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THE WHITE HOUSE

WASHINGTON

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Ed —
Fascinating. Thanks for sharing with me.
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MEMORANDUM FOR ROGER B. PORTER

FROM: EDWARD S. GOLDSTEIN ESG

SUBJECT: Middle Eastern Oil and American Energy Policy

This week I attended the Center for Strategic and International Studies (CSIS) conference on Middle Eastern Oil and American Energy Policy. Several former senior government officials who spoke at the conference took the view that the Administration's National Energy Strategy proposal will help to frame the energy debate, but chided the NES for not going far enough to reduce U.S. dependence on oil from the volatile middle east. Paul Volcker and John Sawhill among others asserted that the U.S. should adopt a gasoline tax and phase it in over time so as not to harm the recovery. Highlights from the conference sessions, some of which dealt with broader issues than energy, are as follows:

Economic and Financial Consequences of the War and its Aftermath

Paul Volcker

- The U.S. is in a period of relative economic and political decline due to our energy "spendthriftiness" and trade policies that have been "relatively more protectionist" in the past 10 years.

- We should focus on opening up South American markets and the Free Trade Agreement with Mexico in the near term.

- A more substantial gas tax is required to deal with the budget deficit and the energy situation. We should go for a 50 cent phased-in tax and apply the revenues to conservation and deficit reduction.

- To reform the banking system, the "sad fact" is that you can't pull out Federal support suddenly. We should have nationwide banking and allow the banks to pursue a whole range of services. We should also encourage more caution in bank lending policies over time so as to allow for reduced insurance requirements over time.

- A capital gains tax reduction would be helpful to stimulate investment but is not a cure all. To get a capital gains tax reduction we may need to institute a higher marginal rate on the income tax.

Options to Meet Growing Electricity Requirements

Albert Carnesale

- Global warming may be the key to nuclear energy in the U.S. The government will have to pick up the cost of nuclear energy externalities when utilities can't pass them along to ratepayers.

Conservation, Efficiency, and Alternatives

Senator Tim Wirth (D,CO)

- There is a six month window of opportunity to do something about energy.

- Does not see Congress approving a fast track for approving standardized nuclear reactor designs. Also does not see Congress approving drilling in ANWR.

- The Senate will move on CAFE, alternative fuels and building standards.

Fred Krupp, Environmental Defense Fund

- There is "fat" in energy system. EDF showed Pacific Gas and Electric that alternatives existed to building 10 new power plants that PG&E had proposed.

- It will be politically difficult to get a tax on carbon. It would also be difficult to set the tax at the right level.

- The most promising market incentives are tradeable pollution permits.

Howard Gruenspecht, Council of Economic Advisers

- We shouldn't compare U.S. energy use per capita to other countries because there are difference in energy use patterns tied to geography, population density, industrial mix and age of capital stock.

- We shouldn't force feed conservation based on a scenario of expensive fossil energy.

- The national security cost of securing middle-east oil has to be addressed seriously.

Crafting Energy Policy: A Challenge to Forge a National Consensus

John Sawhill, President, The Nature Conservancy

- The Gallop Poll shows that while 2/3 of the public believes the energy problem is serious, only 3% have recently started car pooling or lowered their thermostats.

- You could get a fee on gas guzzling autos coupled with a rebate on fuel efficient cars if these measures were portrayed as luxury penalties.

- A gas tax is the only practical rapid way to reduce consumption, but the political reality is the American public will resist it. A gas tax could be presented as a "pay as you go, prevent as you pay" energy policy.

Global Implications of the Soviet Union's Breakup

Zbigniew Brzezinski

- Gorbachev believes the March 17 referendum on "preservation of the union with a renewed federation of equal sovereign republics with full rights to all nationalities" will provide historical legitimacy to the USSR. However, there may actually be a negative vote in many republics on the referendum question or a boycott of the referendum.

- The nationalities issue in the Soviet Union is historically unsolvable because the USSR is ethnically diverse on a national basis, whereas the US is ethnically diverse on an individual basis.

