

Intimidating The Oil Industry

Schlesinger and Kennedy 'witch-hunt' progrowth opponents

An assault has begun on the U.S. oil industry as part of Energy Secretary James Schlesinger's effort to drive his stalled energy bill through Congress. The intimidation tactics have aroused industry protests. "I think we all get hurt when there's a witch hunt," said Earl Turner of the Texas Independent Producers Association. "And this is a witch hunt."

The attack follows months of top-secret investigations by the Department of Energy, the Justice Department, and key Congressional committees. Last week the DOE announced a case against Gulf Oil for payment to the government of \$42 million for overcharges dating from the 1973 Arab oil embargo, but the Gulf case is only the beginning. The Department of Energy has 33 other cases against the oil industry, totalling more than \$1 billion.

The DOE cases are conducted by an Office of Special Counsel headed by Paul Bloom. Bloom's operation is mammoth: a two-year budget of over \$40 million to finance a team of 1,000 lawyers, auditors and computer experts. AAMCO, Union, and Ashland oil companies have now been charged, and Continental Oil is under criminal investigation.

The charges themselves — mostly for selling "old" oil as more expensive "new" oil under the complex 1973 two-tier domestic oil pricing mechanism — are nothing new. They are being brought up now, it has been charged, as a final effort to force the oil industry to swallow the administration's no-energy bill.

But the DOE is not the only agency involved. As the criminal charges against Continental show, the Justice Department has formed a special "Oil Fraud Strike Force" and is reportedly about to press criminal indictments on many companies. In Houston alone, the Justice Department is auditing 73. Prosecution would be under federal antiracketeering statutes, previously used against labor unions, as in the famous Kennedy war on the Teamsters.

Kennedy's Role

The Kennedy interests are involved in this affair as well, both from old networks left over from Robert Kennedy's days at the Justice Department and from Senator Edward Kennedy himself. Senator Kennedy, through his position with the Senate Judiciary Antitrust Subcommittee, is trying to persuade Congress to forbid integrated oil companies to acquire new pipelines. Two weeks ago, Kennedy's subcommittee went further, calling for full oil company divestiture of pipelines.

The purpose of Kennedy's pipeline attack is exactly what it sounds like: sabotage U.S. and American oil companies' relationships to OPEC. In case anybody doubted his purpose, Kennedy and Sen. Jacob Javits (R-

NY) came out a few days ago with a denunciation of a new DOE report on international oil markets for its failure to recommend measures by the U.S. government to intervene against OPEC. Kennedy accused the DOE report of accepting the status quo, "including the dominance of OPEC and our dependence on Saudi Arabia."

The Justice Department's Antitrust Division, long a nest of Kennedy family protégés, is carrying out another investigation, codenamed "Project X," into possible price manipulations "by a major U.S. oil company." The climate of intimidation created by such investigations will, it is hoped, force the oil industry to come to heel.

Kennedy Aide: "Schlesinger's Finished; Everyone Knows It"

Washington sources indicate that Energy Secretary James Schlesinger is about to resign in the face of criticism from all quarters for his failure to deal adequately with national energy policy. The rumors for the first time have been picked up in the media, following months of private circulation in Washington circles. *U.S. News and World Report* and the American Nuclear Society magazine *Nuclear News* both carried the story last week.

While there are rumors that Senator Edward Kennedy is trying to get Alfred Kahn in as Schlesinger's replacement, it is clear that Schlesinger's departure at this time will be seen by progrowth forces in Congress, industry, and organized labor as the opportunity for getting a replacement who understands the importance of nuclear energy development for the nation's growth and employment.

Some sources are suggesting former Tennessee Valley Authority chairman Aubrey Wagner as a likely candidate to replace Schlesinger. Wagner, who headed the nation's largest electric utility, is well respected and an experienced administrator.

A spokesman for Kennedy, when asked about Kennedy's stand on Kahn, stated that a Kahn nomination would be "most exciting . . . we're delighted." She added that "Schlesinger's finished; everyone knows it." But Washington insiders believe that more patriotic members of Congress, fed up with the power exerted by the environmentalists in the Carter Administration, will make an open fight to ensure that Schlesinger's replacement will be a strong supporter of nuclear development.

