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THE WHITE HOUSE

PRESS CONFERENCE
OF
FRANK G. ZARB
ADMINISTRATOR
FEDERAL ENERGY ADMINISTRATION
AND
ALAN GREENSPAN
CHAIRMAN
COUNCIL OF ECONOMIC ADVISERS

THE BRIEFING ROOM

3:10 P.M. EST

MR. NESSEN: There are two pieces of paper. One of them is a fact sheet and one of them is a somewhat longer version of the statement that the President just read to you.

Let me bring Frank and Alan on up here now, but let me say this before you start on them. It is possible that before the end of the day we might have something for you on the Presidential decision on common situs picketing. It is not firm, but it is possible.

Q How about the tax bill?

MR. NESSEN: The tax bill will not be signed today because it is not here today.

Q Are you talking about the end of the day? Are you talking about 6:00 or 7:00, or 4:00 or 5:00?

MR. NESSEN: Some time before the end of the day.

Q Ron, a lot of us have to get ready for the trip. Is there some way of having a cutoff point?

MR. NESSEN: Yes. I will give you a cutoff point.

Q I mean before 7:00 or 8:00?

MR. NESSEN: Yes.

With that, let's have Frank and Alan. I don't know if they are going to have opening statements or not.

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MR. ZARB: I think we might save a little bit of time if we cover it very quickly, where we have come from since last November.

You may recall we had absolutely nothing in the way of a notion or concept insofar as an energy program was concerned. The President's January message went out. The 13 titles in that bill -- four are in this bill that the President will sign today. Six additional ones are being worked on in the Congress and four of those have passed one House. None of those are the pricing issue, so 10 of the 13 are either in this bill and now enacted or very close to being enacted.

On the pricing question, you recall that we had proposed full decontrol with a windfall tax program and then a rebate mechanism to consumers. That was our intention -- to bring the industry to a free market condition. After a good deal of debate with the Congress, which involved rationing as an alternative and then quota control and allocations as an alternative, we finally began to center on a 39-month plan. The pricing program in this bill is very similar to the 39-month plan.

In terms of volumetric numbers, where does this all leave us? We are down in our consumption over our projections by a million barrels a day. It is kind of interesting that that has occurred, primarily because of conservation and to some extent warmer weather. We have adjusted that million barrels for the economic activity question, so that is not in there. It is a real one million barrels based upon conservation measures by the American people, mostly we think because of higher prices visited by OPEC and, to some extent, by warmer weather.

This bill will in the next two to three years add another million barrels of savings bringing the total to two, and the measures in this bill in total by 1985, in one way or another, affect half of the savings which we projected in January.

You recall we were projecting 12 million to 13 million barrels a day savings or replacement with other forms of energy. This bill affects one-half of that, and obviously we are going to need natural gas, the synthetic fuels, and our nuclear development program to accommodate the other half.

The bill that the President signed today over current controls will save us in both consumption and in production over the 10-year period. Now a good deal of it depends upon how the bill is allowed to operate, and we can get into that with your questions.

Q Is the $2 a barrel removed now?

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MR. ZARB: As of midnight last night.

Q How does this orderly phase-out of controls work, Frank?

MR. ZARB: It is a 40-month plan. You remember our 39-month program rolled back new oil and released oil to $11.50. This would set that category of oil at $11.28, with old oil at its current levels of approximately $5.25. The entire domestic oil supply will escalate at a rate of 10 percent a year between now and early 1977, at which time we have another touch point with the Congress to talk about a part of that. That will be implemented monthly -- that 10 percent.

We will promulgate regulations after certain findings which we will make over the next 30 days, and the 10 percent escalator will be applied monthly and we will output a 12- to 24-month program in advance.

Now the bill also provides for a change in that escalator whereby it can be increased -- that 10 percent could be increased -- based upon a finding. That increase can be submitted once every 90 days, and it can be defeated by one House of Congress in simple majority vote on a resolution to disapproval.

Q Have you already mapped out the first increase?

MR. ZARB: No. We are obviously going to have to make some precise findings, but if you are asking me for my best judgment at this moment, the three percent inducement factor will undoubtedly be required after our findings and be put in place for the first 12 months of operation.

