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# '73 Fuel Shortages Laid To White House Agency

By Morton Mintz
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Sworn interviews with six key oil-policy officials show that the bureaucracy of a White House agency was substantially to blame for shortages of fuel oil last winter and of gasoline last summer, a Senate investigator charged yesterday.

The agency was the Office of Emergency Preparedness. Its mission, as spelled out by its former chief for the Senate Permanent Subcommittee on Investigations, was to protect "national security" by regulating imports of inexpensive oil from the volatile Middle East in order to stimulate domestic production.

But subcommittee chairman Henry M. Jackson (D-Wash.) charged that the lid on imports actually "impaired" national security, as demonstrated by a dependence on Arab oil that increased year by year.

Jackson also said the government has yet to learn the episode's crucial lesson: that it cannot make sound decisions on oil with "totally inadequate" data obtained from major oil companies.

The investigator, assistant subcommittee counsel LaVern J. Duffy, testified that the OEP provided "a classic case of a bureaucracy setting a course of action not in response to the nation's needs, but to secure its own comfort."

The OEP's director was

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retired Army Gen. George A. Lincoln. In his defense, a top aide testified that Lincoln's "action functions" rested on the frail foundation of "a White House press release," with real power retained by other agencies.

Duffy's investigation centered on how the OEP dealt with a fundamental challenge: to meet the demand for crude oil by importing it when it was plentiful and when there was no Arab embargo, so that domestic supplies could be conserved and stockpiles built.

OEP "was not up to the challenge," Duffy concluded in a 42-page analysis of more than 250 documents from the files of federal oil offices and the interviews, given by five OEP officials and an Interior Department economist.

Lincoln testified, "We were neither knaves nor fools." The tiny staff that the White House gave him was "dedicated" and deserved "at least passing marks," he said.

Lincoln, who resigned in January, is now a part-time professor at the University of Denver.

Duffy acknowledged that some of the reasons why OEP authorized insuffcent imports in 1971, 1972 and early 1973 may never be known. But, he said, the reasons established by his investigation included these:

- The officials dictating import policies often were "new to oil affairs and had very little experience in managing national oil needs."

These officials included Lincoln, head of the Department of Social Sciences at West Point in the late 1960s, and several top aides. Lincoln reported to White House aide Peter M. Flanigan.

- The few officials who knew something about oil matters often did not get a hearing or found their advice unheeded, while Lincoln, particularly, relied for guidance upon executives of major oil companies that stood to benefit from tight restrictions on imports.

Duffy's primary example was Philip L. Essley Jr., who was "probably the most knowledgeable single guy on oil," in the eyes of the chief of the OEP's Oil and Energy Division. Essley's early warnings that imports should be sharply increased went unheeded.

- "Overworked" oil planners were, by their own admission, "intimidated by the prospect of having to devise a system whereby large quantities of foreign crude oil would be evenly distributed among the nation's refineries."
- Several times, "factors such as office procedures and the time of day of meetings loomed large and prevented the ... planners from carrying out their duties."
- "Frequently, the officials who should have been working on oil affairs were . . . devoting their time to other issues," especially the wage-price freeze imposed in August, 1971.

The centerpiece of this case study is the now-defunct system of mandatory oil import quotas, a massive intervention in the market mechanism imposed—in the name of national security—by President Eisenhower in 1959. Restricting imports would stimulate domestic exploration and development, Eisenhower said in an executive order.

By the end of the 1960s, the system was costing the public at least $5 billion a year—5 cents on each gallon of gasoline, 4 cents on each gallon of fuel oil. And major oil companies had spent more on exploration and development abroad than at home.

The reason they did so, Jackson said, was that it was "far more profitable."

He and Sen. Abraham A. Ribicoff (D-Conn.)—backed "wholeheartedly" by Sen. Edward J. Gurney (R-Fla.)—emphasized that American taxpayers gave the major oil companies a multibillion-dollar cornucopia of tax breaks that they used to increase production in the Middle East rather than in the United States.

In mid-January of 1970, the Cabinet task force on oil import controls, headed by George P. Shultz, now Secretary of the Treasury, published a final report. The majority urged abolition of the system on the main ground that it contributed nothing to national security, past, present or future. It recommended a substitute: a modest tariff—which Lincoln endorsed—that would save the public billions of dollars annually and benefit the public treasury rather than the major oil companies.

The companies urged retention of the quota system, as did the task force dissenters, Commerce Secretary Maurice H. Stans and Interior Secretary Walter J. Hickel, and an observer, Federal Power Commission Chairman John N. Nassikas.

President Nixon rejected the recommendation of the task force, on the ground that it had split 5 to 2. On Feb. 20, 1970, he shifted responsibility for managing oil imports from Interior to OEP and created the Cabinet-level Oil Policy Committee, also under Lincoln, to provide policy direction.

Six months later, without formal discussions or working papers, the committee gave Mr. Nixon what he apparently wanted: a recommendation that the import-quota system be retained.

Thereafter, Duffy testified, OEP had three opportunities to raise the level of oil imports and thereby avoid the fuel oil shortages of the winter of 1972-73 and the gasoline shortages of 1973.

Each time—in November, 1971, May, 1972, and September, 1972—OEP "gambled that there would be no shortages," Duffy said. "They gambled and lost."

The winners were the major oil companies, said Jackson. With demand high and supplies low, "profits go up. That's the answer."

