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THE WHITE HOUSE

EXCHANGE OF REMARKS
BETWEEN THE PRESIDENT
AND
FRANK ZARB
ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION
IN REVIEWING THE
FEDERAL ENERGY ADMINISTRATION'S
NATIONAL ENERGY OUTLOOK REPORT

THE CABINET ROOM

3:05 P.M. EST

THE PRESIDENT: Mr. Vice President, members of the Cabinet, and Frank Zarb and your staff from the FEA:

In 1974 -- November -- the Project Independence report was submitted to me. It was a sizeable document with a good many recommendations to make this country, by 1985, independent of outside forces as far as energy was concerned.

In the interval, the Energy Resources Council, under Secretary Morton, with Frank Zarb as the Executive Director, undertook the various administrative as well as legislative recommendations to make us energy independent by 1985.

We have made some progress. We have not made as much as we would like. The Congress passed one piece of legislation that went part way. It should have gone further, but at least it was a start.

I am pleased to announce that the House and Senate conferees, after better than a year of consideration, have approved, at least in conference, the Elk Hills Naval Petroleum Reserve legislation which will bring about some 300,000 barrels per day in domestic production.

This is a step forward, and I congratulate the Congress for acting on it. We now have the Energy Resources Council, with the new Secretary of Commerce, Elliot Richardson, as the Chairman, and the responsibilities of Frank Zarb still to handle the administrative as well as legislative responsibilities.

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I think we are about to move forward, I hope with the cooperation of the Congress. But this volume here, which Frank is about to discuss in at least a synopsis, will be the national energy outlook in 1976, roughly 18 months after the Project Independence was submitted to me.

I do want to congratulate the members of the Council. I do want to thank the staff of the FEA and the other agencies involved. The job is part way done. We have got a lot to do, but I am convinced that we can move ahead and do the job that must be done to make the United States energy independent by 1985.

Frank, do you want to proceed?

MR. ZARB: Mr. President, the book that you just referred to is the product of a lot of work over the past year and as a result of your instructions to us of just about a year ago, after your energy program went to the Congress. We not only monitored the legislation but made sure we gave every effort to its implementation, and we continued at this pace with the changing world around us so the policy can be modified and we can have a scorecard as to how well this nation is doing against your goals of self-sufficiency by 1985.

If there is one simple conclusion -- it is a complicated book -- but if there is one simple conclusion that sums up the material that is between those two covers, it is this We, as a nation, have the capability to become self-sufficient by 1985 and thereafter do even better than that.

Whether or not we do it is dependent on our will to get the job done, and the resources we place behind it. There are no unnatural obstacles or there are no natural difficulties such as the absence of resources that could prevent us from accomplishing that task.

We said that a year ago in the message to Congress. We said it again more recently, and this study documents that once again, if we fulfill the program that we have been studying and working on for the last year, we can be self-sufficient.

We prepared some charts, Mr. President, that summarize some of the major conclusions. There is lots of other material in the book. The question is, where are we going with respect to consumption in the years ahead, and I think those lines tell the story.

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Our current forecast shows substantially lower consumption patterns primarily because of high prices. The industrial sector has increased its conservation considerably. We expect that with a recovering economy and a growing economy we will continue to increase our rate of growth, but rather than at a rate of 3.6 percent, it will be down at least to 2.8 percent.

If we do some of the things which have been proposed in the conservation sector, we can improve that even further. I will go to those measures in a minute. The important part of this chart I think is to point out that while there is considerable room for improvement in conservation -- and it will occur -- the household and commercial sectors and transportation are the areas where we can have the most profound improvement.

Industry already having moved in that direction is well ahead of the other sectors of our economy. We are assuming here no more than the decontrol provisions that you proposed, the 40-month decontrol of oil and the immediate deregulation of new natural gas and ultimate deregulation of old natural gas, and that is the only assumption, along with the continuation of existing world prices, increased only to the extent of inflation between now and 1990.

The question of conservation is always raised, and everybody is in favor of conservation. The important thing is first an understanding of what conservation can really achieve. It cannot provide zero growth in energy consumption in the next ten years or 15 years, and in any nation whose economy is growing and vital, conservation alone is not going to provide zero growth.

There have been those around the country that have proposed that. There is no way in our determination that can occur. The savings due to price once again are calculated based upon the deregulation measures that we already have proposed and the savings due to conservation measures that you have submitted to Congress, such as building standards, investment tax credit for homeowners, the winterization program, which have all passed one House of Congress and still need to pass a second House; but the important point here is that if the Congress passes these other measures plus a few others, we can improve that 2.8 percent growth to 2.2 percent growth and achieve that much conservation, but we are not going to bring it down to zero growth, therefore precluding the need for additional resources and those that make that argument normally say if we can conserve, we don't have to develop new resources.

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The areas on which we will depend to achieve new energy demands in the future, even assuming conservation at its best rate, demonstrate that gas, if deregulated, can be kept at the 1974 levels rather than the serious decline.

