

THE WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

CD 083

INCOMING

DATE RECEIVED: AUGUST 08, 1990

NAME OF CORRESPONDENT: THE HONORABLE TOM MCMILLEN

SUBJECT: OFFERS SUGGESTIONS TO HELP THE DISASTEROUS
EFFECTS ON PETROLEUM PRICES AND THE COMMODITY
MARKETS CAUSED BY THE INVASION BY IRAQ ON
KUWAIT

ROUTE TO: OFFICE/AGENCY	(STAFF NAME)	ACTION		DISPOSITION	
		ACT CODE	DATE YY/MM/DD	TYPE RESP	C COMPLETED D YY/MM/DD
FREDERICK MCCLURE		ORG	90/08/08	FM	A 90/08/09 LJ
REFERRAL NOTE:					
99 Energy		A	90/08/16 LJ		A 90/09/18 LJ
REFERRAL NOTE:					
IVS SITT		I	90/08/15 LJ	C	1/1
REFERRAL NOTE:					
99 DOS		I	90/08/16 LJ	C	1/1
REFERRAL NOTE:					
LAMCCI	DOE	A	90/9/20 LJ	C	90/09/20 DJ
REFERRAL NOTE:					

COMMENTS:

ADDITIONAL CORRESPONDENTS: MEDIA:L INDIVIDUAL CODES: 1230

MAIL USER CODES: (A) (B) (C)

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*ACTION CODES:          *DISPOSITION          *OUTGOING          *
*                       *                       *CORRESPONDENCE:  *
*A-APPROPRIATE ACTION  *A-ANSWERED          *TYPE RESP=INITIALS *
*C-COMMENT/RECOM       *B-NON-SPEC-REFERRAL *                       *
*D-DRAFT RESPONSE      *C-COMPLETED        *CODE = A          *
*F-FURNISH FACT SHEET  *S-SUSPENDED        *COMPLETED = DATE OF *
*I-INFO COPY/NO ACT NEC*                       *OUTGOING         *
*R-DIRECT REPLY W/COPY *                       *                   *
*S-FOR-SIGNATURE       *                       *                   *
*X-INTERIM REPLY       *                       *                   *
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REFER QUESTIONS AND ROUTING UPDATES TO CENTRAL REFERENCE
(ROOM 75, OEOB) EXT-2590
KEEP THIS WORKSHEET ATTACHED TO THE ORIGINAL INCOMING
LETTER AT ALL TIMES AND SEND COMPLETED RECORD TO RECORDS
MANAGEMENT.



The Secretary of Energy

Washington, DC 20585

September 18, 1990

The Honorable Tom McMillen
U. S. House of Representatives
Washington, D.C. 20515

Dear Congressman McMillen:

We are pleased to respond to your recent letter to the President, a copy of which was forwarded to the Department of Energy for reply. This letter will update you on conditions in the oil market, and on steps we have taken to mitigate the impact of events in the Middle East on the U.S. economy. We view the problem as one of three parts - short-term, medium-term and long-term.

Current oil supplies on the world market have been sufficient to meet short-term requirements. The shut-off of Iraqi and Kuwaiti oil took place coincidentally at a time when world oil stocks were at high levels. In addition, we estimate that the excess production capacity outside of Iraq and Kuwait could nearly equal the current loss of production from those two countries, if such worldwide capacity would be brought on-line. The Administration has urged countries in the Middle East, South America, Africa, and elsewhere, with excess capacity, to increase their oil production, as well as producers here at home.

The DOE itself has been actively engaged in responding to the current situation in a variety of ways. For the short-term (next 120 days), we announced, on August 15, 1990, a balanced plan of increasing oil production, fuel switching and reduction in consumption which could offset much of the combined loss of U.S. imports of Iraqi and Kuwaiti oil. Enclosed is a copy of this initial plan of action. We have met with members of the domestic petroleum industry, as well as representatives of oil-consuming industries, in an effort to determine the most effective ways both to increase domestic production and reduce U.S. demand for oil.