Q Do you expect Congress to go along with this increase in the next election year?

MR. ZARB: No, no, no. Wait a minute now. The 10 percent is an automatic feature that requires no Congressional look at until early 1977.

Q What happens in early 1977?

MR. ZARB: They get to look at three percent of the ten percent. It is a GNP deflator which we calculate will average about seven and an additional three percent inducement factor. The seven percent is permanent for the 40 months. The Congress takes a look at that three percent in early 1977. Again, the President has the authority to increase that number, that 10 percent number, once every 90 days.

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Now, in answer to your question, I think by taking the fever out of this issue and the head-to-head confrontation and reducing it to a common base, that we will have the ability to make the necessary adjustments upon showing that we need it to induce more production. So the answer to your question is yes.

Q Frank, what does this bill mean to the person who is going to pull up to the gas pump in the next two, three or four months or the person that is going to pay his gas bill in the next three or four months?

MR. ZARB: Theoretically, it demonstrates a slight reduction of somewhere around a penny or two per gallon but I hasten to add that I don't believe that the motorist is going to see any real reduction over what would normally occur during the winter months with respect to gasoline or heating oil. The dynamics of the market, in our view, will not have that take place.

If you want a short answer, a maximum of one penny per gallon over the first six months is a possibility.

Q Frank, you have talked about two and a half to three cents?

MR. ZARB: Do you want to follow that up?

Q When is he going to see his pricing up again?

MR. ZARB: Well, throughout the 40-month period, of course, you have got your normal pass-through of normal inflation items and the 10 percent escalator which will be applied almost immediately, certainly the seven percent and possibly the three percent so that over a 40-month period we will be escalating up closer toward world prices.

Q When will you be back to the present level if you get the one or two cents rollback?

MR. ZARB: It would be my view that in terms of real reductions at the pump we are not going to see it and if we do it is going to be spotty. If it does occur, by the end of next year it will no longer be there.

Q What happened to the two and a half cent decrease that you were predicting before?

MR. ZARB: The two and a half cent decrease that I was predicting before was not my prediction. It is theoretically possible, looking at the computer models that run all of these chemical numbers. In our view, when you look at the fact that OPEC price increases will enter the market in January, that we have a bank cost situation within the industry that amounts to more than $1.2 billion so that we are not likely to see that kind of a decrease.

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Now you could have a stabilizing effect over the next year where you could cushion some of the increases that might come through ordinarily but I don't want to promise that kind of a decrease.

Q When will prices start to rise?

MR. ZARB: I don't think we can say that prices will stop rising through this period in certain products. Normal cost increases with respect to labor or product costs or costs of doing business will continue to push their way into the marketplace, but under this bill for the 40-month period there would not be a dramatic one-time shift upward in prices.

Q Mr. Zarb, as far as the consumer is concerned, you are saying there will be no rollback in prices?

MR. ZARB: Well, you really have to interpret it your way. What I am trying to do is to say that the bill theoretically has a short-term rollback effect. Based upon what we know about the operations of the marketplace, it is more than possible that we won't see that affected in real terms -- in other words, a drop from today's level.

It could be that there could be some offsets for increases that might come along in the next six months, that is a possibility, but I don't want to be in the position where we are committing to the American people they are going to see an actual drop in terms of certain product prices when there is a good possibility that will not occur and if it does occur it is our best estimate that it will not amount to more than a penny a gallon.

Q How will this affect oil company profits?

MR. ZARB: I don't know if we have a macro number on that, do we? We would have to get that for you. If you call on over, I am sure we could calculate it quickly. It is very similar to the rollback effect that we had in the 39-month plan where we rolled back, you may recall, the new oil category to $11.50, so I am certain we have those numbers.

Would you call John Hill and he will give you the number.

Q When did the President make up his mind on this, sir?

MR. ZARB: Over this weekend.

Q When did you find out about it?

MR. ZARB: Yesterday.

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Q The President said that he had decided to sign the bill, and you said the $2 fee would be removed effective as of midnight last night. Have those two measures in fact been signed by the President?

