

[5/1/78-Not Submitted] [CF, O/A 548]

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ID 782262

THE WHITE HOUSE
WASHINGTON

With [unclear] in trip book

DATE: 01 MAY 78

FOR ACTION: ~~STU EIZENSTAT~~

FRANK MOORE (LES FRANCIS)

~~JIM MCINTYRE~~

Tell them this was sent to be included in trip book

INFO ONLY: THE VICE PRESIDENT

JODY POWELL

ANNE WEXLER

ZBIG BRZEZINSKI

CHARLIE SCHULTZE

Per [unclear] should not go in trip book

SUBJECT: SCHLESINGER MEMO RE CORRECTIVE ACTIONS TO ALLEVIATE THE CALIFORNIA HEAVY CRUDE OIL PROBLEM

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
+ BY: 1200 PM WEDNESDAY 03 APR 78 +

ACTION REQUESTED: CAN BE EXPEDITED FOR PRESIDENT'S TRIP

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

needed ASAP today Pres needs to see trip before trip

DF, per Kitty / Roger Coaloff



Department of Energy
Washington, D.C. 20585

April 28, 1978

MEMORANDUM FOR:

THE PRESIDENT

FROM:

JIM SCHLESINGER *JS*

SUBJECT:

Corrective Actions to Alleviate the
California Heavy Crude Oil Problem

I. Introduction

In conjunction with your upcoming trip to California next week, you should be aware of significant problems that are developing in the California petroleum market as a result of a number of factors, including increased production of Alaskan North Slope oil and the Federal petroleum regulatory program.

- o At the present time, there have been some wells shut-in in the State of California, at least in part as a result of the Federal crude oil pricing and entitlements programs. This has resulted in significant criticism, including criticism from Governor Brown, that Federal regulations are resulting in decreased domestic oil production at the same time that your National Energy Plan calls for a reduction of oil imports.
- o In addition, also in part because of the Federal regulatory program and the increased volumes of Alaskan North Slope crude currently moving into the California market, a surplus of residual fuel oil has developed on the West Coast. That, in turn, has resulted in reduced refinery runs -- threatening possible gasoline and jet fuel shortages and rising prices.

In order to remedy this situation, the Department of Energy (DOE) is preparing regulatory measures designed to improve the marketability of the heavy crude oil. In addition, we recommend a temporary relaxation of the current export

restrictions on residual fuel oil produced from California crude in order to alleviate the regional oversupply. Together, these measures should serve in the short and middle term to increase the marketability of both California crude and residual fuel oils, increase the utilization of West Coast refinery capacity, and provide incentives for more California crude oil production.

Your decision is needed on the shape and timing of these proposed actions.

II. Background

Much California crude oil is heavy and sour. Consequently, when refined, it produces substantial quantities of heavy, high sulfur products that are difficult to market on the West Coast, where the relative demand for the lighter fuels is greater than is the case in the rest of the country.

The inherent market disadvantage of this oil has been further aggravated by the entitlements program, price control policies, and a combination of other factors, including:

- The arrival of Alaska North Slope oil on the West Coast, with no expeditious and inexpensive means of transporting it to interior regions;
- Increased production from the Elk Hills Petroleum Reserve;
- The reduced demand for residual oil on the part of utilities due to unusual supplies of hydroelectric power (due to the termination of the draught) and natural gas (due in part to warm winter weather) over the past five months.
- The imposition by the State of California of increasingly stringent controls on sulfur oxide emissions by utilities and other major users of residual oil.

Consequently, a surplus of both high sulfur, heavy California crude oil and high sulphur residual fuel oil currently exists on the West Coast. In the absence of west-to-east pipelines to dispose of the regional surplus, storage facilities are being filled to capacity, refinery runs are being reduced, and an increasing amount of California crude oil production is being shut-in.

Additionally, as a direct result of reduced refinery activity, a regional gasoline and jet fuel shortage is developing to the point where these products are now being shipped in substantial volumes from Gulf Coast refineries. This situation may soon result in increased gasoline and jet fuel prices for California consumers.

On December 8, 1977, DOE adjusted its entitlements program to increase the relative attractiveness to refiners of heavy California crude oil. Although generally viewed as a step in the right direction, this rulemaking did not fully remedy the situation. As a result, on February 21, DOE issued a new, broader rulemaking notice designed to solicit information and suggestions on a wider range of options, including foreign exchanges and/or outright exports of California crude and residual fuel oils. In connection with the rulemaking notice, public hearings were conducted on March 30 and 31 at Huntington Beach, California. The testimony presented at the hearings, coupled with further DOE analysis, led to the formulation of the following corrective actions.

III. Remedial Actions

A. Regulatory

DOE will proceed immediately with the development and issuance of final rules further amending the entitlements program to include, among other things, a quality (gravity) differential which will promote the production and refining of California heavy crude oil. DOE will also investigate the potential for using the entitlements program to provide incentives for West Coast to East Coast residual fuel oil shipments to alleviate the current product surplus. In some cases, even these incentives will not provide the economic incentives necessary to continue production of California heavy crude. DOE would be in a position to provide special relief in these instances on an expeditious case-by-case basis.

B. Export Option

In addition to the domestic movement of residual supplies, I urge you to instruct the Department of Commerce to liberalize its petroleum product export regulations to allow for temporary, controlled volume export and/or foreign exchange agreements for residual fuel oil produced and refined in California. Testimony at the March hearing indicates that there are substantial foreign markets available to absorb the residual oil oversupply.

