

EXECUTIVE SECRETARIAT
ROUTING SLIP

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Remarks

Executive Secretary
8 Apr '87

Date

3637 (10-81)

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The Deputy Secretary of Energy
Washington, DC 20585

EXHIBIT 1
87- [redacted]

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April 2, 1987

Mr. Robert Gates
Acting Director
Central Intelligence Agency
Washington, D.C. 20505

Dear Bob,

I want to take this opportunity to thank you for all the support the Agency provided the Department of Energy during our review of energy-related national security concerns. As you are aware, the President ordered this review as a result of his concern that U.S. energy security was being threatened due to the 1986 oil price collapse. The recently completed report will serve as the framework for U.S. energy policy during the remainder of this Administration.

The review could not have been completed in a timely manner without the hard work and analytical support provided by the CIA. My special thanks go to [redacted] especially [redacted]. Their expertise in the energy area is unmatched. I would also like to extend my thanks to [redacted] in NESAs for his insights and valuable contributions. And, finally, I'd like to recognize [redacted] on loan from you, who served as the Chief of Staff of the whole project.

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The Agency has made a significant contribution to the energy policy debate in the United States and should be commended for its role in the process. I look forward to our continued close cooperation.

Sincerely,

William F. Martin



C-114-11



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United States Department of Energy
DOE 350

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The Deputy Secretary of Energy
Washington, D.C. 20585
Official Business
Penalty for Private Use \$300

Mr. Robert Gates
Acting Director
Central Intelligence Agency
Washington, D.C. 20505



10/11/79

CONFIDENTIAL

The Director of Central Intelligence
Washington, D.C. 20505

National Intelligence Council

NIC 01342-87
25 March 1987

MEMORANDUM FOR THE RECORD

SUBJECT: Energy, Natural Resources and the Environment Working Group
Meeting on Energy Security

1. The ENRE Working Group met to define the terms of reference of a follow-up study on energy security for the EPC. At the EPC presentation of the unclassified DOE study last week, some Cabinet members argued that the paper did not fully address or define the issue of energy security.

2. Bill Martin, who attended the ENRE Working Group session, is preparing a short paper based on the attached outline. I told Martin that the paper should include a better definition of energy security perhaps, redefining the issues as economic vulnerabilities, geo-political interests, and defense concerns. Framed in this way, I thought that the CIA would be better positioned to comment on energy threats in the 1990s without tripping over the politically sensitive domestic policy issues of energy taxes or import fees. Alan Larson, State Deputy Assistant Secretary for International Energy and Resources Policy, Stephen Danzansky, NSC, and I will conspire to write a paper which will properly defines energy security.

3. Lastly, Martin suggested to me that the Acting DCI might want to say a few words on energy security and stability in the Persian Gulf when the energy security study is again presented to the EPC next week.



Deane E. Hoffmann
National Intelligence Officer for Economics

cc: ~~D/Exec Staff~~
NIO/NESA
D/NESA
D/OGI

OGI (Room 3G31)



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C-114-1R

CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

March 20, 1987

MEMORANDUM FOR WORKING GROUP ON ENERGY, NATURAL RESOURCES AND
THE ENVIRONMENT

FROM:

RALPH C. BLEDSOE
EUGENE J. MCALLISTER

Ralph Bledsoe
EM

SUBJECT: Meeting March 24, 1987

The ENRE Working Group will meet on Tuesday, March 24, 11:00 a.m. in Room 248 of the Old Executive Office Building.

The Group will review the Department of Energy analysis of the national security threat and the various options outlined. The next DPC/EPC meeting on energy is tentatively scheduled for the week of March 30.

Bill Martin is preparing a paper for the discussion. The Council has asked that the Working Group look at:

1. determining whether we now face a national security threat from oil imports, and if so, how great a threat;
2. evaluating the options to deal with the national security threat;
3. developing recommendations for dealing with potential Congressional actions; and
4. developing other recommendations for the President's review, to ensure we are adopting the best economic policies related to energy.

The Council directed that the Working Group rely on existing studies, particularly regarding the energy security threat.