MR. ZARB: I just can't answer your question. So far as I know -- I can't answer your question. I don't believe they have.

Q Frank, if OPEC can maintain real prices from now through the end of this bill's life, where will U.S. prices be relative to world prices?

MR. ZARB: That would mean if OPEC was able to keep 1975 values and not have an erosion because of inflation OPEC would probably be up around $16 a barrel by the end of the 40 months and we would be up, depending upon how the escalator was run, anywhere between $13 and $16. If the escalator were improved as time went on, to induce a situational production from the various segments, we could be very close to that or certainly within $2 of it.

Q Frank, in view of the President's heavy commitment to some program to discourage consumption through higher prices, how could he accept this bill?

MR. ZARB: I said a number of times in the last three or four months that we were seeing a conservation effect substantially higher than we had anticipated. I did, I think in November, at a press conference reveal the numbers that we had perceived for the end of 1975. We will end this year -- and this was a surprise to us -- at the rate of 800,000 barrels a day less than 1973. We will end this year, if we took historic projections going back to 1970, 1971 and 1972, about three million barrels a day less than what would have been consumed at normal and projected growth rates.

Now the first number I gave you is not completely adjusted for warmer weather but it is adjusted for economic decline and economic activity which has led us to the conclusion that we are getting a substantial amount of conservation based upon the increases that we have had thus far by virtue of OPEC.

I have to believe some additional awareness because of this year's debate in the energy business has just made the awareness question a lot keener and thereby prompting people to change their methods for using energy.

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Q You don't attribute the conservation at all to the price of gas at the pump?

MR. ZARB: I just said, Peter, that I think that the conservation effect has been primarily induced by the change from 33 cents to 55 cents, which was the first OPEC change, and the effect of that as well as in all other products has been pretty substantial.

When we look at industrial savings and we adjust out the decline in the economic activity, we still see a substantial amount of conservation which, in our view, is becoming permanent and increasing at some geometric rate because the change in process today continues to grow in terms of its energy savings per unit of output.

Q Domestic oil production is the lowest it has been in ten years. The oil industry says this bill is going to accelerate that decline. How did you resolve that question during your deliberations? Is this, in fact, going to accelerate the decline of oil production.

MR. ZARB: In our view, it will not. We are going to have to insure that the escalator continues at an effective rate to continue to induce maximum opportunities for exploration and development.

We went through this exercise back in the summer when we agreed to a rollback to $11.50. Now a little bit of history, if you don't mind.

Last January, new oil was at about $11.50 per barrel. The change from $11.50 to about $13.00 or $13.25 was primarily induced by the tariff. When the tariff went on imported oil, it automatically elevated released oil in this country, and that was the increment of change.

At that time, we proposed to the Congress that we have an excise tax to take that back, the difference between $11.50 and $13.00, more or less. So, you can see the arithmetic and how it brought us to the position that we have come to.

Yes, ma'am.

Q Are there any plans to continue the product retirement program for oil?

MR. ZARB: We are going to be examining that and holding hearings based upon this bill, and I just can't give you a finalized answer.

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Q Frankly, I don't follow your reasoning on the rollback question on consumer price. The rollback alone would account for about a penny and a half per gallon, as I understand it, but if you add the $2.00 fee coming off, if that follows through, as I think is your theory, then that would add another nickle or so, would it not?

MR. ZARB: No. The total two and a half cents which was calculated computerwise included the elimination of the tariff.

Q I don't see how that figures. If you do it just straight arithmetic, it does not, it comes out to 5 cents.

MR. ZARB: I don't know how you come out to 5 cents.

Q Just divide by the percentage of --

MR. ZARB: No. You are taking six million barrels instead of the fact that half of that import is product.

Q I see. Okay.

MR. ZARB: Half of it is residual oil, almost half.

Q Mr. Greenspan, you opposed the signing of this bill. Why was that? Did you think that it would cause production to decline and imports to increase?

MR. GREENSPAN: I was not aware that I opposed any such bill. I support the President in his decision.

Q Didn't you initially recommend it be vetoed, as has been widely reported?

