

MAY 16, 1979

Office of the White House Press Secretary

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THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

Over the last month, California has been plagued by gasoline shortages and long lines at service stations. With the actions which I am taking today and the cooperation of the elected officials and the citizens of California, from this point we should begin to overcome the severe difficulties we have encountered.

California and certain other Western states have been particularly hard hit by the nationwide tightness in gasoline supplies. When I was in California, I learned first hand of the frustration and anger which the gasoline shortage has caused. For Californians trying to get to work, to meet emergencies, and to carry out the essential business of their daily lives, the shortage has caused acute and unacceptable problems, particularly where public transit is unavailable. I share the concerns of and sympathize with Californians who are stymied by long lines in trying to do their normal daily tasks.

California is a fast growing state; jobs have increased, thereby contributing to the health of our economy. This growth naturally increases demand for gasoline. We must act to ensure that jobs and economic growth are not lost.

We are still feeling the effects of the Iranian cut-off. It takes two months to transport oil from Iran to the United States, and additional time to get that crude oil through the refining and distribution system. This has contributed to making late April and May the low point in gasoline availability.

The Department of Energy, to help alleviate the shortage in California, recently changed its allocation rules to bring the basis for allocating supplies among the states up to date and to include growth as a factor. This will help California since it is a fast growing state, and old or out-of-date allocation bases hurt more there than in states with steady or declining populations. Once this new allocation formula is fully in place, California will begin to feel relief.

As I requested when I visited California on May 5, the Department of Energy has prepared a report on the underlying causes of the shortages and long lines in California. This report is now complete and it is being released at the same time as this statement.

The report indicates that the shortfall in California has reached about 70,000 barrels of gasoline per day relative to 1978 levels. Since demand has grown over the last year, the shortage is even greater than that, although restoration of supplies to 1978 levels would ease the situation considerably.

The reasons for this shortfall are several fold. The worldwide crude oil shortage caused by the loss of production in Iran last winter has made petroleum supplies tight throughout the world. The crude oil which did become available to partially offset the Iranian loss was lower quality, and therefore not as much gasoline could be produced. The gasoline allocation formula in effect prior to recent DOE changes was not able to reflect the rapid rate of growth in California and contributed to the shortage in the last month. Finally, the inability of the Congress to deal with the

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overall oil problem when I proposed my comprehensive energy program in April 1977 has left us as a nation, and California particularly, more vulnerable and less well prepared than we should be.

We have already taken steps to deal with this problem. At my direction, the Department of Energy has made two very important changes in the nationwide rules for allocating gasoline supplies between the states. On March 1, the Department brought the base period for gasoline allocation up to date from 1972 to 1978. This began the process of ensuring that rapidly growing states such as California are not penalized by basing gasoline allowances on out-of-date statistics. On May 1, an additional change was made to allow automatic growth adjustments for gasoline dealers who have experienced unusually high growth since the 1978 base period. This will give California added supplies to accommodate growth which has occurred over the last year.

Once they are fully established in the system, these changes should significantly ease the California situation. In addition, on May 11 of this year, the Department issued a rule which will assure adequate diesel fuel supplies for California's vast agricultural production.

In June 1978, the Department amended its entitlements program to provide refiners with additional incentives to use California-produced crude oil. This action has resulted in increased California crude oil production of over 60,000 barrels per day. The Department has also recently established incentive prices for enhanced oil recovery projects and newly discovered oil, both of which will be particularly beneficial to California crude oil production.

Earlier this month, I approved a Department of Transportation grant of \$650 million to Los Angeles to improve its mass transit system. That was the largest federal mass transit grant ever awarded. The funds will be used to purchase 1200 new buses, to provide operating subsidies, and to develop a downtown "people mover" system. All of these projects should result in greater use of mass transit in Los Angeles and help provide an alternative to the automobile.

Today, I am directing that additional actions be taken to relieve the supply situation in California.

First, the DOE will increase from 3% to 5% the percentage of the State's total gasoline allocation that the Governor has authority to utilize, if requested by the Governor. While this action will not increase the total amount of gasoline available in California, it will give the Governor useful flexibility in directing gasoline to the areas where it is most needed.

