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Statement of
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Before the
Senate Committee on Energy and Natural Resources

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to be here today to discuss the Nation's preparedness for dealing with oil import disruptions. Accompanying me today are Dr. William Kruvant of our Energy and Minerals Division, Mr. Philip Thomas of our International Division, and Mr. Richard Springer of our General Counsel's Office. As you know, GAO has been active in this area, especially during the past year when we issued four reports on the subject. 1/ Our major report--issued just before the expiration of the Emergency Petroleum Allocation Act--contained 27 recommendations to Congress and the Executive Branch on ways to improve our energy preparedness.

Many of these recommendations were reflected in the proposed Standby Petroleum Allocation Act (SPAA). The centerpiece of that bill was an emergency oil allocation mechanism. In our September

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1/"The Effects of the Fiscal Year 1983 Budget, Energy Reorganization, and Program Changes on U.S. Energy Emergency Preparedness," EMD-82-45, Mar. 9, 1982. "The United States Remains Unprepared for Oil Import Disruptions," EMD-81-117, Sept. 29, 1981. "Unresolved Issues Remain Concerning U.S. Participation in the International Energy Agency," ID-81-38, Sept. 8, 1981. "The Department of Energy's Reorganization of Energy Contingency Planning Holds Promise--But Questions Remain," EMD-81-57, March 4, 1981.

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report, we recommended putting in place a standby system of limited oil allocation or tax recycling. Other subjects covered in both the SPAA and our report included international oil fair-sharing, a cooperative approach by Government and industry to public and private oil inventories, Federal preemption of conflicting State regulations during crises, and many of the other provisions of the SPAA. In addition, we recommended improvements in demand restraint, fuel switching, surge oil production and certain aspects of our international programs.

DOE's official response to our report disagreed with many of our recommendations as conflicting with the Department's basic policy of maximum reliance on the free market during oil crises. The Administration's intention of relying on the market was re-emphasized by the recent veto of the SPAA.

Even with a program heavily weighted towards market forces, however, there are several things only Government can do including:

--Providing complete, credible information on the situation to help forestall panic,

--Determining how and when to use the SPR,

--Removing regulatory constraints on fuel switching and surge oil production,

--Recycling tax revenues,

--Activating mandatory demand restraint or allocation programs if necessary, and

--Participating in the International Energy Agency program.

In congressional testimony within the last few weeks DOE has outlined new approaches to energy contingency planning. Recently, DOE supplied the Committee's staff with documents outlining proposed policies and programs. Two weeks ago the staff asked us to analyze those documents and assess their implications for energy contingency planning.

Because of the relatively short time since we received these documents our analysis is limited to the documents themselves supplemented by a limited amount of additional materials and clarifications we obtained from DOE. As such, our comments today should be considered as tentative.

With that caveat in mind, our review of the documents indicate that DOE is taking some concrete steps toward better-defined contingency plans. Most of the steps, however, are very preliminary and the scope of DOE's effort in actual plan development--as distinct from doing studies and defining options--extends only to several narrow fronts. Basically, DOE's approach rests on two fundamental foundations. These are the Strategic Petroleum Reserve (SPR) and the activation of the Executive Manpower Reserves. Of these two, the SPR is quite advanced while the use of the Executive Manpower Reserves for managing energy disruptions which are not related to national defense emergencies has not reached the concrete proposal stage. In fact, there is considerable confusion in DOE and the administration over whether authority exists to activate the Reserves in such a crisis and what they could accomplish once they were activated. The rest of DOE's effort at this point, is directed at gathering data, doing studies, and defining options, not the actual development of contingency plans.

In the final analysis, it may well be that DOE's approach to contingency planning for everything except military situations is still little more than the SPR.

As the Committee is well aware, the SPR has been filled at a high rate over the past year, thereby materially contributing to our national security. In addition, DOE submitted an SPR distribution management plan in 1979 and currently has an improved version in draft. As we pointed out in our September report, the existing distribution plan was logistical in nature and did not address the crucial policy questions of when the SPR would be used, what method would be used to distribute the oil, and how fast it would be drawn down under varying circumstances. In commenting on our report DOE disagreed with the need for such plans stating that it was not necessary or prudent to outline them in advance. According to the documents we have seen, DOE still has no intention of addressing in advance when to use the Reserve, how to distribute the oil, or what the drawdown should be. However, the Department has apparently realized that at least the procedure for making the decision to use the SPR must be defined in advance. This is needed to avoid confusion and be sure that all relevant agencies have been consulted before a use recommendation is made to the President. We hope that the Department will extend the present study--which should be in draft sometime this month--to cover the additional question of under what circumstances to use the SPR and then go farther to define effective disposal methods and drawdown rates.

The other major proposal of DOE is the revitalization of the Executive Manpower Reserves so that private industry expertise can be brought to bear in the national interest during energy emergencies. We agree that Government/industry collaboration can be particularly fruitful during energy emergencies, and supported the concept in our September report. There are, however, legal and practical constraints which must be taken account of in any Government/industry collaborative effort, and many of these problems have not been resolved.

As we see it, there are four basic problems that have to be resolved. First, it is not at all clear that the Reserves could be activated in an energy crisis which was not declared to be a national emergency under the Defense Production Act. DOE officials informed us that the Federal Emergency Management Agency--which has overall responsibility for Executive Manpower Reserves government-wide--has taken the view that the Reserves could only be mobilized in a defense-related national emergency. If this view prevails, DOE would not be able to activate the Reserves for the most likely kinds of energy emergencies.

Second is the problem of conflict of interest. Clearly, using industry personnel to help manage an energy disruption raises serious questions of what role such personnel could play and still inspire confidence that their actions are in the public interest.