In this regard, several projects have already been identified that will enhance domestic production without damaging our environment. We initially approached producers in Alaska about increasing their output, expecting them to lift 50,000 - 100,000 new barrels per day (b/d). After subsequent discussions with them, we now foresee an increase there of roughly 225,000 b/d. The Elk Hills Naval Petroleum Reserve in California is also expected to increase its production by 5,000 b/d. Additionally, the relaxation of State "allowables" will result in increased oil production in the State

of Texas. The Texas Railroad Commission has already adopted an emergency rule which is expected to increase production by 20,000 - 30,000 b/d. We estimate that these efforts could increase domestic supplies by 250,000 b/d by the end of the year.

DOE also is encouraging domestic energy conservation and fuel switching by commercial as well as private consumers. This initiative includes helping utilities and industry switch from petroleum to domestic fuels, like natural gas and coal. It also includes a national public information campaign, scheduled to begin very shortly, which will illustrate simple steps Americans can take to conserve energy by maintaining proper tire pressure, obeying speed limits, using the most efficient car in the household and taking advantage of mass transit and car pooling. We will also seek to take advantage of the 10,000 b/d of currently unused ethanol capacity.

We are completing work on additional measures for the medium term (1-2 years). It, too, will be a balanced approach of energy production, reduction in demand and fuel switching.

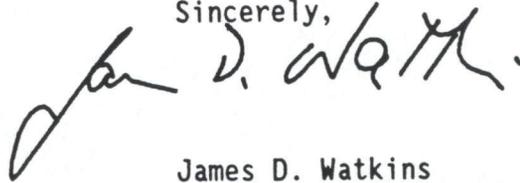
The Department has echoed the President's call to petroleum industry leaders for price restraint. While past experience has shown the folly of government intervention in the market to price or allocate fuel supplies, we are concerned about the recent increases in the price of petroleum products and the hardships they may be causing. DOE is gathering data on the commercial oil market to track any sharp fluctuations in the marketplace and will provide this information to the Department of Justice, Congress, and the American people.

We stand ready to draw on our Strategic Petroleum Reserve to redress any severe oil supply disruption. The Administration has already led consultations with the International Energy Agency to prepare for the coordinated use of government-controlled and strategic oil stocks held by the U.S. and its Allies, if it becomes necessary.

The Iraqi invasion points to the need for long-term solutions to energy issues. In July 1989, the President directed me to lead the development of a comprehensive National Energy Strategy. The principal objective of this strategy is to reduce our dependence and that of our Allies on unstable supplies of oil. We are well along in completing this task, and will make a report to the President in December, as scheduled.

I appreciate your views regarding these issues. Please be assured that we will continue to monitor the impacts of changing market conditions and report our findings to Congress and the American people.

Sincerely,

A handwritten signature in black ink, appearing to read "James D. Watkins". The signature is written in a cursive, somewhat stylized font. The first letter "J" is large and loops around. The "W" and "A" are also prominent.

James D. Watkins
Admiral, U.S. Navy (Retired)

DEPARTMENT OF ENERGY -- ACTION ITEMS

The Department of Energy has taken the following actions:

o Assist the parties in resolving their differences in order to begin production at Point Arguello (Central California Coastline) -- Crude oil production from the Pt. Arguello offshore platform can be brought on line quickly by successfully negotiating pending permits for transporting the oil by tanker to Los Angeles, or developing existing onshore pipeline alternatives. DOE intends to work closely with the Minerals Management Service, the California Coastal Commission, the County of Santa Barbara, the U.S. Coast Guard, the Chevron Corporation, and others to help resolve outstanding problems with the permitting process and assure the earliest possible flow of oil from Pt. Arguello. Industry estimates that production from the platform could be at 75,000 barrels per day within 90 days.

o Increase Alaskan production -- DOE has requested the management of Alaska's oil production system to increase flow by 50,000 to 100,000 barrels per day. This level of increased production is feasible without damaging future production capabilities.

