OFFICE OF THE DEPUTY SECRETARY

FACSIMILE TRANSMITTAL SHEET

DATE 12/6/93

TO Bob Rubin, Carol Rasco

FAX NUMBER 456-2878

OFFICE NUMBER

COMMENTS

FROM

FAX NUMBER 586-0148

OFFICE NUMBER 586-5500

NUMBER OF PAGES INCLUDING COVER 5

December 6, 1993

MEMORANDUM FOR Vice President Al Gore
Lloyd Bentsen, Secretary of Treasury
Ron Brown, Secretary of Commerce
Mack McLarty, Chief of Staff
Carol Rasco, Domestic Policy Council
Bob Rubin, National Economic Council
Laura Tyson, Council of Economic Advisors
Bill Burton, Staff Director to Chief of Staff

FROM: Bill White

SUBJECT: MEETING ON OIL PRICES

I am forwarding to you the attached material as background for the NEC meeting to discuss oil prices tomorrow afternoon. I have enclosed a one-page "Highlights of the Oil Price Book". The "Briefing Book on Impact of a Dramatic Oil Price Decrease" will be given to you tomorrow.

In overview, the oil price decline of recent months is not as extreme as the decline of 1986. As a result, the economic benefits and costs are not as dramatic. Nonetheless, the impacts of low oil prices are similar and can be fairly characterized as follows:

- National economic growth will be stronger. Sustained low oil prices will have a net positive impact on the economy in terms of GDP and job growth.

- Consumers and energy intensive industries will benefit from lower energy prices.

- The natural gas and oil industry and associated service industries will lose jobs. These job losses will be concentrated in the nation's gas and oil producing States. The technology base will continue to decline.

- Low energy prices reduce inflationary pressures.

- U.S. gas and oil production will decline.

- Oil imports, specifically from the Persian Gulf producers, will increase, both for the United States and the world..

Specific Impacts of Lower World Oil Prices
(Assumes $16.43 per barrel in year 2000, 1991 Dollars)

- Gross Domestic Product averages $33 billion higher each year.

- Net employment increases by 400,000 to 500,000 jobs.

  - Direct losses in oil and gas production: 60,000 to 90,000
  - Indirect losses in support industries: 132,000 to 198,000
  - U.S. job gains from lower energy prices: 0.6 to 0.8 million

- Domestic oil production is expected to decrease in 2000 drops by 1 million barrels per day compared to current baseline projections. Oil consumption rises by 2.1 million barrels per day. Oil imports increase by more than 3 million barrels per day to 64 percent of total oil consumption.

- On the lower oil price path, natural gas production in 2000 is 16.8 TCF rather than the previous baseline estimate of 19.2 TCF, a reduction of 12 percent. Consumption closely follows production rates.

- Expected growth of renewable and alternative fuels lags at lower oil prices. However, both sources still increase compared to current levels. At lower oil prices, renewables growth is 29 percent rather than 31 percent over the decade of the 1990s.

- With low oil prices, carbon emissions rise by 61 million metric tons in excess of the baseline forecast.

Office of Economic Analysis
December 6, 1993

Highlights of Oil Price Book

- Oil prices have been historically volatile. Sharp price movements within short periods are not uncommon.

- The volume of oil imports from the Persian Gulf increased from 90 million barrels in 1985 to more than 600 millions barrels in 1989--an increase of more than 500%. This trend will continue.

- In 1986 prices fell more than 50% in six months. Oil patch states were hurt economically; bank capital and real estate values declined.

    - Exploration declined by 50%; independents wee hurt.
    - Domestic oil consumption rose; refining and marketing fared well.
    - Lower oil prices reduced inflation and interest rates, and helped extend the already mature economic expansion for 3 additional years.

- 1993 differs from 1986. To date, oil prices have declined about 20% in 8 months.

    - So far, the 1993 price decline is smaller and less sudden than the 1986 drop. Because of this, the impacts on the economy and oil production are similarly smaller.
    - The economy of the Southwest is far more diversified than it was in 1986. An oil price decrease will hurt the oil patch, but not as much as in 1986.

- Lower oil prices, even at $15 per barrel, will increase GDP and employment from projected levels of a year ago.

    - But low oil prices reduce U.S. oil and gas production,
    - Increase oil imports, and
    - Increase domestic energy consumption, and
    - Increase air emissions.

- National economic growth will be stronger, with particular advantages to transportation, paper, primary metals, petrochemicals, and cement and glass.

- A decrease in oil prices will also put downward pressure on the prices of natural gas and other fuels. Low prices will reduce expected levels of natural gas production. This will limit the capability of natural gas to penetrate new and existing stationary source markets and to replace oil in the transportation markets.

- Natural gas penetration into new and existing markets will decline.
- Expanding use of renewable and alternative fuels will be slowed.
- Air emissions will increase.

cc: Sylvia Matthews