

THE WHITE HOUSE

Office of the Press Secretary
(York, Pennsylvania)

For Immediate Release

May 6, 1987

TO THE CONGRESS OF THE UNITED STATES:

Pursuant to Section 3102 of the Consolidated Omnibus Budget Reconciliation Act of 1986 (Public Law 99-509; 100 Stat. 1889), I am transmitting my views and recommendations on the energy and national security concerns related to oil import levels. These views and recommendations take into consideration the findings in "Energy Security: A Report to the President of the United States." That report was prepared under the direction of Secretary of Energy John S. Herrington at my request and in satisfaction of requirements of Public Law 99-509.

My Administration has done a great deal to build the Nation's foundation for long-term energy security and to strengthen the domestic oil industry. Price and allocation controls on oil have been eliminated; the Strategic Petroleum Reserve (SPR) has been increased nearly fivefold to more than 500 million barrels and, with our encouragement, our allies have built up their stockpiles by about 350 million barrels; several important energy tax incentives were retained in the Tax Reform Act and full-cost accounting provisions for independent producers were preserved; and I have recently forwarded to the Congress a \$2.5 billion clean coal initiative. Because of these actions, the United States is now capable of withstanding a supply interruption comparable to the 1973 and 1979 interruptions without experiencing the same economic distress.

More remains to be done. Secretary Herrington's recent report on energy security points out three major concerns: (1) our increasing dependence on imported oil; (2) the sudden decline in oil prices in 1986, which has harmed significant segments of the U.S. petroleum industry; and, (3) the serious implications for national security raised by both of these events. The Department of Energy study concludes that by the mid-1990s we may be importing more than half our oil. Capital expenditures for oil exploration and development have dropped significantly, as has employment and U.S. oil production. Coupled with this production decline is increased consumer demand for oil, which together have resulted in a rise of one million barrels per day in oil imports. In recent months, while market prices have rebounded to some extent, the industry remains under pressure and the outlook is uncertain.

We must take steps to better protect ourselves from potential oil supply interruptions and increase our energy and national security. My goals in this area are to:

- maintain a strong domestic oil industry;
- increase our domestic stockpiles, which we can draw down in the event of a supply interruption;
- expand the availability of domestic oil and gas resources;

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-- continue conservation and progress toward diversification of our energy resources; and

-- promote among our allies the importance of increasing their stockpiles.

I have already proposed a number of significant steps on which the Congress has failed to act. If these policies had been in place, our domestic oil industry would not be so seriously impaired today. I again urge the Congress to act quickly in adopting my proposals to improve our energy security and strengthen the domestic oil industry, including:

- o repeal of the Windfall Profit Tax;
- o comprehensive natural gas reform, including wellhead price decontrol, mandatory contract carriage and demand restraint repeal;
- o approval of the Department of the Interior's five-year offshore oil and gas leasing plan;
- o permitting environmentally sound energy exploration and development of the Arctic National Wildlife Refuge; and
- o ensuring the future viability of nuclear power through nuclear licensing reform, reauthorization of the Price-Anderson Act, and progress in development of a nuclear waste repository.

Secretary Herrington and I will continue to push hard for higher levels of oil stockpiles among our allies, particularly at the Ministerial Meeting of the International Energy Agency and the Venice Economic Summit. The Vice President is also leading the Task Force on Regulatory Relief to look at unneeded regulatory barriers to greater energy security, including evaluating regulatory changes to facilitate the use of alternative fuels for the transportation sector.

In addition, today, I am urging the Congress to consider several steps that will lead to more exploration and development, reduce early well-abandonment, and stimulate additional drilling activity. I am suggesting the Congress consider two tax changes of a relatively technical nature: increasing the net income limitation on the percentage depletion allowance from 50 percent to 100 percent per property; and repealing the transfer rule to permit use of percentage depletion for proven properties that have changed ownership. These changes will be of significant value but avoid reopening basic issues considered in tax reform. To continue our efforts to build a stockpile protecting us against supply interruptions, I am prepared to support an SPR fill rate of 100,000 barrels per day, which will achieve by 1993 my goal of an SPR of 750 million barrels, provided that budget offsets are made available to cover the higher costs of this fill rate. I also am reducing the minimum bid requirement for Federal offshore leases from \$150 per acre to \$25 per acre, which will encourage exploration and development by reducing the up-front costs.

I believe all these measures are important steps toward ensuring that our Nation has a strong domestic oil and gas industry and substantial protection against oil supply interruptions. They would, taken together, increase production and make a significant contribution to our national security interests.

I am also instructing the Secretary of Energy to provide, through the Domestic and Economic Policy Councils, periodic assessments of our energy security risks. It may be necessary to consider a variety of options for encouraging exploration and production if our U.S. industry continues to be diminished and national security risks increase. I will consider further actions as warranted.

RONALD REAGAN

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