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THE FEDERAL ENERGY ADMINISTRATION
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REMARKS OF THE HONORABLE FRANK G. ZARB
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION
BEFORE THE

NATIONAL PETROLEUM COUNCIL
AT THE
INTERIOR DEPARTMENT AUDITORIUM
WASHINGTON, D.C.
MARCH 18, 1975
9:30 AM

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The National Petroleum Council is an excellent example of how government and industry, working together, can advance the common good of the nation. As you know, the Council was founded at the urging of President Truman after he saw what such an association could accomplish during World War II.

Today, even more than during the Second World War, the cooperative efforts of government and industry will be needed if the United States is to move from its current posture of dependence to one of self-reliance. That's an enormous task -- one that, in some respects, makes World War II look like a skirmish.

It's a job that will require commensurately greater activity on the part of the oil and gas industries, and, for that matter, all energy producers.

The Federal Government, of course, can establish broad policy goals and strategies. But in doing this, government officials too often tend to say "we" will accomplish our energy objectives when, in fact, they should be saying "you," the industry.

Well, I don't intend to make that same mistake. You know and I know that the only fuel the government produces is paper, and it doesn't have much of a BTU content.



But while recognizing that it is the industry which will produce the oil and the natural gas this country needs, we must also realize that our efforts will be taking place within the framework of a national energy policy involving both industry and government.

As you all know, President Ford in January proposed the nation's first truly comprehensive policy to reduce consumption, stimulate production of conventional fuels, and expedite the development of more advanced energy sources.

The Administration plan relies primarily on the market mechanism, balances every element of the program in terms of barrels of oil produced, saved, and consumed, and integrates all of its energy initiatives into an overall economic structure.

As a result of the President's energy proposals, the inertia that had been blocking the development of a sound energy policy was overcome. During the last few weeks, we have seen a response from the Congress which, though inadequate at first, has provided cause for some hope.

We are now seeing the first indications that Congress has recognized the urgent need for a significant increase in the cost of energy, and not just token action. And it has become increasingly clear that our major differences are over methodology, timing and degree.

And that's good news to me because these questions can be resolved the same way Americans have always adjusted their differences -- through debate, compromise and conciliation. The Administration is prepared now, as it has been in the past, to join in this process. In his State of the Union message, the President set things in motion, and we intend to keep things moving.

Compromise is possible in many areas if it advances us toward a sound national energy policy. And what is not open to compromise can be summed up easily: we must stop the dangerous growth of our vulnerability to foreign oil suppliers, become invulnerable by 1985, and -- most important -- accomplish all these objectives in the fairest and most equitable manner possible.

Having said that, let's see how the approaches of Congress and of the Administration compare.



As you know, the Administration wants to save a million barrels of oil per day by the end of this year, and two million by 1977. The Congressional approach is more gradual, striving for one million barrels a day by 1977 or 1978. In effect, it suggests an annual reduction of 400,000 to 500,000 barrels a day in 1976, while we would prefer to telescope that time to the end of 1975, and magnify the savings to 1 million barrels a day.

For the mid-term, we think invulnerability demands oil imports of roughly 5 million barrels a day, rather than the goal favored by some in Congress for the early 1980's of 25 percent of domestic petroleum consumption -- or about 6 million barrels a day in 1985.

Because of the flexibility, the economic soundness and -- in the final analysis -- the basic fairness of the marketplace, the Administration prefers to combine uncontrolled domestic oil and gas prices with import fees and excise taxes to achieve the necessary savings. In short, we prefer a system that will allow the price of energy to reflect its true value in the economy.

We have no quarrel with import quotas and allocation as standby means. But instituting a continuing quota and allocation system -- with the bureaucracy penetrating the marketplace ever further, with the regional inequities inherent in such an arrangement, and all for the sake of marginal reductions in imports -- seems inconsistent with maintenance of as free a marketplace as possible.

But then many members of Congress are prone to see Government intrusion into the economy as the desirable way to deal with our difficulties. Some, for example, would establish a federal purchasing system for all our oil imports, perhaps based on sealed bids.

Again, this would be a major step in the direction of greater government control over the petroleum industry and would involve many of the bureaucratic disadvantages of quotas and allocations.

Whether such a system would place any significant pressure on the world price of oil is open to question. There are those who believe that a Federal purchasing authority would drive the cartel closer together and, therefore, generate higher prices over the long-term.



It is true that a number of Congressional plans propose higher gasoline prices, recognizing that the market mechanism can be effective. But some of those plans would place the entire price burden of curtailed consumption on gasoline. The Administration prefers a broad system of tariffs and excise taxes that would spread the burden among all petroleum products. In this regard, we estimate that our program would be considerably more effective than the Congressional plans.

Where the price of old oil is concerned, their approach again is one of gradualism, preferring to lift controls over, perhaps a five-year period. They take the same approach to deregulation of natural gas, preferring either very gradual removal of controls or a price ceiling of 80 cents to a dollar.

But artificially-suppressed prices of any commodity, especially energy fuels such as oil and natural gas, cause both an artificially high demand for a cheap product, and an artificially low incentive to produce that product.

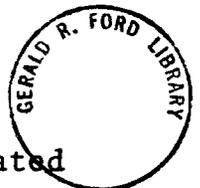
We in the Administration simply think that we should move faster.

The Congressional plans, moreover, are not nearly as comprehensive or specific as the President's where supply is concerned.

For instance, some members advocate government sponsorship of exploratory drilling on the Outer Continental Shelf rather than an accelerated development program, as we propose, which could add a million and a half barrels of production a day by 1985.

They mention production from the Naval Petroleum Reserves, but don't provide for accelerated exploration and development of NPR-4 -- activity which could mean another two million barrels a day by 1985. While the President is seeking a million barrels of commercial synthetic fuels per day by 1985, Congress has not spelled out any goal; though in fairness, it must be added that their initial drafts were not intended to be detailed programs.

Their special tax treatment for utility shareholders for example, would accomplish little without an increase in the investment tax credit to 12 percent, the provision of preferred stock dividends and deductions, and the mandated reform of state utility rate processes. And, although the Congressional approach provides for greater conversion from oil and gas to coal, it doesn't deal explicitly with the environmental issues.



Finally, Congressional conservation proposals are limited in effect and extent. Among other things, they do not include thermal building standards, or even efficiency labeling for autos and appliances.

That's a broad comparison of the approaches of Congress and the Administration. I've concentrated primarily on the aspects most pertinent to the oil and natural gas industries, but I think that comparison suggests that President Ford's approach is the more comprehensive, equitable and effective.

Nevertheless, there are interesting and positive elements in the Congressional proposals -- tax credits for conversion from oil and natural gas to coal, for example and, of course, recognition of the basic market truth that price has an effect on consumption.

The Administration can work with these proposals without sacrificing any of the basic goals I mentioned earlier. In fact, we have been doing just that.

As a result of this cooperation and willingness to compromise between the Executive Branch and Congress, we are building a framework within which the industry can continue to fulfill its traditional role of supplying energy to the nation and the world, at prices that reflect the real value of oil and natural gas.

The Administration and, now, the Congress are demonstrating a determination to face up to our energy problems and provide realistic solutions to them. Hopefully, the period of political sparring, of talk for talk's sake, is behind us. And, hopefully, that is also the case for others outside the government -- for consumer organizations, for environmental groups, and for industry.

It is vitally important that those concerned with petroleum, for example, realize not only the immensity of the challenges we face but also the seriousness with which the government is now prepared to meet them. We are through with "business-as-usual." Hopefully, you are, too.

Thank you.

