The Halbouty report on energy: recommending a growth perspective

Considerable attention is being given to a possible new approach to the vital question of energy under the incoming administration of President-elect Reagan. On Nov. 5, by prior agreement, the Energy Policy Task Force placed on Reagan's desk a 41-page policy outline for his consideration.

The chairman of that 17-member body, Michel T. Halbouty, was then asked to remain as head of the Energy Transition Team. With the caveat that this is merely the recommendation of a transition team and not final policy of a President or even his energy secretary, I print below substantial sections from a full copy of the Halbouty Report just made available to "The Energy Insider."

Four years ago, Mr. Carter assembled his energy task force. Policy was drafted by people such as James Rodney Schlesinger, the RAND Corporation strategist who mapped energy policy into a zero-growth scenario drafted by S. David Freeman and others at the Ford Foundation.

The immediate comment that can be made about the new group is the dramatic difference in the nature and quality of the Reagan policy advisers. Michael Halbouty is a geologist and petroleum engineer from Houston, Texas who has done exploration throughout the United States.

W. Kenneth Davis, who drafted the nuclear policy portion of the report, is vice-president of the Bechtel Power Corp. and a man with years of experience in the nuclear industry.

Others include John Bookout of Shell Oil, Bernard O'Keefe of EG&G, Robert Quenon of Peabody Coal, and Prof. John McKetts, who oversees one of the nation's largest privately funded fusion research programs at the University of Texas. In short, people at least rooted in problems of energy production, rather than think-tank strategists of the Schlesinger-Sawhill stripe. Here are some of their recommendations:

The policy theme

"It is our great fortune to be one of the richest energy nations in the world. Yet, judging by our current economic condition, who would know it? . . . The government has acted on the principle that the way to deal with energy is to do away with it. Instead of unleashing the resources of a wealthy nation, we have, in the name of saving energy for some unspecified future time, tucked energy away like a rare bottle of wine. But energy in this nation is not rare or scarce. The U.S. has the potential to produce as much oil and gas in the future as we have produced in our entire history. . . .

"The policies expressed in these pages value energy as a commodity to be used, not to be revered on the mantlepiece. By undoing the restrictive legislation of the past four years, we expect to create an open and competitive energy market that will meet the demands of our economy. . . . If the national economic pie does not grow—and it cannot grow without energy—those at the bottom of the economic ladder cannot rise without pulling someone down from the top. . . ."

Oil and gas

"Despite all the nation can do to conserve energy, increase the use of coal and nuclear power, and develop new energy resources, oil and natural gas will still be called on to supply at least 60 percent of our energy wants in 1990. In place of the hostility and antagonism toward the petroleum industry which now exist, government must adopt a more positive, or at least objective, role. One key to a new attitude is utilizing personnel with experience in the oil and gas and other energy industries in the government's energy agencies.

"The Carter administration, under presumed conflict of interest, has made a virtue of having policy personnel who have had to spend much of their tenure attempting to understand how the industry works. The results have been predictably disastrous."

On foreign policy toward OPEC exporters, the report is brief: "We must develop a clear and consistent foreign polcy to stabilize and improve relations with oil exporting countries."

On domestic policy, the central point made is to underscore the need for removing years of restrictive government price controls to allow the exploration and development of the vast underdeveloped oil and gas reserves of the country:

"We should continue the orderly phase-out of all price and allocation controls on crude oil and petroleum products to completion on September 30, 1980 as scheduled." This is merely a reaffirmation of presidential policy determined by Carter in 1979 as part of his Camp David energy summit. "We must begin phased price decontrol of all natural gas prices. . . . Under the Natural Gas Policy Act, most intrastate gas prices will be decontrolled by 1985, as will some interstate gas prices.

"However, 'vintage' interstate gas (i.e., gas from wells drilled prior to February, 1977 and gas from most offshore wells on federal property leased prior to 1977) will not be decontrolled. Natural gas prices should begin phased decontrol over a short time period so that all gas prices are decontrolled as soon as possible."

Challenge to RARE

The report calls for reversing the restrictive Carter-Andrus policy forbidding resource development on the vast acreages of public land. "Our public lands offer an enormous petroleum potential, but nowhere is the threat of excessive environmentalism to the nation's energy development felt more keenly than in the area of access to and development of these lands, both onshore and offshore. . . . Absolute prohibitions on exploration and production in promising areas are a luxury we can no longer afford. Rather, careful development of productive areas is a national necessity. We must return to the nation's historic policy of multiple use for most federal lands."

This is a direct attack on the controversial RARE II and related policies that have been used to remove millions of acres in Alaska and the continental United States, especially in the Western states, from economic development under the rubric of "wilderness" or similar nature restrictions.

The recommendations for oil and gas policy go on to call for a review of the range of restrictive environmental and other laws such as the Endangered Species Act, National Environmental Policy Act, Offshore Continental Shelf Lands Act amendments of 1978, and others "to ensure that their provisions are compatible with the need to increase oil and gas production. . ." The recommendations on the Windfall Profits Tax, the $227.3 billion wellhead tax imposed earlier this year to restrict capital flows resulting from crude oil price decontrol, are straightforward. Noting that as structured, the tax "discriminates against the domestic development of conventional petroleum resources," it states that "this will lead to misallocation of the nation's resources, resulting in lower future domestic oil production and higher costs to consumers. Economic use of our nation's resources dictates that we should eliminate the Windfall Profits Tax. If this is not practical immediately, then the tax must be restructured and passed out on an accelerated basis."

Recommendations specifically include: "Eliminate the Windfall Profits Tax on newly discovered oil, heavy oil, incremental oil and stripper oil. If the Windfall Profits Tax on newly discovered oil cannot be eliminated, it is recommended that a plowback provision mechanism be established to encourage exploration in undeveloped 'wildcat' areas. The Windfall Profits Tax on all other oil production must be phased out at an 'accelerated rate.' " Original Carter administration calculations, using a $25/barrel base price in 1979, structured a tax which would raise the $227.3 billion by approximately 1990. Then presumably the tax would expire as the "windfall" would be long past. More current estimates, according to sources close to Capitol Hill, show that the $227.3 billion will have been raised by about 1985. It is likely that the tax will be amended to require automatic expiration once this occurs. As of now, such is not the case.

Defining conservation

Conservation, the report states, unlike current practice, will come from market pricing mechanisms, not government quotas on consumption of energy: "The basic guideline in establishing effective conservation programs should be to rely as much as possible on voluntary actions by the private sector, and to keep mandates to a minimum." In this vein, the report criticizes the mandated Department of Energy conversion of electric utilities to coal: "It is inequitable (and useless) for the Department of Energy to mandate utility conversion to coal so long as the Environmental Protection Agency maintains unrealistic coal-burning omission standards. Full price decontrol of oil and natural gas will quickly encourage widespread conversion if such impediments are removed." However, "An absolute ban on utility use of gas is unwise. . . . Finally, limited gas use can significantly increase our ability to burn coal with less air pollution."

Next week we will take up the nuclear, coal, and synthetic fuels recommendations of the Halbouty Task Force Report.