- Gorbachev's bottom line is the social ownership of land, or a more legal, liberal socialism than that provided for by Lenin and Stalin.

- The Kremlin may want to regain a presence in Eastern Europe in order to shield its western republics from western influences. It is conceivable that the baltic states will go independent and that the southern Soviet republics (Georgia, Moldavia etc.) will demand independence. While we can't at this stage recognize the independence of individual republics, we could adopt a variety of the Tiwan Relations Act which allows for a non-official U.S. presence in independent republics.

Robert Ebel, Former CIA Analyst

- The Soviet oil industry has imploded. The USSR could be a net oil importer by 1993. Production has dropped 600,000 barrels a day and could drop another 600,000-800,000 barrels a day. This crisis is due to shortages of spare parts/equipment, poor technology, water encroachment in productive fields, outmoded refineries and political uncertainties.

- We can only hope for a leveling off in the Soviet oil decline. Absent oil revenues, the USSR will try to increase arms sales to states such as Iran, Syria and Iraq.

The World Oil Situation

Keith Hamm, Petroleum Economics Ltd.

- There is no spare production capacity in the world oil system. We are relying on Libya and Nigeria to produce at a maximum.

- A bottleneck at the refinery system will characterize the oil market for the next several years.

Rep. Phil Sharp (D,IN), Chairman, Energy and Power Subcommittee, House Energy and Commerce Committee

- Congress will emphasize upgrading fuel economy standards, diversifying production, and getting greater use out of natural gas pipelines.

Eastern Europe's Energy Crisis

Bernard Montfort, World Bank

- Eastern Europe will have to reduce dependence on low quality coal. There are pockets of intense environmental pollution in Eastern Europe that can be eliminated by economic restructuring to do away with irrational energy policies and to close down inefficient coal mines.

Security Considerations in the Persian Gulf: War Aims and Postwar Alternatives

Admiral William Crowe

- As a new policy we may consider the proposition that no state should be able to claim the way it treats its citizens as a sovereign right, when this treatment leads to international tensions. (This clearly was a trial balloon.)

The Bush Administration's National Energy Policy

Secretary Watkins

- Unnoticed in NES are U.S. initiatives to expand production outside the U.S. in the western hemisphere, Europe and in developing nations.
- People believe that $1.06 unleaded regular is in the Bill of Rights.
- DOE believes that a CAFE standard of up to 40 mpg would only save 500,000 barrels per day as opposed to claimed savings of 2.8 million barrels per day.
- The rate of reduced demand in NES will be twice that of increased supply.
- DOE is looking at leasing space in the Strategic Petroleum Reserve to foreign companies.

Congress Looks at Energy Policy

Senator Malcolm Wallop

- We can't compare our energy per capita use to Japan's because the cost of producing energy and internally transporting it is so great.
- The production of domestic sources including ANWR will help pay for development of alternative fuels.
- The Clean Air Act has made it impossible to refine oil.

Senator Joseph Lieberman

- Japanese energy efficiency is enabling that nation to produce more competitively priced products.
- The oil market is not free in a classic sense because fear and speculation influences price as much as supply/demand. The government has to take a measured role to protect us from oil shocks.
- CAFE will save 10 times the oil that ANWR will produce.

Footnote on Winston Churchill and 1945

At the CSIS Middle Eastern Oil and American Energy Policy conference I spoke with my counterpart at the British Embassy, Steven Sclaroff. We discussed the reason why Winston Churchill was tossed out of office following the end of World War II. Sclaroff mentioned that many of the returning British troops had received political "indoctrination" from Laborite officers who were assigned to units to teach citizenship. These officers, "London School of Economics types," sold the returning soldiers on the idea that while Sir Winston was a great war leader, the Labor party would take care of them after the war. While it is clear we should not get involved with a bidding war with the Democrats in regard to providing our returning troops with benefits, it may be worthwhile to fashion a Presidential statement based on existing benefits on how we plan to honor our returning troops.