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Coping With High Oil Prices: A Summary of Options

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Summary

Owing to a tightness in crude oil supply and accelerated drawdown of oil inventories, the price of home heating oil in the Northeast and diesel fuel rose sharply during the winter of 1999-2000. Gasoline prices soon followed. In the weeks prior to a scheduled late March meeting in Vienna, some Organization of Petroleum Exporting Countries (OPEC) producers indicated an inclination to raise production, but there was no firm consensus how much they might be inclined to boost it, or what the schedule for these increases would be. In the meantime, concerns were raised that additional production might reach markets too late to ward off even higher prices for gasoline in the spring and summer.

The Clinton Administration resisted any high profile intervention that would affect prices, preferring instead to try to persuade OPEC to agree to raise the oil production targets that had been agreed to in March 1999. Secretary of Energy Richardson met with a number of oil ministers in late February and March 2000, indicating that producing nations were recognizing the jeopardy to the world economy of prolonged high prices and volatility. On March 28, 2000, OPEC agreed to boost production. While some expect production worldwide to increase roughly 2.0 million barrels daily as a result, many continue to press for action from Congress and the Administration that would provide some relief from high prices, and forestall a similar doubling in fuel prices in the future. Among these have been:

- lifting a portion of the federal excise tax on gasoline – or all of it, if the price exceeds a specified threshold (S. 2285, H.R. 3749, H.R. 4111);

- assistance to domestic producers, and reconsideration of opening up the Arctic National Wildlife Refuge (ANWR) to leasing;

- legislation to impose sanctions on nations determined by the President to be engaged in oil price fixing (H.R. 3822); sanctions language was dropped before House passage, March 22 (382-38);

- drawdown, or a "swap" of oil from the Strategic Petroleum Reserve (SPR), an option which the Administration has strongly resisted;

- establishment of a regional reserve of home heating oil (S. 2047, H.R. 3608), endorsed by the President on March 18, 2000, and passed by the House on April 12, 2000, in H.R. 2884;

- approving an additional $600 million in emergency funds (H.R. 3908) for the Low Income Home Energy Assistance Program (LIHEAP).

Some argue that intervention in markets to affect prices is unwarranted in the present situation, and that high prices are temporary and are, in the meantime, attracting product to where it is needed.

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Coping With High Oil Prices: A Summary of Options

Introduction

A near tripling in the price of crude oil from March 1999 to the first months of 2000, coupled with other developments, initially brought about sharp increases in the price of home heating oil and diesel fuel, which are essentially the same product. Gasoline prices then increased. Concerns were raised that a commitment from Organization of Petroleum Exporting Countries (OPEC) producers to boost production by roughly 2.0 million barrels/day (mbd) would be needed to replenish worldwide crude and product inventories, and to forestall the potential for price volatility and spot shortages of gasoline in late spring and summer. These developments brought about discussion of what might be done to mitigate price increases and possible spot shortages, and what might be done to prevent a similar situation in the future.

Meeting in Vienna on March 27-28, 2000, OPEC committed to an increase variously reported in a range of 1.45 mbd in the second quarter of the year, followed by commitments of additional production from Mexico and Norway that appear likely to raise the effective boost in production to roughly 2.0 mbd. OPEC has indicated that its objective is to keep prices within a band of $22-$28/barrel (bbl). If prices should fall below $22/bbl, production would be cut by 500,000 b/d; if prices rise about $28/bbl, production will be comparably increased. During the week following the meeting in Vienna, crude prices declined and were in the $25-$26/bbl range in mid-April.

The Energy Information Administration (EIA) indicated on April 6 that it believed gasoline prices had peaked, and that the national average price during the summer might not exceed the $1.51/gallon price observed in mid-March. Owing to local circumstances, EIA added that the Northeast and California might see some spikes to higher levels.[1] As even this revised prediction is still sharply higher from year-ago prices – as well as for other reasons – Congress, before recessing for the Easter holiday, continued to debate possible short- and long-term courses of action. Legislation, S. 2285, introduced by Senator Lott on March 23, would repeal, from April 16-December 31, 2000, the 4.3 cents per gallon (ct/gal) increase that was enacted in 1993 in the Omnibus Budget Reconciliation Act. If the national average price for regular unleaded gasoline exceeds $2 per gallon, the full excise tax of 18.4 ct/gal would be lifted on gasoline, as would the 24.4 ct/gal excise tax on diesel fuel,

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[1] "EIA Says Gasoline Prices May Have Peaked," *Oil Daily*, April 7, 2000: p. 1-2. EIA had previously been predicting possible peak averages of $1.80/gallon.