Our policy on residual oil exports should be announced publicly in a way that would allow the industry to be aware of the ground rules and be able to structure export arrangements around them. The policy would state that residual exports will be approved only if: (1) U.S. consumers would not lose the benefits of price controls on domestic crude oil or petroleum products, and (2) it is demonstrated that the exported quantity is surplus production which must be disposed of abroad to prevent a cut-back in refinery runs.

The policy would not provide for the export of Alaskan North Slope crude oil, due to the continued political unacceptability of such exports. A decision to allow exports of North Slope oil is subject to a Congressional veto. The same veto procedure does not apply to most California crude oil.

The policy would also not provide for the export of California crude. Not only would such exports create political problems, but they would also take pressure off California refiners to re-design their refineries to use California crude.

IV. Recommendation

With your concurrence, I recommend that we proceed immediately to provide timely and effective relief for these problems by working with Commerce to implement the proposed residual fuel oil export policy, and by finalizing the DOE regulatory changes. Before moving ahead, we would brief Congressman Dingell, who has been a strong opponent of Alaskan oil exports, and who might also oppose even exports of domestic refined products.

The principal benefits to be derived from adoption of such measures include:

- o A marked improvement in the current residual surplus and depressed crude oil and residual oil prices in the California market.
- o The creation of market conditions which will promote domestic crude production and deter additional shut-ins.
- o A positive effect on the U.S. balance of trade.

There may be a need to take even stronger steps in the future. We are evaluating the potential desirability of restricting imports into the California market to place pressure on the industry to retrofit existing refineries to process more heavy California crude.

If you concur with this recommendation, the following options are available for implementation:

- DOE could announce the policy prior to your trip to California.
- You could announce it when you are in California.
- The decision could be announced later.

DATE: 17 APR 78

*Full
Raman*

FOR ACTION: STU EIZENSTAT

HAMILTON JORDAN *NC*

FRANK MOORE (LES FRANCIS)

JODY POWELL *NC per WW*

JACK WATSON

*go slow, wait #1
NC Civ Serv reform
is over*

CHARLIE SCHULTZE

INFO ONLY: THE VICE PRESIDENT

ZBIG BRZEZINSKI *nc by phone*

SUBJECT: MCINTYRE MEMO RE COST OF LIVING INCREASES FOR
FEDERAL EMPLOYEE RETIREMENT PROGRAM

*MCIT may be
precluded back?
Dale McLamb
4/16/78
will contact
5/1
on 13 call
back
4/16
Per Tom, new info to
David, how no need to
Levine; to same day, will
McIntyre / Bo Cutler
newsing*

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
+ BY: 1200 PM WEDNESDAY 19 APR 78 +

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

THE WHITE HOUSE
WASHINGTON

W. T. Anderson 5/1 -

per Dale McCumber
(Louise)

DS4



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

APR 13 1978

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: James T. McIntyre, Jr. *Jim*

SUBJECT: Cost-of-Living Increases for Federal Employee Retirement Programs

Most Federal employee retirement and disability programs, including civil service, military, and foreign service retirement, have two cost-of-living (CPI) increases each year, while social security and railroad retirement have only one. This preferential treatment of Federal retirees was one of the issues raised during your telethon last spring and last fall you agreed with our recommendation to propose shifting the Federal retirement programs to annual cost-of-living adjustments.

Several considerations have arisen in the meantime:

- The recent discussions of a possible cap on Federal pay raises have antagonized the Federal employee unions and have jeopardized support by the American Federation of Government Employees for civil service reforms. The unions will view an annual cost-of-living proposal as another assault on their members, further endangering reform.
- There are a number of retirement studies that are either underway or on the way. In particular, the Social Security Financing Amendments enacted last December require a study of the desirability and feasibility of Federal employee coverage under social security. Some people have argued that to move ahead now with a once yearly CPI adjustment is premature and that we should wait until these studies are finished.

Several agencies explicitly oppose the proposal:

- The Department of Defense is opposed because "the current adjustment mechanism more nearly meets the Government objective of preserving the purchase power of the initial benefit," and because frequent changes to its retirement system tend to undermine "motivation and career commitment among members."

- The Department of State "strongly urges that a decision on this proposal be deferred at least for this year..." The Department views the change as exacerbating its problem of getting employees to retire.
- The Department of Labor does not believe the proposal has been sufficiently developed and expresses concern about its effect on Federal labor-management relations.
- The Civil Service Commission, Health, Education, and Welfare, and the Central Intelligence Agency have no objection.

Recommendations:

We continue to believe that this proposal should be submitted to Congress this year because:

- it treats Federal retirees and the general public the same;
- it saves approximately \$0.4 billion each year;
- it follows precedents in both the public and private sector of making inflation adjustments once a year; and
- it is consistent with an anti-inflation effort.

However, we wanted you to be aware of the factors noted above before we proceed.

If you agree, I will ask the affected agencies to prepare the necessary bills and will submit them under a single cover letter from me explaining the overall rationale.

- _____ Proceed
- _____ Do not proceed
- _____ Other (specify)

WASHINGTON

DATE: 17 APR 78

FOR ACTION: STU EIZENSTAT

HAMILTON JORDAN

FRANK MOORE (LES FRANCIS)

JODY POWELL

JACK WATSON

CHARLIE SCHULTZE

INFO ONLY: THE VICE PRESIDENT

ZBIG BRZEZINSKI

SUBJECT: MCINTYRE MEMO RE COST OF LIVING INCREASES FOR
FEDERAL EMPLOYEE RETIREMENT PROGRAM

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