**EXECUTIVE SECRETARIAT
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SUSPENSE _____

Date

Remarks

Executive Secretary

18 Mar '87

Date

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J/OGI

Best Regards,

William F. Martin
Deputy Secretary of Energy

*Bob -
Here is a copy of Energy Security - hot off the
press. You guys in Global Issues were superb.
Best, Bill*



THE SECRETARY OF ENERGY
WASHINGTON, D.C.

Executive Registry
87-1165X

March 17, 1987

Dear Mr. Gates:

I am pleased to forward to you the Department of Energy review of energy-related national security concerns, requested by President Reagan in response to declining domestic oil production and rising oil imports.

This report, "Energy Security," was conducted with interdepartmental and interagency technical support and counsel. It covers all aspects of U.S. energy supply and demand -- and their implications for our energy security.

Based on this report, there is justification for national concern over the declining competitiveness of our domestic oil and gas industry and rising oil imports. I have enclosed a copy of a letter to the President in which I have recommended the steps I believe should be taken in response to this situation. I strongly commend these recommendations and this report to members of the Administration as a focal point for further discussion of energy security.

Yours truly,

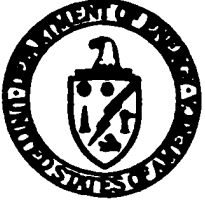
John S. Herrington

Enclosure

Honorable Robert Gates
Deputy Director
Central Intelligence Agency
Washington, DC 20250



C-114-15



THE SECRETARY OF ENERGY
WASHINGTON, D.C.

March 16, 1987

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to transmit the Department of Energy review of energy-related national security concerns which you requested in response to declining domestic oil production and rising oil imports. This review, "Energy Security," covers all aspects of U.S. energy supply and demand -- and their implications for our energy security.

This report shows that, while our energy security remains strong in the short term, there is justification for national concern over the declining competitiveness of our domestic oil and gas industry. Although we have made progress toward enhancing energy security in the last six years, we can only ensure continued security with a viable domestic energy industry -- and, in particular, a vigorous petroleum industry. Even with continued conservation and efficiency and substantial contributions from other energy resources, like coal, nuclear energy and renewables, our economic and energy security is inextricably tied to the fate and fortunes of our domestic petroleum industry through this century.

It is clear that the weakening of our domestic oil infrastructure holds the potential for significant, detrimental ramifications for our energy and national security if action is not taken. Although falling domestic oil production and increasing dependence on foreign oil pose a different set of problems from those that existed at the onset of this Administration, they represent a perhaps more difficult and complex challenge. The need to address this energy challenge is no less urgent than when the Nation was confronted with two oil supply interruptions in the 1970s.

As the report documents, the suddenness and severity of the oil market collapse of 1986 has devastated significant segments of the U.S. petroleum industry. Marginal oil production has been shut in; development of high cost and enhanced oil recovery projects has been postponed; and exploration in frontier areas has been slowed. Expenditures in 1986 for exploration and development dropped by 30 percent among major oil companies and by 50 percent or more among independents.

Coupled with the production decline is increased consumer demand for oil, which has resulted in a rise of one million barrels per day in U.S. imports. Our projections show that continuation of present market trends will accelerate the decline in U.S. production, stimulate more consumption, and continue severe impacts in oil producing areas of the country. This turn of events could leave U.S. energy security in jeopardy. This and other scenarios and projections are described in more detail in the report.

Much has already been done during this Administration to strengthen the domestic oil industry and remove impediments to the exploration for oil and gas. With your leadership, Federal price and allocation controls on oil have been eliminated and the Economic Regulatory Administration has been sharply reduced. Needed oil and gas tax incentives like the treatment of intangible drilling costs were preserved in the tax reform bill. In the past year, we've won approval of two Federal Energy Regulatory Commission orders, Orders 436 and 451, that should move the natural gas industry much closer to a market base. The Securities and Exchange Commission, with our persuasion, retained full-cost accounting provisions that are vital to independent petroleum producers. Government regulations that would have forced the capping of stripper wells on Federal lands were lifted. Since you took office, the Strategic Petroleum Reserve has been increased five-fold to more than 516 million barrels. We have also worked with our allies to expand their strategic stocks, recognizing that energy gains by this Nation can be lost unless complementary policies are pursued overseas.