and 4.3 ct/gal tax on aviation fuel. The Highway Trust Fund (HTF) would be reimbursed from the budget surplus for the lost revenue. The proposal sparked considerable controversy, including opposition from some Republicans who argued that the potential consequences on transportation funding to state and local governments significantly outweigh the potential benefit that would accrue to consumers. On April 6, 2000, the Senate voted 65-35 for a sense of the Senate resolution expressing opposition to any rollback in the gasoline tax. Then, on April 11, 2000, a cloture motion to bring S. 2285 to the floor failed (43-56). The House Majority Leader had previously indicated that the House would consider legislation to suspend the gasoline tax only if the Senate passes such legislation.[2]

Senate Republicans have also established a task force to develop a package of other initiatives, including assistance to domestic producers and opening up the Arctic National Wildlife Refuge (ANWR) to leasing. Also on April 6, 2000, the Senate narrowly voted 51-49 to retain language in the FY2001 budget resolution (S.Con.Res. 101) which assumes revenue to the federal government from drilling in the Arctic National Wildlife Refuge. However, the provision was deleted in conference.[3]

Interest also remains in the establishment of some sort of regional petroleum reserves, a concept that DOE and past Administrations have opposed, but which President Clinton embraced in a radio address on March 18, 2000. While statutory authority already exists for the Administration to establish a reserve by executive order, the President said his preference would be for Congress to enact legislation. Legislation was introduced (S. 2047, H.R. 3608) several weeks ago. The Senate included a regional reserve in its version of S. 1051, reauthorizing the SPR provisions of the Energy Policy and Conservation Act. The differences between the House and Senate version of this legislation will be addressed after the Easter recess. Another proposal that has gathered momentum would restore a ban lifted in 1995 on exports of Alaskan North Slope (ANS) crude (H.R. 4017, H.R. 4007).

These policy options, and a number of other legislative proposals, are briefly identified and summarized here. Readers are referred to other CRS products for further information and analysis.

Except when prices are depressed, refiners, marketers, and oil producers are generally critical of any intervention by the government in markets to affect prices.[4] Analysts point out that the price of gasoline and home heating oil has seen current levels before without drawing pressure for intervention in the marketplace. The

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[2] *Congressional Green Sheets Environment and Energy Daily Report*, March 30, 2000: p. 2-4.

[3] "ANWR Plan Yanked From Budget Resolution," *Oil Daily, April 14, 2000: p. 2.*

[4] In 1999, in response to prices that had fallen below $11/bbl during the first part of the year, the 106th Congress approved a $500 million guaranteed loan program for oil and gas producers (P.L. 106-51). For a description of the policies debated during that recent period in the volatile trajectory of oil prices, see CRS Report RL30290, "Domestic Oil and Gas Producers: Public Policy When Oil Prices Are Volatile."

problem, opponents of government action allow, is that the sharp spike which has occurred in a concentrated period of time during the winter, and into the spring of 2000, has magnified the injury of higher prices; from this perspective, an unfortunate but temporary development that warrants financial assistance to those most adversely affected. It does not warrant intervention in oil markets, they argue. These higher prices, the critics of intervention add, carry the seeds of their own remedy, discouraging discretionary consumption and attracting product to areas where supply is inadequate. There has been uncertainty about, and varying degrees of confidence in, what the higher production quotas to which OPEC agreed at the end of March will achieve with respect to moderating prices and rebuilding inventories. However, the moderating of crude prices which immediately preceded the OPEC meeting and continued in the first weeks following it, might be seen to suggest that markets should be allowed to adjust unimpeded as additional production continues to enter the market.

However, proponents of intervention were pointing to the impacts which a virtual doubling in residential home heating costs, and sharply higher gasoline prices, have imposed on people with fixed incomes who may lack means to absorb the increase in the face of other essential expenses to maintain health and well-being. As the increases spread to diesel fuel and gasoline, supporters of various policy options noted that the increases were no longer strictly a regional issue. From this point of view, price increases had already had, or were threatening, the sort of "adverse economic impact" which would, for example, seem to justify some use of the Strategic Petroleum Reserve (SPR).

One bill that has passed the House prior to the OPEC meeting was the Oil Price Reduction Act of 2000 (H.R. 3822), introduced by Rep. Benjamin Gilman, Chairman of the House International Relations Committee. The bill, as passed by the House on March 22, 2000, would require [1] the President to report to Congress within 30 days of enactment on the security relationship between the United States and each major oil-exporting nation, including the nature of U.S. assistance to these nations; [2] a presidential determination of whether an OPEC member nation is engaging in price-fixing; and [3] the President to undertake what the bill's sponsor described as "a concerted bilateral and multilateral diplomatic campaign to bring about the end of international oil price-fixing arrangements." [5]

Short-Term Policy Responses

Diplomacy and "U.S. Intrusion" with OPEC Producers

In the weeks prior to the OPEC meeting scheduled for March 27, 2000, the Administration vigorously pursued a diplomatic course to persuade the OPEC nations that the sharp runup in prices and volatility in world oil markets threatens the generally upbeat international economic climate. On March 22, 2000, Secretary of Energy Richardson indicated that "most" OPEC producers agreed that a boost in

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[5] U.S. Congress. Congressional Record. Wednesday, March 22, 2000, Vol. 146, No. 33: p. H1219.

production was warranted, and suggested that "quiet diplomacy" had been effective.[6] On March 28, 2000, OPEC and other producers agreed to raise production. Prices had already begun to soften out of anticipation that production would be increased, and declined to roughly $25-26/bbl by the end of the first week of April.

