danforth's \$3 a barrel, if it works, is the
5 cheapest form of insurance policy that we could ever buy, no
6 matter what the revenue estimate is.

7 If it actually works and we pay out that money, we will
8 not be importing the oil and we will not be subjecting
9 ourselves to all the other economic opportunity costs that a
10 variety of sources have estimated for us.

11 Senator Bentsen: If the Senator would let me offer an
12 amendment, all I am offering is what is exactly in the House
13 bill, and that is an exemption for public education in the
14 tax, and the House bill calls for that, any income from
15 interest in oil production owned by the state or local
16 governments or by public educational institutions is exempt if
17 the income is dedicated to public education.

18 That is all I am offering. It is in the House bill, and
19 the cost of education --

20 The Chairman: It has been suggested to me, Senator --
21 and I hope you will go along with it -- that where a state has
22 royalty income which is used for public purposes, that the
23 Federal government should not try to tax that.

24 Senator Bentsen: I have no objection.

25 Senator Wallop: I have an amendment to offer that would

1 do that.

2 The Chairman: Why should we try to tell a state what it
3 should use its own money for?

4 Senator Wallop: I have an amendment which I am prepared
5 to offer.

6 Senator Bentsen: I am prepared to accept his amendment
7 to mine, to extend it.

8 The Chairman: What is it?

9 Senator Wallop: What I would do -- what the Chairman has
10 suggested is right. I support Senator Bentsen, what he was
11 doing, which was to exempt public education, but I would like
12 to expand it by adding language that would exempt all
13 government entities, Federal, state and local, and their
14 political subdivision, where income is dedicated to any public
15 purpose.

16 Senator Bentsen: I have no objection. We have discussed
17 that.

18 The Chairman: Why do you want to say "dedicated"? Where
19 it is used for any public purpose.

20 Senator Wallop: All right. Dedicated, used.

21 Senator Dole: Mr. Chairman?

22 The Chairman: Senator Dole?

23 Senator Dole: I think that is a very good idea. I do
24 not want to touch on it now, but we ought to look at exempting
25 all 501(c)(3) organizations, non-profit organizations, and

1 there are some in my state.

2 Senator Bentsen: I have some, too.

3 I would like to approach that separately, if we
4 can.

5 Senator Dole: If I could bring it up, the staff will
6 take it up next time.

7 Senator Bentsen: Mr. Chairman, I urge that we
8 accept the change that has been recommended by Senator
9 Wallop.

10 Senator Wallop: Mr. Chairman, I would like to
11 read a statement into the record.

12 Mr. Chairman, I support the public education
13 exemption from the tax, since it recognizes that state
14 and local governments rely heavily on oil income for
15 public education.

16 This is the case in Wyoming as it is in Texas, and
17 many other states.

18 However, I would like to expand upon this motion by
19 adding language that would exempt all government entities,
20 federal, state and local and political subdivision, where
21 income is dedicated to any public purpose.

22 The problem we are addressing with this is that
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1 many state and local governments use oil income to fund other
2 public programs besides education. To give you an example, in
3 Wyoming we have non-educational trust funds such as the
4 Miner's Hospital Fund, the Deaf Dumb and Blind Asylu Fund and
5 the Penitentiary Land Fund. All of these programs are funded
6 in part with oil production income.

7 Senators Cranston and Hayakawa face a similar problem in
8 California, where the City of Longbeach depends heavily on oil
9 production income to fund local govenrment programs.

10 I see no logical policy basis for making a distinction
11 for tax purposes between various types of state and local
12 government services. Congress should not place an arbitrary
13 distinction on the value of one public service provided by the
14 states over another.

15 I do not think we should distort their budgets and
16 revenue programs with a tax that exempts one type of public
17 service and imposes a heavy tax on income dedicated to other
18 public programs.

19 Let me ask the Joint Committee, it is my understanding
20 that in calculating the public education exemption during
21 House debate, you used an economic assumption that state and
22 local governments would:

23 One, restructure their constitutions and budget.

24 Two, rechannel all oil income into education so it would
25 be exempt from the tax.

1 If this is your assumption, what is the cost of my
2 amendment over the cost of the House public education
3 exemption?

4 Senator Bentsen: Mr. Chairman, I urge that we
5 accept the change .
6

7 The Chairman: All in favor, say aye.

8 (A chorus of ayes)

9 The Chairman: Opposed, no?

10 (No response)

11 The Chairman: The ayes have it.

12 Now, gentlemen, those of us on the Democratic side
13 have to attend the Democratic Caucus, and that will
14 take the remainder of the morning, I fear.
15

16 Thank you.

17 (Thereupon, at 10:30 a.m. the Committee recessed, to
18 reconvene at the call of the Chair.)

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