If this were not enough — and so far it hasn't been — the DOE proposed a new "Financial Reporting System." Under the plan, oil companies would be required to file such finely detailed financial report that one industry representative said the system would require more detail than the company itself needed to run its operations. "We can only conclude," the official continued, "that the DOE has an ambition to investigate and regulate these companies in some manner we do not yet perceive."

Indeed, so it seems. Under the rules, DOE would feed its data to the Justice Department, Federal Trade Commission, Interior Department, and General Accounting Office, an operation which the energy companies charge violates constitutional and corporate confidentiality.

Whether any of this will have its desired effect in passing Schlesinger's energy legislation remains to be seen. Congress has not shown itself to be particularly hospitable to the cynical populism and watering down that Kennedy has been running and the effort to declare war on OPEC won't find much support either. If nothing else, the public nature of this latest attack could easily backfire. It wasn't tried six months ago because it would have been seen as a sign of anxiety on Schlesinger's part.

Schlesinger: The Sailing Gets Rougher

The Schlesinger energy bill has been deadlocked in the Congress so long that there are rumors of the Energy Secretary's impending resignation. A flurry of Congressional lobbying to give the President a victory just before the Bonn summit conference failed to come up with anything solid.

Instead, the week before the Bonn summit in early July, the House of Representatives overwhelmingly approved full funding for the Clinch River Breeder Reactor project.

The vote to amend the 1979 Department of Energy Budget for \$172 million for the breeder came despite repeated threats from Schlesinger and Carter to veto the project. Republican Congressman John Wydler of New York, a proponent of the breeder, called the Carter position indefensible, and noting Carter's presence at Bonn, commented, "Every one of those leaders at that conference, except Carter himself, wants to develop breeder technology."

The first section of the stalled energy bill, forcing conversion of oil- and gas-fired utilities and industry to coal by 1990, gained Senate approval July 18 by an expected 92-6 vote. Senator Harrison Schmitt of New Mexico, a backer of a greater U.S. fusion program, threatened a filibuster to stall even this small illusion of victory from

the backers of the bill until after Bonn.

Schmitt, addressing the Senate on Monday, voiced a dominant sentiment in Congress toward the Schlesinger bill when he attacked it as "negative in basic approach" and "based on false assumptions" about energy availability. Schmitt proceeded to outline what he termed an "energy policy for Americans" which would be based on the belief that such a policy must "be positive in spirit" in order to ensure a "humanist foundation for success." Schmitt outlined a long-term strategy calling for development of fusion, hydrogen, and solar resources, with the interim to be development of coal and nuclear resources — an echo of the final Bonn summit communiqué.

The provisions of the coal conversion bill itself are highly dubious. Senator Schmitt told the Senate that the bill is "a regulatory nightmare" which gives the "Secretary of the Department of Energy vast new regulatory power that will be almost entirely at the expense of our citizens." Schlesinger and Senator Henry Jackson have solemnly promised that the bill will cut U.S. oil consumption by 1 million barrels by 1985, but the Congressional Budget Office estimates it at only 500,000. Republican Senator Dewey Bartlett of Oklahoma claims it will actually save no oil at all.

The central problem preventing action on the full Administration bill is the so-called Crude Oil Equalization Tax (COET). COET was the scheme drafted last year by Schlesinger, Ford Foundation zero-growth advocate S. David Freeman, now Chairman of the Tennessee Valley Authority, and others to impose a domestic tax that would boost domestic U.S. crude oil prices to the world OPEC price of \$14 per barrel.

The Administration last fall refused a compromise offered by Senate Finance Committee Chairman Russell Long (D-La.) to funnel the tax revenues into an energy development fund. This refusal effectively killed what Schlesinger has termed the heart of the legislation. One source close to Long told that the Administration handled things "stupidly" when it refused to budge on this issue. "Now," he added, "there is no constituency in the country for any tax increase. This is an election year and we've just had Proposition 13." He emphasized that in the present climate, "The only way you're going to get such a program through is if we have some national emergency, or a war..."

With Washington rumor mills currently full of talk of Schlesinger being forced to resign over failure to push through his energy package, the no-growth faction within the Administration is faced with a situation of attempting to let the central COET die and go with the other four portions of the bill in a face-saving attempt to get something which Carter will be able to show as a political "success."

Even that prospect looks dim at this point, however. Following the expected Senate vote on the coal portion, the energy conferees have not even scheduled a followup meeting to discuss other portions of the bill. The last meeting, held July 13, was the first in seven months.

—William Engdahl