When OPEC adjusted production quotas of member nations in March 1999, crude supply was reduced by roughly 2 mbd from prior levels of production.[7] OPEC may well have underestimated global demand for the remainder of 1999. By early 2000, the resulting supply balance from the production cuts was one contributing factor to a rise in crude prices as high as $32/bbl–significantly above the level targeted at the March 1999 meeting. In the United States, concerns about both the reliability of supply and the high price of oil fuels escalated all winter. By late winter, inventories were so low that the adequacy of gasoline supply to avoid further price increases and possible spot shortages for the rest of 2000 appeared in jeopardy.

With OPEC scheduled to meet on March 27, 2000, Secretary of Energy Richardson embarked on several diplomatic missions in the preceding weeks, meeting with energy ministers and key leaders in Saudi Arabia, Kuwait, Venezuela, Norway and Mexico. (The latter two nations are not OPEC members but participated in the coordinated production cut-back.) Secretary Richardson's announced intent was to convince the nations he visited – which, combined, had surplus production capacity of about 4 mbd – that artificial supply restrictions could hurt the United States and global economies. He expressed fears about the possibility of global economic slowdown, increased inflation and a bad investment environment.

Upon his return from this trip, testifying before the House International Relations Committee on March 1, 2000, and suggesting that this trip was successful, the Secretary noted: "Before our mission, many energy producing nations believed there was no problem in the oil markets–that stock levels were adequate, prices were fine, the world's economy was not suffering."[8] He suggested that the visits resulted in an understanding among these producers and holders of the bulk of the world's spare output capability that volatility in oil markets was not desirable. He reported that he believed that they would reevaluate data on current market conditions and take steps to help stabilize markets and preserve economic growth.

Representatives from Saudi Arabia, Venezuela and Mexico meeting in London on March 2 indicated after their talks that some sort of increase was warranted, but would not speculate either on the extent of the increase or the timing in advance of the meeting on March 27. They emphasized the importance of maintaining the "coherence" of the group, indicating the amount and timing of any increases would be determined by all quota participants at the upcoming meeting. OPEC members

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[6] "Most Oil Producers Agree on Increase: US," appearing in *Platt's Oilgram News*, Vol. 78, No. 57, Thursday, March 23, 2000: p. 3.

[7] See CRS Report RS20487, "OPEC Oil Production – Facts and Figures."

[8] Prepared Statement of U.S. Energy Secretary Bill Richardson before the House Committee on International Relations, March 1, 2000.
[http://www.doe.gov/news/testimon/030100.htm]

were no doubt mindful of past attempts at boosting prices which were not sustained because of subsequent overproduction. The implied message was that the cartel members wanted to act together only after careful deliberation in order to avoid sending prices back to previous levels. A subsequent meeting on March 8 between the oil ministers from Saudi Arabia and Iran led to some indications of an increase in the range of 700,000 b/d beginning April 1, with an additional 700,000 b/d added to production in the third quarter if prices have not moderated to $25/bbl.[9]

At a Senate hearing, on March 2, Senator Frank Murkowski challenged why OPEC would not advance the timetable for a decision. "They could hold that meeting [whenever] they want," he reportedly remarked to Richardson, suggesting that "OPEC is poking you right in the eye, Mr. Secretary."[10] Frustration to this point-of-time with the absence of a more explicit response from OPEC has prompted some Members to recall the assistance which the United States rendered to some of the producing nations following Iraq's invasion of Kuwait in late 1990, and the Persian Gulf War which ensued, and to suggest an absence of reciprocity.

On March 1, 2000, Representative Benjamin Gilman introduced H.R. 3822, the Oil Price Reduction Act of 2000, which would "reduce, suspend or terminate any assistance under the Foreign Assistance Act of 1961 and the Arms Export Control Act to each country determined by the President to be engaged in oil price fixing to the detriment of the United States economy." At the same time, the legislation includes provisions expressing the sense of the Congress that the United States should continue its diplomatic efforts to persuade producer nations of the risks to the global economy from sustained high prices.[11] As reported from committee, amended, on March 15, 2000, the bill would have required the Administration to report to the Congress within 30 days of enactment on whether oil exporting nations were engaging in price fixing. If so, the bill would have further required the Administration to initiate steps to reduce, suspend or terminate assistance or arms sales to those nations. However, this sanctions language was dropped by the House Rules Committee on March 21, in response to arguments that many of these nations were important clients of the U.S. aerospace, electronic, and defense industries, and that sanctions would be ill-advised. It was also argued that the Administration already had the authority to impose sanctions under the International Emergency Economic Powers Act. The bill also included language requiring the Administration to undertake a diplomatic initiative to end price-fixing. The legislation passed the House (382-38) on March 22, 2000. A resolution supporting U.S. diplomatic efforts (S.Res. 263) was also approved, amended, by the Senate Committee on Foreign Relations on March 8, 2000, and ordered to be reported favorably.