Lincoln and his aides in OEP were guided, Duffy said, by an "obsolete and unrealistic" pre-1970 view: that the nation produced generally sufficient quantities of crude. Being self-sufficient, we could limit imports. If it turned out that we let in too much or too little foreign crude, we had an automatic balancing mechanism: the states, principally Louisiana and Texas, would allow less or more crude to be produced, as dictated by market forces.

But domestic capacity began to decline in 1970, as was publicly reported at the time. By 1972 there simply was not enough domestic crude. But OEP, as if nothing had changed, set imports for the area east of the Rockies on the basis of a traditional rigid formula—100,000 more barrels per day in the coming year than in the current year.

Duffy, subcommittee consultant Fred C. Allvine and investigator Walter S. Fialkewicz interviewed:

- William C. Trupper, retained by Lincoln in late February, 1870, as the OEP's director of resourse analysis and chairman of the Oil Policy Committee working group. Trupper had no previous experience in oil matters.
- Joseph Lerner, a petroleum economist with extensive experience, picked by Trupper to be his special assistant on oil affairs.
- Robert E. Shrepherd, chosen by Lincoln as chief of the Oil and Energy Division. Also inexperienced in oil matters, he reported not only to Truppner, but also directly to Lincoln and to assistant OEP director (and later general counsel) Elmer F. Bennett. Bennett was experienced in oil.
- Robert E. Plett, assistant to Shepherd, retired from the Army after 27½ years' service. He had no background in oil.
- David R. Oliver, an Interior Department economist. He revealed that Interior's Bureau of Mines, in estimating future oil supplies, assumed the nation was self-sufficient in production and refining. He believed the assumption to be invalid, but incorporated it in supply projections he passed on to OEP. Oliver now admits he erred.
- Philip Essley, the OEP economist whose oil expertise won Shepherd's praise. On being hired in the summer of 1971, Essley found it "awfully odd" that OEP, with the exception of Lerner, "didn't have a single man who knew a damn thing about oil."

One of Essley's first tasks was to prepare a crucial study for Shepherd. It showed — before OEP had set a quota on imports for 1972 — that domestic production would peak out in that year and that, consequently, imports should be substantially increased over the customary increment of 100,000 barrels a day.

"I do not recall ever seeing Mr. Essley's paper, nor did Mr. Bennet when I asked him," Lincoln testified.

Essley, however, remembers a meeting at which Shepherd had the study in hand but didn't produce it because Lincoln "simply walked in and said, 'I don't think we'll have any trouble selling a 100,000 barrels per day increase.'"

Truppner had recommended that increase on Nov. 18, 1971, after working the previous three months "90 hours a week" on the wage-price freeze. "I didn't spend much time on oil in 1971," he said. Neither, he added, did Lincoln or Bennett.

A few days earlier, Lt. Col. Anthony A. Smith, deputy chief of the Oil and Energy Division, had met in Houston with executives of Exxon and Shell. Shell officials, he told Lincoln on Nov. 5, "appeared surprised and delighted that the administration "had not caved in to the New England consumer pressures" for greatly increased imports of fuel oil.

Shepherd's staff, meanwhile, had prepared a detailed study in August recommending that imports be geared to demand. OEP disregarded it. Shepherd's assistant, Plett, hinted at the reason: "guidance" trickling down from Lincoln that "minimum essential changes" should be made in the oil import program.

The Oil Policy Committee could have taken up the study on Sept. 3, but it didn't because the staff had been too busy to brief committee members, according to Truppner.

In January and February, 1972, it became clear several sources, including Interior and Louisiana petroleum of-

By Gerald Martineau—The Washington Post

GEN. GEORGE A. LINCOLN LAVERN DUFFY

... at odds over performance of OEP.

ficials, that the approved increase in imports of 100,000 barrels a day was inadequate.

Officials of Ashland Oil and Clark Oil, independents who depend on crude from the majors, warned OEP of a coming crunch in crude so severe it could "literally destroy" firms such as theirs.

Lincoln had been talking to oil companies, "particularly the majors," he said in a letter to Peter Flanigan at the White House. "We should reserve any expression of concern until we get some more solid data in hand," the letter said.

Also during the first two months of 1972, economist Essley was warning that with domestic production peaking out, the country no longer had a balancing mechanism to offest a shortage of imports. Truppner, agreeing, passed the warning to Lincoln in two memos in March.

The old formula for imports "simply doesn't make any sense," Truppner told the general. The same day, March 23, Bennett told Lincoln that Exxon, in a "preliminary review," indicated "no need for additional imports in 1972."

Essley urged imports at a level high enough to restore the balance-wheel function of Louisiana and Texas.

White House aide Flanigan was opposed. Did Flanigan ever "dictate" to Lincoln? Jackson asked the general. "Hell, no," he replied.

Truppner, who also opposed letting demand determine imports, did recommend in April an additional import allocation of 250,000 barrels a day.

Lincoln reduced this by 20,000 barrels, hoping to fine-tune the tight-supply policy. But again the import allocation proved insufficient, especially because domestic production was declining more rapidly than had been predicted.

In September, 1972, OEP decided to allow each refiner holding import tickets to increase imports up to 10 per cent — but with imports in 1973 to be decreased equally.

Lincoln, "on a private basis," revealed this plan to Frank Ikard, president of the American Petroleum Institute. In a Sept. 7 memo to Flanigan, Lincoln quoted Ikard as saying the plan was "a very good idea." But investigator Duffy termed it "a dis-incentive" to imports.

Later in September, Exxon vice president Randall Meyer, in a phone call to Lincoln, praised "the way we handled additional allocations for 1972."