Still other steps need to be considered and more must be done. Along with our continued support of the clean coal program, nuclear licensing reform, Price-Anderson reauthorization, and increased investment in basic science, as an absolute minimum we need to continue to aggressively seek enactment of the many oil and gas initiatives proposed by the Administration last year, which are as follows:

- o Repeal of the Windfall Profit Tax, which currently produces virtually no revenue and is a counterincentive to industry investment;
- o Comprehensive natural gas reform, including wellhead price decontrol, mandatory contract carriage and demand restraint repeal, which would encourage the production of an estimated 30 trillion cubic feet of additional gas, the equivalent of 5.3 billion barrels of oil; and

- o **Adoption of key regulatory reform provisions of the 1986 Oil and Gas Production Revitalization Act. Specifically:**
 - Extending the Environmental Protection Agency deadline to report to Congress on the degree of hazard from oil and gas production wastes;
 - Clarifying the exemption for small temporary collection devices from underground storage tank regulations called for in the 1984 Hazardous and Solid Waste Amendments, where there are negligible environmental impacts;
 - Permitting land treatment and recycling of oil and gas wastes when studies have demonstrated that the practices do not threaten public health or the environment.

However, these measures alone aren't enough -- and, in many cases, they won't provide the kind of immediate incentives that are needed to counter an even greater slide in domestic capacity and provide the potential for increased domestic production. It is imperative that, in addition to pressing for the initiatives that have already been proposed, we address this need -- and the need to provide incentives to longer-term oil and gas exploration.

Based on my review of the costs and benefits of the options available, there are several principal tax incentives, along with other necessary long-term steps, that I recommend for your endorsement and which I propose to bring before the Domestic Policy Council and the Cabinet for appropriate review and evaluation:

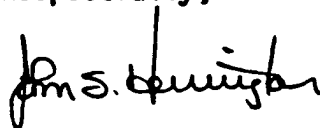
- o An increase in depletion allowances (or a floating depletion allowance) up to 27½ percent for all oil and gas producing properties and for new and enhanced recovery production. This action would encourage investment in reserve additions and lead to an increase in exploration and development of new oil and gas as well as an increase in revenue to the hard-hit oil services industry;
- o Repeal of the transfer rule to allow independent producers to use percentage depletion allowances on properties bought from major oil companies. This change would encourage small independents to buy such properties and continue to operate them, thus keeping marginal wells in production;
- o Increasing the net income limitation on oil and gas production to 100 percent. This increase would encourage the continued operation of some marginal oil properties whose operation would otherwise be discontinued and bring some added investment to new oil projects;

- o Expensing of geological and geophysical costs in the same manner as intangible drilling costs. This initiative would directly encourage exploration activity leading to development of new reserves;
- o Resolution of the impasse over oil and gas development of the Outer Continental Shelf, now tying up an estimated 2 to 5 billion barrels of oil;
- o Environmentally sound oil and gas exploration and prudent energy-related development of the Arctic National Wildlife Refuge coastal plain, which may have "in place" oil of up to 30 billion barrels; and
- o Maintenance of a strong Strategic Petroleum Reserve fill rate to reinforce deterrence against an oil supply interruption.

Adoption of these and previous proposals, according to our estimates, will result in approximately one million additional barrels per day in increased domestic oil production. On balance, the increased production, related economic growth and reduced reliance on foreign oil imports far outweigh the alternative of increasing imports, which primarily benefits oil-exporting nations. Furthermore, these proposals achieve these objectives in a cost-effective manner as opposed to proposals like the oil import fee which carry a sizable net economic loss to the Nation.

In my estimation, this additional domestic oil production will provide an absolutely critical margin of energy security that is essential to our economic and national security based on the conclusions and threat to energy security outlined in this report.

Respectfully,



John S. Herrington

Enclosure



ENERGY SECURITY

**A REPORT TO THE PRESIDENT
OF THE UNITED STATES**

**UNITED STATES DEPARTMENT OF ENERGY
WASHINGTON, DC 20585
March 1987**