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[9] "Saudis, Iranians Agree on Small Output Hike," appearing in: *Oil Daily*, Vol. 50, No. 47, March 9, 2000, p. 1-2.

[10] "Producer Trio Meets; Global Demand Rises," appearing in *Oil Daily*, Vol. 50, No. 43, March 3, 2000: p. 1-2.

[11] Legislation is viewable at the website of the House Committee on International Relations: see [http://www.house.gov/international_relations/GILMAN_255.PDF]

The OPEC ministers had some difficulty arriving at an agreement, in part because Iran took exception to U.S. "intrusion." On March 28, 2000, OPEC indicated that production would be boosted roughly 1.45 mbd. Iran took exception to what it experienced as American intrusion into OPEC's deliberations, and initially refused to be a party to the agreement, but subsequently said that it would not sacrifice market share and would boost its production.[12] Commitments from Mexico and Norway for an additional 150,000 b/d and 100,000 b/d, respectively, suggest that total announced additions to production will approach 2 mbd. OPEC indicated that its objective is to keep prices within a band of $22-$28/bbl. If prices should fall below $22/bbl, production would be cut by 500,000 b/d; if prices rise about $28/bbl, production will be comparably increased.

Judgments about the success of the Administration's "intrusion" and diplomatic initiatives have varied. While the OPEC meeting was still in progress, Representative DeLay characterized the anticipated boost in production as a disappointment, and was sharply critical of the Administration energy policy.[13] Secretary Richardson declared OPEC's action to be "responsible."[14]

Drawdown of the Strategic Petroleum Reserve (SPR)

This option has been vigorously advocated by some, though pressure for an immediate drawdown has diminished since crude prices began to soften after the OPEC producers met. The SPR was authorized in 1975 to create a below-ground reserve of crude oil that could be tapped in the event of an interruption in supply, comparable to the experiences of 1973-74 and 1979-1980, when oil supplies were interrupted or declined due to international developments. The drawdown authority has been expanded in recent years to provide for a drawdown if a supply shortage led to price increases that appeared to threaten "adverse" economic consequences. The Clinton Administration has opposed a drawdown of SPR oil, arguing that the present situation does not fit the sort of supply problem for which the SPR is intended.

One legislative proposal would, in effect, compel the President to weigh an SPR drawdown under certain circumstances, and to justify a decision not to tap the SPR. Senator Schumer, with Senator Collins, introduced the Oil Price Safeguard Act (S. 1951) on November 17, 1999, which would provide for drawdown of the SPR upon a presidential finding that "anticompetitive conduct" had fostered a price increase "likely to cause a significant adverse impact on the national economy." An increase in price sustained above $25/barrel (bbl) would compel the President to submit a report to Congress within 30 days. The report would: [1] detail the causes and consequences of the price increase; [2] estimate its duration; [3] analyze the effect of the increase on home heating oil prices; and [4] provide a rationale for the President's

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[12] "Intervention was beyond expectation" was what one Iranian delegate was reported to have said. "OPEC Bases New Production Strategy on Price Band," *Oil Daily*, March 30, 2000: p. 2.

[13] "DeLay Slams 'Clinton-Gore Crisis.'" appearing in *Oil Daily*, March 29, 2000: p. 7.

[14] "NYMEX Crude Range-Bound Post-OPEC, Products Mixed Late," Reuters, Thursday, March 30, 2000.

position, whether the President has decided to authorize a sale, or whether he declines to do so.

The Administration had indicated that the SPR was an option it might turn to if OPEC did not agree to boost production adequately. Following OPEC's commitment on March 28, 2000, to boost production, crude prices began to decline to the mid-twenties per barrel. A number of factors will govern the course of gasoline prices in the late spring and summer of 2000, and it is difficult to predict the extent to which the price per gallon will decline, but the clamor for an SPR drawdown had subsided by the first week of April 2000. (For additional detail, see CRS Issue Brief IB87050, *The Strategic Petroleum Reserve*.)

A "Swap" of Oil From the SPR

A proposal began to take shape in late January for a "swap" of oil from the SPR. Under the plan, companies could "borrow" SPR oil with the stipulation that it would be replaced within a prescribed period of time. Refiners would be required to replace the oil on a dollar-for-dollar basis. On the assumption that oil prices will be lower when the supply is replaced, a greater volume of new oil would be redeposited into the SPR than the amount originally drawn from it. Once complete, these transactions would add to the net volume of oil in the SPR when the operation is complete. No money would be involved in the transaction.