MR. GREENSPAN: I have, since I have been here, never indicated publicly what my views have been on any piece of legislation, except to the President of the United States. I have no interest in changing that particular point of view.

All I can suggest to you is that we presented to the President all of the details that we possibly could on the plusses and the minuses of the economic impact of not only this bill, but of various alternatives which were available to him and there were considerable plusses and considerable minuses from any particular type of scenario which you have and we tried to lay them out the best we could for the President and he made the particular decision, which came out in this direction.

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Q What do you think this bill will do to production and imports?

MR. GREENSPAN: It is obviously in comparison to what? We spent a considerable amount of time going over the supply model constructed by FEA, and it is a very impressive model. There are a great number of uncertainties in any analysis of supply impact with respect to price.

As far as I can judge, FEA has the best model available of any I have seen. There are areas in there which are obviously uncertainties which, of course, they acknowledge as well as anybody.

This is a very tough forecasting business, but I must say I have not seen sets of numbers which I would consider on the supply side superior to theirs.

Q Mr. Zarb, can you explain in terms so the ordinary citizen can understand why, if there is a two and a half cent saving, it does not show up at the pump? Where does that two and a half cents go?

MR. ZARB: Again, it is a comparison from where? If you compare it to today's prices, remember this bill will go into effect next February, and it will take between now and then for us to promulgate the necessary regulations to implement it.

Now, there is a normal flowthrough of increased costs as occurred in any industry on any product, and that amounts for part of it. There is going to be an increasing change in January as the last 10 percent of the OPEC countries are fully felt in the marketplace.

The industry has a set of costs which they legally may pass through,and have not to date, and they are what we are calling the bank costs provision. Now, they are available under law to pass through, and we believe that some of that will come through and create the offset.

One point I think I ought to make that we have not made here is we have finally gotten the Nation to a point where we are not arguing over one provision of an energy program and thereby precluding us from having the first basic comprehensive plan upon which to build.

We are not going to be going into next year with the kinds of debates that we have had between the Administration and the Congress on those issues. We are going to be able to focus on building on this basis and insuring that by the end of the year we have filled it out with a fully comprehensive program.

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I mentioned to you earlier that of the bills that the President asked for in January--the 13 titles--four of them are in this bill and six of them are very near completion in the Congress, including natural gas deregulation, including Elk Hills, and including a number of others, with four of those six having already passed one House.

We are finally beginning to create enough adhesive here so that we can end next year with an energy program that is going to get us to our independence.

MR. GREENSPAN: Could I follow up on that. I think that one point that should be emphasized is that one problem that we have seen out there is, the very fact that there has been great debate on this question of energy has created a very substantial amount of uncertainty out in the oil industry and out in the economy.

The consequence of this is that there has been a considerable amount of pulling back until a number of issues become clarified. As we all know, it is very important, when you are making business decisions with respect to investment, especially of this type, it is terribly important that one knows what the ground rules are.

I think it has been our judgment that it is very important to remove this overhang of uncertainty which has existed for such a long period of time, and this is not a insubstantial issue for trying to get some general form of consensus on the question of energy.

Q Dr. Greenspan, since the President has said he would sign the tax extension bill when it gets here, could you give us your estimate of the economic impact of that legislation on 1976?

MR. GREENSPAN: Are we allowed questions on the tax cut?

MR. ZARB: Sure.

MR. NESSEN: Why don't we finish the energy stuff, because I think some people probably want to file.

Q Can you give us the economic impact of the energy bill, please, Mr. Greenspan?

MR. GREENSPAN: The economic impact really obviously is in contradistinction to what?

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Q Where we are now.

MR. GREENSPAN: I would say where we are now, the impact is really marginal and difficult to evaluate because there are no really great significant changes that are implied. Most of the economic impact would come from a significant change in price, and as Frank indicated, the price effects, as we see them, are quite small and clearly nowhere near large enough to have any impact which would be visible on the level of either economic activity, the general price level or the level of unemployment.

Q Mr. Zarb, I am just trying to understand the Administration's position now. Not so many months ago the Administration favored an increase in prices and discouraged consumption.