Third, a similar problem concerns anti-trust policy. If private industry personnel from various companies work together to manage an energy shortfall, there must be safeguards against potential collusion and anti-competitive behavior. While some sort of exemption or guideline might be able to deal with these problems satisfactorily, DOE has not yet begun formulating proposed legislation or regulations.

Fourth, there is the overall question of what the Reserves would do if the previous three problems were solved and they were mobilized. For example, would they be advisors or would they be managers? Our discussions with DOE officials revealed that they have not yet made any plans for using reservists. Without such plans, there is the distinct possibility that the reservists would not be effectively used or that the legal issues mentioned above would not be resolved when activation becomes necessary.

Aside from the SPR and the Executive Manpower Reserve plans which are in the process of being drawn up, the rest of DOE's emergency preparedness effort consists of data gathering, studies, and defining further options. While such efforts can be useful, we must emphasize that they are by no means contingency plans and would be of little value in an actual energy crisis. Specifically, DOE is or will be studying:

--How to encourage the build-up of private oil inventories;

--What public information programs would be most useful;

--The economic effects of supply disruptions,

--Economic impact mitigation options;

--How to encourage State and local governments and private industry to develop their own contingency plans;

--IEA supply rights and fair sharing; and

--Regional capabilities for dealing with shortages.

DOE says that these studies will be completed within a year.

In our view, probably the most important of these areas is encouraging higher private stock holdings. This is important because it dovetails with the SPR and is potentially the most effective option to mitigate the adverse economic effects of disruptions. We are currently studying this problem ourselves at the request of Senator Bradley of this Committee. Because private stocks are so important, examining the DOE study proposal in this area provides an illustration of the limitations placed on many of their planned studies. For example, DOE's study focuses entirely on short term means to slow or stop the current drawdown of private stocks and long term policies to encourage private stock building. There is no mention of policies to encourage drawdown of industry stocks during disruptions--despite the considerable evidence that industry historically has built rather than drawn down inventory during shortfalls. Not only is there no option for drawing down private stocks being considered, there is no appreciation that if SPR oil is distributed to companies, it may well wind up in their stockpiles instead of at the gas pump. The "short-term" study of what can be done about the present stock liquidation is slated to be completed in September. Unfortunately, private stocks are now 110 million barrels lower than last March. If this trend continues, and the factors underlying it show no sign of abating, by September private stocks will be at levels similar to those during the Iranian shortfall of 1979. To see this in another way, while the private stocks have fallen by 100 million barrels between last November and April, the SPR added only about 20 million barrels during the same period.

All in all, DOE seems to be moving forward slowly on several narrow fronts in the contingency planning area. Our conclusion last September was that "The inadequate state of the Nation's emergency preparedness...is a serious problem requiring immediate attention. We believe the Federal Government should take prompt and concerted action to counter this serious potential threat to national security." We see no reason to change that assessment today. In terms of concrete plans, if the Executive Manpower Reserves don't materialize we will have little more than the SPR to rely on during an emergency. We see very little that is new in these most recent DOE documents.

While there are no new administration initiatives concerning the International Energy Agency, the IEA is the principal forum where we and our allies can implement cooperative energy policies to mitigate the adverse effects of petroleum supply disruptions. The centerpiece of this cooperative energy effort is the agreement to share available oil among the 21 member countries during international oil shortfalls. Although the system has never been activated it has been tested on three occasions with a fourth planned for the Spring of 1983. These tests indicate that data and pricing problems continue to plague the operation of the system.

GAO issued a report on U.S. participation in the IEA in September 1981. In that report we concluded that U.S. oil company participation cannot be assured without a limited antitrust defense. Accordingly, we favor extension of such a defense. Further, we urge the speedy completion of other actions needed to improve U.S. readiness to fulfill our obligations. These include development of a fair sharing system, re-establishing our National Emergency Sharing Organization, completion of a plan of action (i.e., those types of activities which oil companies could engage in during an emergency under the protection of an antitrust defense), and improvement of the accuracy of our data.

Several specific questions also occurred to us as we looked over the documents supplied us by the Committee staff. Let me mention just a few, the answers to which I believe, would help clarify the status of emergency planning at DOE. In addition, we have submitted a longer list of written questions to the staff, the answers to which might be useful in evaluating DOE's plans.

Among the questions that remain unresolved in our minds and that the Committee may wish to pursue with DOE are the following:

1. DOE intends to rely on a market-oriented approach to a supply interruption, rather than on Government intervention such as allocation or mandatory demand restraint. Has DOE estimated to what levels prices would rise during an interruption? What might the market-clearing price be during a world-wide shortage of one, three or ten million barrels a day? For instance, what are the implications of these prices for the economy or for income distribution? On the other hand, government intervention is not without cost and inefficiency as shown from the past few years. Have these tradeoffs been assessed?

2. DOE is encouraging development of state contingency plans. This invites creation of more than 50 plans and regulations which may conflict with each other and national plans and regulations. How will DOE avoid a web of potentially conflicting regulations?

3. The most damaging effect of the 1979 oil shortfall came from the rapid price increase. Current DOE

plans do not include measures to deal with this problem. What, if anything, does DOE intend to do to attempt to mitigate rapid price increases?

4. Will the Congress, in fact, receive an SPR drawdown plan and when? In its response to GAO's contingency planning report DOE indicated that it did not intend to draw up such a plan. DOE proposals now indicate an intent to do so. Has DOE changed its opinion or do they intend to study the options without developing a specific plan?

That concludes my prepared testimony, Mr. Chairman. We would be happy to respond to questions.