o Increase Naval Petroleum Reserve (NPR) production -- The Department of Energy and Chevron (the operating partner) have agreed to increase production at the Elk Hills Naval Petroleum reserve by 5,000 barrels per day by October, 1990. This is made possible by recently completed upgrades in the system.

o Request states to increase "allowables" -- DOE will be contacting state officials in Texas, New Mexico, Kansas, Alabama, Mississippi, and other states to urge adjustments to the allowable production levels in certain fields (such as Austin Chalk in Texas) which are under their regulatory jurisdiction. Increasing "allowables" will add a minimum of 30,000 barrels per day to the domestic supply.

o Maximize Fuel Switching A substantial capability for fuel switching exists in the U.S. DOE and FERC will work with state authorities to identify natural gas pipeline projects that will enable fuel switching to occur and be sustained. DOE and FERC also will work with state authorities to make sure that switching to domestic fuels is not disadvantaged by the regulatory process. DOE

(MORE)

believes that 100,000 barrels per day of oil could be backed out by other fuels in the short term. Over the longer term, more savings are possible.

o The Secretary of Energy also encouraged Americans to voluntarily increase energy efficiency and reduce domestic demand for oil. Practical, common sense suggestions to save energy include:

o Maintaining proper tire pressure. Up to 100,000 barrels a day of oil could be saved by the simple measure of maintaining recommended automobile tire pressure. DOE will request dealers, service facilities, and gas station operators to remind consumers of the benefits of maintaining proper tire pressure. Fleet operators will be asked to ensure tire pressure checks are part of routine maintenance.

o Observing posted speed limits. Every American can save lives, money, and energy by driving at posted speed limits. Each MPH driven above the speed limits consumes 2% more fuel than necessary. Currently, average speed on non-congested highways exceeds posted speed limits by more than 5 MPH. Voluntary compliance with posted speed limits can save at least 50,000 barrels of oil per day.

o Using the more efficient vehicle. Over half of U.S. households have two or more vehicles, one of which is an average of 5 MPG more fuel efficient than the other. If just 20% of these vehicle owners would shift driving patterns so that the more efficient vehicle was utilized for the major portion of vehicle miles traveled, 40,000 barrels of oil per day could be saved.

o Carpool/Vanpool/Public Transit. States, metropolitan areas, and employers can encourage and facilitate the use of carpools and vanpools and the use of public transit service. A 20 percent increase in car/van pool and public transit use can reduce oil consumption by 90,000 barrels per day.

o Increase Alternative Fuel Use. Current U.S. ethanol facilities are operating at 80% capacity. An increase in alternative fuel use would have the effect of offsetting crude oil use by an estimated 10,000 b/d in the near term. DOE is exploring other options to increase the use of alternative fuels over the longer term.

o The Department of Energy is also working with all federal agencies to lower Federal energy use.

T H E W H I T E H O U S E O F F I C E

REFERRAL

AUGUST 16, 1990

TO: DEPARTMENT OF ENERGY

ACTION REQUESTED:
APPROPRIATE ACTION

REMARKS: ALSO REFERRED TO DOS

DESCRIPTION OF INCOMING:

ID: 165309
MEDIA: LETTER, DATED AUGUST 7, 1990
TO: PRESIDENT BUSH
FROM: THE HONORABLE TOM MCMILLEN
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON DC 20515

SUBJECT: OFFERS SUGGESTIONS TO HELP THE DISASTEROUS
EFFECTS ON PETROLEUM PRICES AND THE COMMODITY
MARKETS CAUSED BY THE INVASION BY IRAQ ON
KUWAIT

PROMPT ACTION IS ESSENTIAL -- IF REQUIRED ACTION HAS NOT BEEN
TAKEN WITHIN 9 WORKING DAYS OF RECEIPT, PLEASE TELEPHONE THE
UNDERSIGNED AT 456-7486.