Now, you have quoted new reasoning based on new conservation figures. Has the Administration's position changed because of that, or would the Administration, if it had its druthers -- would you still rather have higher prices to discourage consumption?

MR. ZARB: What is the next question?

Q Frank, are you saying --

MR. ZARB: Wait a minute. I am going to answer his question. (Laughter) I was not serious.

It is our view that the price factor from this time on, because of the experience we have been having in conservation and the elasticity that we have gotten that we had not anticipated, that the price has to be a function of production and that we need to insure sufficient price effect to insure maximum opportunity for exploration and development.

That is where the price feature has to be really focused on. We have seen a substantial amount of conservation based upon price adjustments here. We know that over the 40-month program similar to our 39-month program we are going to have a gradual escalation of prices which will keep us from losing the momentum of conservation that is price induced.

So, I would not characterize that as a departure in terms of concept, but it is a perception in terms of why we will need price increases over a period of time in the future, and that is to induce more production.

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Q But your other fact sheet here says that imports will increase at least in the first year because of this bill.

MR. ZARB: When you remove the tariff, as it did during our 39-month plan, and roll back the price to that extent, you can have an increase in imports which I think would have occurred even under current controls--is that correct, that would have occurred under existing controls--and the numbers are very, very small and again projected hypothetically.

If we can improve as we did this year our conservation effect, then even that phenomenom won't occur.

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Q Frank, could you tell us the timing again on two or three simple things about when the fee will stop being collected, when the first price increase that is allowed within the inflation rate will be estimated?

MR. ZARB: The fee will be terminated as of midnight last night. The bill will be implemented as of February 1, 1976. Between now and then we will be holding hearings and be collecting information that is required under the Act, prior to promulgation of the regulations. Our intent is going to be to set in place, to the extent that we can, a maximum amount of certainty so that people can see what is going to happen going out 12 and 24 months.

Secondly, we will begin immediately to collect hearing information that will go to the question of dismantling our regulations and allocations and price controls at the wholesale and retail level as is indicated by the bill.

Q Mr. Zarb, you have explained very nicely the benefits of this bill but in the debate a number of Administration officials, including, I think, Mr. Seidman yesterday, said that this would be a very tough call for the President deciding whether or not to veto it. Why was it a tough call if it was such a good bill? What were some of the negative factors that were considered?

MR. ZARB: The key question was whether or not we should go back to full decontrol, windfall taxes and the modifying legislation which we had requested for the assistance for small refiners or independent refiners, the rebates to consumers and that whole matrix, and whether or not we simply would not be better off letting prices go and then using the tax mechanism as the leveler.

That was the big choice that needed to be made and there were, I think, a lot of thoughtful discussions -- I know there were a lot of thoughtful discussions -- on that question and a lot of advice from a lot of advisers on the issue. None of these are easy matters; you have to evaluate the impacts both in terms of energy production, consumption, economic effects and they all have to be weighed carefully.

There were one or two other features which we didn't care for. The GAO provisions, which would affect the looking at of FEA's work in getting numbers from the industry, we thought was redundant in having the possibility of two reviews done of the same data. We always thought that the voluntary method with respect to automobile standards was probably the best.

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The Congress went ahead and for the first five years legislated the same program we had in place on a voluntary basis and then made some projections going into 1985. We questioned whether or not you can set a standard now for 1985 with unknown technology. So those were all issues that were talked about very, very thoroughly in a very comprehensive staffing process.

MR. GREENSPAN: Phil, let me also just add that the complexity of the difference between the alternatives that confronted us required fairly detailed extensive analysis which took considerable time in the sense that we could not come to a number of final conclusions with respect to the impacts, the best we could judge them, on various alternative options to the President until very recently. As soon as the data became fully available and as soon as all of the various elements within the bill became clear and outlined, they were then at that point available for the President to make his key decision.

The major problem largely rested in developing the full set of options with all of its implications to the President. As soon as they became available, the decision was made actually quite quickly.

THE PRESS: Thank you, gentlemen.

END (AT 3:43 P.M. EST)