The use of SPR oil in this fashion might satisfy the Administration's objections to holding a sale under the present circumstances. The Administration has implied that it would make this sort of use of the SPR in preference to a conventional drawdown. On March 2, 2000, the President met with Secretary of Energy Richardson and several Members of Congress at the White House. Senator Schumer reportedly remarked afterwards that the Administration sounded "more serious" than in the recent past about moving forward with an SPR swap.[15] In the wake of the OPEC commitment to boost production, there has been no indication that this option is being given any further short-term consideration.

Moratorium on Motor Fuel Excise Taxes

After the meeting of the OPEC producers on March 27, 2000, policymakers focused on possible tax options to address the recent spike in petroleum prices, including a moratorium on the payment of gasoline and diesel fuel excise taxes. Prospects for a reduction in gasoline taxes dimmed on April 6, 2000, when the Senate passed, 65-35, an amendment to the FY2001 budget resolution (S.Con.Res. 101) expressing the sense of the Senate that fuel tax revenues should continue to be used for highway construction and rehabilitation. On April 12, a cloture motion to proceed to debate S. 2285 was defeated (43-56). Legislation to reduce or lift gasoline taxes was also introduced in the House in late March (H.R. 4111), but this particular initiative, for the moment, appears unlikely to receive further attention unless crude prices spike sharply once again.

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[15] "Producer Trio Meets; Global Demand Rises," appearing in *Oil Daily*, Friday, March 3, 2000: p. 1.

Virtually all transportation fuels are taxed under a complicated structure of tax rates and exemptions that vary by mode and type of fuel. Gasoline used in highway transportation — the fuel used more than any other — is taxed at a rate of 18.4¢ per gallon, composed of: an 18.3¢ Highway Trust Fund rate, which goes into the federal highway trust fund (HTF); and a 0.1¢ rate that is earmarked for the Leaking Underground Storage Tank Trust Fund (LUST).[16] The HTF component of the gasoline tax, the single largest source of revenue for the HTF, is projected to yield $22.3 billion for FY2001 (i.e., motorists will pay $22.3 billion in fuel costs for the HTF). Most of that revenue goes into the "highway account" to be used for highway construction and maintenance (precisely 15.44¢/gal. of the 18.3¢ tax goes into the highway account); revenues from 2.86¢ are allocated to the "mass transit account," to be used for capital expenditures on mass transit systems.

Diesel fuel for highway use — the second most commonly used highway fuel, used mostly by trucks — and kerosene to the extent that it also used as a highway fuel, are taxed at 24.4¢ per gallon, 6¢/gallon more than gasoline.[17]. The tax on kerosene used on the highways was added as part of the Taxpayer Relief Act of 1997, in order to reduce tax evasion. Kerosene and diesel (also called distillates) used as heating oil get a full refund or tax credit. The highway tax on diesel (and kerosene) fuel also comprises two components: a 24.3¢ rate that is allocated into the HTF, and 0.1¢ that goes into the LUST fund. Unlike gasoline, however, which is largely consumed for personal use, diesel fuel is used primarily in trucks that transport goods, i.e, it is primarily used by businesses. Gross revenues from the diesel tax are estimated to be about $7.5 billion in FY2001. However, as this tax is a cost of doing business for truckers, it is deductible against income taxes so that the net revenue yield to the federal government — i.e., the net cost to truckers — is smaller by about 25%, according to the Joint Committee on Taxation, the official scorer on such matters. Thus, net revenues in FY2001, including offsets, are estimated at about $5.6 billion. Revenues from 2.86¢ of the tax are also allocated for mass transit; revenues from the remaining 24.3¢ HTF component (21.44¢) go into the highway account.[18] Truckers also pay three other federal excise taxes, whose revenues also go to the HTF.

However, as high crude oil costs persisted, the increases that first surfaced with home heating oil became increasingly generalized to all fuels. Some Senate Republicans proposed to suspend until the end of 2000 the 4.3¢ increment of the federal excise tax on gasoline that was added in 1993. The additional revenues were originally designated for deficit reduction, but were later redirected by the Taxpayer Relief Act of 1997 (P.L. 105-34) to a transportation trust fund. S. 2285, introduced

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[16] The LUST fund finances the cost of cleaning up spills from underground fuel storage tanks.

[17] In addition to gasoline and diesel fuel, special motor fuels (gasoline substitutes), jet fuel, railway diesel fuel, motorboat fuel, and virtually every other transportation motor fuel that is not specifically exempt are also subject to tax. Compressed natural gas (CNG) has, since 1993, been subject to an excise tax of 48.54¢ per MCF (thousand cubic feet) — marking the onset of the taxation of gaseous transportation fuels.