Secondly, I am directing the Department of Energy, working with the Department of Defense, to change its regulations regarding the allocation of gasoline supplies to the Department of Defense to ensure that only direct, essential military and readiness oriented operations receive a 100% allocation of supply. Nonessential use of gasoline at military bases would be curtailed. This action should release some extra supplies of gasoline for the general population -- especially in States with major military installations such as California.

Third, I have instructed DOE to monitor the Western refineries' use of crude oil and gasoline stocks to make sure that they are not being unnecessarily cautious in releasing those stocks for immediate consumption. The Department will be prepared to use its regulatory authorities if necessary to assure proper use of stocks. In addition, DOE will work with the California refiners to ensure maximum

production of gasoline consistent with our overall national priority to rebuild home heating oil stocks for next winter.

Fourth, I have directed the Antitrust Division of the Department of Justice and the Department of Energy to establish a special auditing and investigative team to monitor the activities of oil companies, refiners, wholesalers and distributors of gasoline to ensure that supplies of gasoline are not being withheld or manipulated in violation of Federal regulations or the antitrust laws of the United States. If we find any evidence of illegal conduct among refiners or distributors, we will take appropriate action.

Fifth, to gain additional reliable information on stocks held outside the primary oil distribution system, I have directed the Secretary of Energy to expedite collection of information on the quantities and location of selected petroleum products (for example, gasoline, distillate and fuel oil) after these products are distributed by refiners and major wholesalers. The Department should be prepared to use all appropriate legal authority and penalties to make sure that this information is both accurate and submitted promptly.

Sixth, I have directed the Department of Energy to ensure that no gasoline is allocated away from California as a result of gasoline station closings within the state. Needed gasoline supplies should not be taken away from California just because a given retailer decides to discontinue his business.

Lastly, I am asking Charles Warren, who will be leaving shortly as Chairman of the Council on Environmental Quality, to oversee the implementation in California of the actions I am taking today. Mr. Warren will serve as my special personal representative for the California shortage problem. Before joining my Administration, he served as Chairman of the Energy Committee of the California State Assembly. He is intimately familiar with California's energy problems and will provide a central focus for the Administration's efforts to ease the California shortage.

There are other possibilities for action which depend on joint federal/state action for implementation.

First, enforcement of the 55 mile per hour speed limit could save up to 22,000 barrels of gasoline per day in California. I have directed the Secretary of Transportation to work with the Governors of all states to use the monies which the Federal Government now has available to strengthen enforcement of the 55 mile per hour speed limit. I will also support legislative efforts which would strengthen sanctions and accelerate the schedule of penalties against states which fail to enforce this limit.

Second, my Administration has identified several areas where current California environmental standards -- which are more stringent than those required by federal law -- could yield additional gasoline supplies. Lowering the state's standards for the lead content and vapor pressures of gasoline during the immediate shortage could produce up to 25-35 thousand barrels of gasoline a day. However, in deciding whether to reduce standards, the state must balance the health and environmental effects against the additional gasoline available, with the decision resting with the State of California. Should California decide to change these standards, the Environmental Protection Agency stands ready to assist in any way possible to approve any such action by the State. In addition, the State might consider expediting the issuance of permits to increase thermal recovery operations to enhance crude oil production.

When all of these measures are implemented, California gasoline supplies for the remainder of this spring and summer should be brought into closer balance with demand. The specific environmental measures and enforcement of the 55 mile per hour speed limit would save a major share of the current supply shortfall. With the additional cooperation of California drivers, the long lines should then ease.

Continued and close cooperation between the federal government and the State of California will be essential to our success in alleviating the current shortages. We have taken an important step in establishing a strong partnership in a meeting which I had this morning with Governor Brown, California Speaker Leo McCarthy, Mayor Tom Bradley and the California Congressional delegation. We agreed to work together in a mutually supportive way to resolve this problem.

We must also bear in mind, as we work to solve the immediate difficulties in California, that our nation has a serious, chronic long-term energy problem. Decontrol of crude oil which I have announced, will lead to additional production. Conservation will continue to be a key in dealing with the underlying energy situation which from time to time erupts in the kind of problem which California has faced over the last month. My windfall profits tax will generate the revenues for a massive effort to develop alternate energy technologies to reduce our dependence on uncertain foreign oil supplies.

These fundamental policies will help California and the nation meet our energy challenge.

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