RETURN CORRESPONDENCE, WORKSHEET AND COPY OF RESPONSE
(OR DRAFT) TO:
AGENCY LIAISON, ROOM 91, THE WHITE HOUSE, 20500

SALLY KELLEY
DIRECTOR OF AGENCY LIAISON
PRESIDENTIAL CORRESPONDENCE

August 9, 1990

Dear Tom:

Thank you for your recent letter to the President regarding increases in the price of oil in the wake of the Iraqi invasion of Kuwait.

We appreciate being apprised of your concerns regarding the current situation and receiving your recommendations on areas which you believe should be addressed by the Administration. I should note that the President has said that he will explore whether we and our allies should draw down our strategic petroleum reserves, and I have shared your comments in this regard with him. Additionally, I have taken the liberty of providing your remarks to the President's national security and energy policy advisors so that they, too, are aware of your views.

Thank you again for your interest in writing.

With best regards,

Sincerely,

Frederick D. McClure
Assistant to the President
for Legislative Affairs

The Honorable Thomas McMillen
House of Representatives
Washington, D.C. 20515

FDM:SLM:

bcc: w/ copy of inc to Dept. of Energy - for appropriate action
bcc: w/ copy of inc to NSC - FYI
bcc: w/ copy of inc to Dept. of State - FYI

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TOM McMILLEN
4TH DISTRICT, MARYLAND

COMMITTEES:
ENERGY AND COMMERCE
SCIENCE, SPACE, AND
TECHNOLOGY



165309

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ANNAPOLIS, MD 21401
301-841-5392/301-261-8401
6196 OXON HILL ROAD
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OXON HILL, MD 20745
301-567-9212

F. McClure

Congress of the United States House of Representatives

August 7, 1990

The Honorable George Bush
The White House
Washington, D.C. 20500

Dear Mr. President:

I am writing you because I am gravely concerned about the disastrous effects on petroleum prices and the commodity markets caused by the abhorrent invasion of the Emirate of Kuwait by the military forces of Iraq.

Mr. President, I want to commend you for the leadership you have shown in leading the worldwide condemnation of Iraq's illegal invasion of Kuwait. However, I want to bring to your attention several areas where I believe action by your Administration is greatly needed. First, I think the Administration should coordinate with the other two nations who maintain large strategic petroleum reserves, West Germany and Japan, an immediate release of portions of the reserves to compensate for the shortage of petroleum caused by the embargo of Iraqi and Iraqi-controlled Kuwaiti crude oil. Unless such action is taken, we will continue to see substantial increases in fuel prices that risk a return to the hyper-inflation of the 1970s.

Second, I call on the Administration to have the Departments of Justice and Energy coordinate a joint investigation into the many reports of price-gauging by cynical and irresponsible profiteers who are taking advantage of the American consumer. In my state of Maryland there are examples of gas prices at the pump being increased by fifteen cents per gallon only a day or two after the invasion of Kuwait.

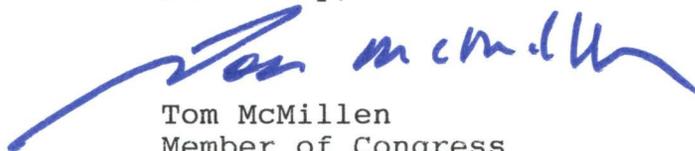
Finally, I ask that you direct the Commodity Futures Trading Commission to immediately suspend the trading of crude on the New York Mercantile Exchange until the release of petroleum from the Strategic Petroleum Reserve is commenced. The suspension of petroleum trading on the exchanges is analogous to the halting of the trading of grain futures in 1980, after the embargo on the sale of grain to the Soviet Union in response to their invasion of Afghanistan.

The Honorable George Bush -- Page 2

Mr. President, I hope that you will give serious consideration to the suggestions I have made above. I truly believe that the implementation of these proposals will go a far way in improving the present situation. Please do not hesitate to call upon me for any assistance that I can offer during this difficult crisis.

With best wishes, I remain

Sincerely,

A handwritten signature in blue ink, appearing to read "Tom McMillen", with a long, sweeping underline that extends to the left and right.

Tom McMillen
Member of Congress

TM/pw