[18] A variety of off-highway fuel uses (e.g., farming), business uses (e.g., construction equipment), and government uses (e.g., police departments and school districts) are tax exempt.

by Senator Lott on March 23, would repeal from April 16-December 31, 2000, the 4.3 cents per gallon (ct/gal) increase that was enacted in 1993 in the Omnibus Budget Reconciliation Act. If the national average price for regular unleaded gasoline exceeds $2 per gallon, the full excise tax of 18.4 ct/gal would be lifted on gasoline, as would the 24.4 ct/gal excise tax on diesel fuel, and 4.3 ct/gal tax on aviation fuel. The HTF would be reimbursed from the budget surplus for the lost revenue. As already noted, a cloture motion to bring this measure to the floor of the Senate failed (43-56) on April 12, 2000.

Legislation in the House, H.R. 3749, proposes to reduce the tax on gasoline, diesel, and kerosene by 10.0¢/gallon (the tax on gasoline would be 8.4¢ and the tax on diesel and kerosene would be 14.4¢). The estimated revenue loss would be made up from general revenues so the HTF would not lose money. S. 2161 would require the Secretary of the Treasury to transfer amounts from the General Fund to the HTF to cover funds not received as a result of any moratorium and reduction and tax collections. As of the end of March, House leaders seemed unlikely to take up such legislation unless the Senate passed such a measure.

Congressional attention had initially focused upon enacting some form of tax relief for truckers hard hit by diesel fuel increases. One proposal, S. 2090, would provide for a one-year moratorium on the 24.3¢ HTF component of the 24.4¢ tax on diesel, and a permanent reduction in the tax to 4.3¢ beginning on October 1, 2005. However, as the debate continued, it appears to have become more apparent that the singling out of one fuel for tax relief might introduce into the market a fresh distortion affecting the relative prices of home heating oil and diesel fuel. Whether it might lead to a smaller or larger price differential between the two fuels, or whether some increment of the tax reduction might be netted from home heating oil prices rather than exclusively applied to diesel is difficult to predict. The effect of a tax moratorium on prices might also be affected by seasonality of demand for home heating oil.

States might at some point compensate for lost revenues from the HTF by raising the state tax on fuel. However, it does not seem likely that they would, in the short-term, compromise or defeat the objectives of the federal legislation.[19]

Another issue is equity. The various motor fuels excise taxes act as a quasi-user fee, a charge for the benefits received by taxpayers from their use of the interstate highways and highway infrastructure, and the revenues are used to build and maintain that infrastructure. To the extent that charges approximate individual benefits received, relieving the tax burden for truckers may be viewed by some as inefficient and unequitable vis-a-vis gasoline consumers who would not be granted this, or comparable relief. (For additional background on the taxing of transportation fuels, see CRS Report *RL30497: Suspending the Gas Tax: Analysis of S. 2285;* CRS Issue Brief IB10054, *Energy Tax Policy*; CRS Report RS 20521, *Transportation Fuel*

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[19] Most states impose excise taxes that average about 20¢/gallon, making the total federal and state excise taxes a significant fraction of the market price of gasoline and diesel fuel. See. U.S. Department of Transportation. Federal Highway Administration. *Highway Statistics: 1998.* Publication # FHWA-PL-99-017. October, 1999. P. IV-46.

Taxes: Impacts of a Repeal or Moratorium, March 27, 2000; and CRS Report RS20281, *Transportation Fuel Taxes and Legislative Issues*, October 6, 1999.)

Reimposition of the Ban on Alaskan Oil Exports

Two bill were introduced on March 16, 2000, which would suspend or prohibit the export of Alaskan oil. The presumption is that this supply, roughly 74,000 b/d in 1999, would be directed to the West Coast market where tight supplies have contributed to price increases. The bills are H.R.4007, which would suspend exports until the President determines that shortages and related price impacts are no longer a concern, and H.R. 4017, which would reimpose the export ban on Alaskan crude. In the Senate, S. 2275, the Oil Supply Improvement Act, would provide that no crude oil transported over the Alaskan pipeline right-of-way would be exported.

The Trans-Alaska Pipeline Act of 1973 (PL. 93-153) prohibited the export of North Slope oil transiting the pipeline right-of-way. Crafted during the Arab Oil Embargo, the export ban was a reaction to supply problems of the day and concerns that Alaskan crude delivered to a Pacific port might easily be exported.

Alaskan production ramped-up during the early 1980s, reaching a high of 2.0 mbd in 1988. This was more crude than West Coast oil markets could absorb; some of the surplus was shipped via Panama or Cape Horn to the U.S. Gulf Coast at additional expense. As a result, oil producers in Alaska and California began to lobby for lifting the export ban.

In 1995, against a backdrop of low oil prices and plentiful global supply, P.L. 104-58 was enacted, permitting North Slope crude exports. This law did not inhibit the President's authority contained in other law to suspend these exports in the event of a national emergency. Exports began and continued without expression of concern or market disruption until the current round of price and supply difficulties developed.

Between 1995 and 1999, Alaskan oil output declined from 1.50 mbd to 1.05 mbd, greatly diminishing any West Coast production surplus that might have once existed. Exports during 1999 averaged 74,000 barrels per day, or about 7% of Alaskan production. Half those exports were to Korea, 35% to Japan and 12% to China. The total amount exported represents less than 3% of regional consumption, but could currently be contributing to price disparities on the West Coast. Highly inelastic oil markets can experience large price swings in response to small changes in supply. (For additional background, see CRS Report *RS20540, Alaska Oil Exports*.)

Low Income Home Energy Assistance Program (LIHEAP)

The Low-Income Home Energy Assistance program (LIHEAP), originally established in 1981 by Title XXVI of P.L. 97-35 and reauthorized several times, is a block grant program under which the federal government gives states, the District of Columbia, U.S. territories and commonwealths, and Indian tribal organizations annual grants to operate multi-component home energy assistance programs for needy households. In recent years, LIHEAP has been funded at $1.1 billion, plus $300

million for weather emergencies. President Clinton has released the entire $300 million in LIHEAP emergency funding that was appropriated for FY2000. The President sent Congress an emergency supplemental request for $600 million which would provide additional emergency funds for LIHEAP through the end of this fiscal year. Action has become stalled on the measure. (For additional information, see CRS Report 94-211, "The Low-Income Home Energy Assistance Program (LIHEAP).")

Long-Term Policy Responses

Establishment of a Regional Home Heating Oil Reserve

Legislation was introduced in both the House and Senate (S. 2047, H.R. 3608) to establish a regional reserve, and the President supported the concept in a radio address given March 18, 2000. The Energy Policy and Conservation Act (P.L. 94-163), which established the SPR, also included a section authorizing the establishment of regional petroleum reserves. Though the Clinton Administration could initiate development of a regional reserve by executive order, the Administration's preference was that Congress should pass legislation that would demonstrate support for establishing a regional reserve. On April 12, the House included in its reauthorization of the SPR authorities (H.R. 2855) a provision for a 2 million barrel home heating oil reserve to be sited in the Northeast.

It has been various Administrations' and DOE's position that the potential benefit of regional reserves is not justified by their cost. Their position has been that the storage of crude in a centralized location – specifically, the Gulf Coast – was the best alternative and would meet the needs of all regions in the event of a disruption. A study of regional reserves released in 1998 concluded that a regional reserve might be beneficial under what DOE characterized as "a very narrow set of conditions."[20] The proposed legislation adopts one possible configuration examined in the study, requiring that the Secretary of Energy lease storage for 2.0 million barrels of heating oil in the New York Harbor area, with another 4.7 million barrels of product stored in the Gulf Coast in an SPR cavern. The reserve would be filled by trading crude from the SPR for heating oil. Drawdown could be authorized by the President in the event of a shortage of fuel oil, severe weather, or if prices rise "sharply" due to anticompetitive activity.

The configuration described above may be appealing to lawmakers in the Northeast because the study concluded that the "hybrid" configuration could be the most responsive. It was also found to be the most expensive, and the report concluded its costs would exceed its benefits unless the government adopted "an aggressive drawdown policy." Opponents of establishing a regional reserve may suspect that designing a regional reserve whose benefits are captured only through its "aggressive" use will likely encourage its use at times that some will consider

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[20] U.S. Department of Energy. "Report to Congress on the Feasibility of Establishing a Heating Oil Component to the Strategic Petroleum Reserve." June 1998. #DOE/FE-0376-1. [http://www.fe.doe.gov/techpub/pdf/98sprppr.pdf]

inappropriate, and would possibly be a disincentive for the private sector to maintain inventories as aggressively as it would absent the regional reserve. One critic of the proposal, the Petroleum Industry Research Foundation, observing the sharp increase in product imports that quickly resulted from high prices, predicted that "aggressive use of a government reserve to hold down prices would hold down the supply response as well."[21]

However, advocates of the regional reserve point out that this past winter's experience demonstrated how the problems experienced in the Northeast can quickly generalize into associated increases in the price of other petroleum fuels. They argue that the benefits from measures that prevent the sort of price increases experienced in home heating oil ultimately are shared by consumers of diesel fuel and gasoline, too.

Initial indications were that the Senate is not well disposed to the inclusion by the House of the regional reserve in H.R. 2884. A hold has been placed on the legislation in the Senate, which means that it will require 60 votes to bring the measure up for debate.[22]

Requiring Oil Product Importers, Refiners and Distributors to Maintain Specified Inventories

In lieu of establishing a separate federally managed home heating oil reserve, legislation has been introduced in the Senate (S. 2094), the Stable Oil Supply (SOS) Home Heating Act which would ensure that "minimally adequate" heating oil stocks would be accumulated to meet "reasonably foreseeable demand during each winter while protecting consumers from sudden increases in the price of home heating oil." Under the bill, importers, wholesales and refiners can act in concert or individually to develop voluntary plans that would be submitted to the Secretary of Energy describing the actions they were taking to "mitigate the risk of severe price increases." If the Secretary did not certify a plan as acceptable, the Department of Energy would impose a plan and could require the principals to hold specific levels of inventory. Opponents of the bill contend that this would impose a costly burden on oil marketers and interfere with market efficiency. Proponents argue that vesting this responsibility in the private sector has the least costs administratively. Additionally, they argue that any slight upward pressure on prices that results from advance purchases to meet inventory goals should be seen as analogous to an insurance premium, a prudent investment in preventing any repetition of the volatilities experienced during the winter of 1999-2000.

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[21] "SPR Provisions Could Create New Problems," *Oil Daily*, April 18. 2000: p. 1-2.

[22] Ibid. The objections in the Senate are not limited to the provision for a regional reserve. Some Senators have voiced objection to another amendment intended to deal with the opposite problem of low oil prices by authorizing the Secretary of Energy to buy oil from domestic stripper wells if the price of oil fell below $15/bbl. Some argue that stripper well production is often remotely located from SPR facilities. It would be costly to transport this oil to SPR facilities, and inconvenient to have the government purchase it and swap it for other oil to solve the first problem, they contend.

Raising or Broadening the Corporate Average Fuel Economy (CAFÉ) Standards

The Energy Policy and Conservation Act of 1975 (P.L. 94-163) established corporate average fuel economy (CAFÉ) standards for new passenger cars and light trucks. The current standard is 27.5 mpg for passenger automobiles and 20.7 mpg for light trucks, a classification that also includes sports utility vehicles (SUVs). The proportion of the vehicle fleet that is made up of light trucks has grown from roughly 20% in 1980 to more than 47% in 1998. Light trucks, which tend generally to achieve less fuel economy than typical passenger cars, are putting additional pressure on gasoline demand and increasing U.S. vulnerability to price increases when supplies are tight. However, since FY1996, Congress has included language in the Department of Transportation Appropriations legislation to prohibit expenditures for any rulemaking that would make any adjustment to the CAFÉ standards.

It remains to be seen whether the sharp increase in fuel prices will affect congressional decisions on this matter in the FY2001 spending bill. Representative Boehlert has been gathering signatures on a letter calling for an end to the freeze. On April 13, 2000, legislation was introduced in the House (H.R. 4270) to offer alternatives supported by the automotive industry in lieu of boosting CAFE. The legislation would provide tax credits for efficient, advanced-technology vehicles, extend CAFE credits for flexible-fuel vehicles, and initiate a study to assess "the relative effectiveness of current and potential methods to further encourage the development of the most fuel efficient vehicles."[23] (For additional information, see CRS Issue Brief IB90122, "Automobile and Light Truck Fuel Economy: Is CAFÉ Up to Standards?"and CRS Report RS20298, "Sport Utility Vehicles, Mini-Vans and Light Trucks: An Overview of Fuel Economy and Emissions Standards.")

Policies to Boost Domestic Oil Production

Some have suggested that developments this winter are a reminder of the vulnerabilities to which the United States is exposed owing to the extent of its roughly 50% dependence upon imported petroleum. If anything, high prices, it can be argued, will encourage additional domestic production. The sharp price increases have prompted some calls for the United States to explore the productive potential of the Arctic National Wildlife Refuge (ANWR), a perennially controversial issue. On March 8, 2000, Sen. Frank Murkowski, Chairman of the Senate Energy Committee, introduced legislation to allow drilling on the ANWR coastal plain (S. 2214); hearings were held on April 5. The FY20001 budget resolution reported from the Senate Budget Committee (S.Con.Res. 101) included $1.2 billion in offsets from leasing in ANWR. An attempt by Senator Barbara Boxer to delete the language in committee failed. On April 6, 2000, the Senate, by a vote of 51-49, tabled an amendment that would also have dropped the language. However, the language was dropped by the conferees before final passage.

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[23] "Carmakers Offer CAFE Plan," *Automotive News*, April 17, 2000: p. 1, 51.

During the first session, the 106th Congress enacted a guaranteed loan program to assist domestic producers (P.L. 106-51). Other policies that have been debated in the past to encourage domestic production have included a range of tax incentives, and acquisition of domestic oil for the SPR, either in direct purchase or as royalty-in-kind. (For further discussion and analysis of such options, see CRS Report RL30290, "Domestic Oil and Gas Producers: Public Policy When Oil Prices Are Volatile." For a review of past debates over ANWR, see CRS Report 93-774 ENR, "The Arctic National Wildlife Refuge," August 30, 1993.)