We will get more into gas in a little bit, but with the deregulation of natural gas, we can keep the 1985 production equal to that of 1974. Oil, including the North Slope of Alaska and a very big category of enhanced recovery here on the mainland, that is going to be absolutely essential if we are going to increase our natural oil source.

Coal needs to double to excess of one million tons a year by 1985 as compared to the current 600 million tons a year. We will get into that detail in a little bit.

Nuclear power must increase from 9 percent of the total electricity to some 26 percent of the total electricity. In hydroelectric, we remain about constant inasmuch as we have used up most of the available sites around the country for hydropower.

The question is asked, what will we be importing, and the answer is that it depends on what we do with what we have. If we simply move in the direction of decontrol that we proposed and world oil prices stay at current levels suggested for inflation, we will move to six million barrels a day on a much bigger base by 1985 as compared to 14 million barrels a day if, for example, the Congress prevents us from completing decontrol of oil within the next 39 months.

If they don't go along with the deregulation of natural gas and don't permit other decontrol provisions that we were given authority to do within the last act, if the Congress stands ready to block some of those it has the authority to, if they do, we can wind up importing 14 million barrels a day as compared to the decontrol level.

Now, we can accelerate that something more with accelerated OCS beyond the category, the rate that Secretary Kleppe has already announced. If he finds that reserves are better than currently anticipated, if we are allowed to explore Naval Petroleum Reserve No. 4 and actually produce it -- and that has not been decided in this bill -- if we get your building standard measures and your investment tax credit for homeowners in that series, and we get started with some better fuels, the recent fuel program and the energy independence authority, we can actually be down to one million barrels a day or slightly above that by 1985.

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That will take a lot of strain, but it is within our reach as a nation if we are prepared to make the sacrifices to get the job done.

Where will the new oil come from? The important calculation here, although Alaska is not a surprise to anyone -- it is clear we have to complete the pipeline and continue production. Secretary Kleppe has a good, solid plan for the production of Alaskan oil off-shore and on the outer continental shelf.

The OCS provision there anticipates that Secretary Kleppe will be able to meet his schedule as announced and that his calculations of existing reserves are accurate.

If they are richer than that, then we will improve that situation. If they are poorer than that, we will not.

The green box is really important because that suggests we need to do something to improve on-shore development of oil and that means we have to do everything possible to induce and enhance recovery.

The bill passed by the Congress provides us with the authority to do that. However, they have the right to prevent it with Congressional veto. If they don't, and we provide the inducements for on-shore recover, we will actually make up the retreating old field, and you can see what happens to the old on-shore that has been depleting for some time, where it is in 1985.

It simply dries out. If we don't do something to rejuvenate the system, why, we are in trouble.

Now, Naval Petroleum Reserve, since that chart was drawn, has been passed, and that is part of that on-shore development, the green box.

THE PRESIDENT: Frank, that is only the Conference Report. We do expect it, and I would think it certainly would get down to the White House sometime the latter part of this week or certainly the first of next week.

MR. ZARB: That is worth in excess of one million and one half barrels a day by 1985, and it is worth 300,000 barrels a day within the next 18 months. That is a rather important provision.

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The question of natural gas, because of the current legislative battle, is a rather popular issue. I think this fairly well demonstrates what will happen. If regulations are continued, the production of natural gas domestically drops like a rock and you can see what happens to it.

Under deregulation, without the accelerated scenario which provides for additional gas, pipeline, decontrols of the Congress last week and some other measures, we could take to even possibly improve the situation, deregulation will bring us back to about where we were in 1974.

But, the point is absent deregulation that line demonstrates what will happen to that product, and it will all be made up in imported oil and that is, of course, a very expensive way to get the job done.

We talked earlier about coal and that we needed to double our coal production over the next ten years, and the question is where is it going to come from. Our best analysis demonstrates that the West will increase substantially.

For the most part, the way that coal is produced is surface mining. The recent trends of less deep mining will change, and low sulfur coals from deep mines is getting to be an economic necessity if we are going to use coal, will increase so that we see surface mining in the East remaining stable and deep mining increasing and surface mining in the West increasing.

I point out before you take that down that if we are going to provide for electric growth in this country we only can provide for it if we do it responsibly with coal, and that is what this is all about and nuclear power, and we talked about this earlier.

But, if we don't have this coal produced and delivered to those markets, then we are going to have to produce new electricity with either nuclear power or oil and neither nuclear power nor coal can be eliminated from this program without making up for it with foreign oil.

We can't make up for nuclear power with more coal production in the next ten years. We have to have both at a maximum capacity. They are not very easy questions, but as I said earlier, the solutions are within our grasp.

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Bob Seamans has continually been asked the question why don't we have a man on the moon program in energy and get it all done and over with? I have heard him answer that question so many times I would answer it as he would.

If we use reasonable judgment and maximum funding in all of the major areas, such as synthetics and geothermal and solar, we will only be up to about a little over the equivalent of one million barrels a day by 1990.

That might be improved some with some breakthroughs, but I think that is a reasonable judgment. Even if we were just to bury that problem in money without any regard for sensible economics, the maximum that we could produce is something close to three million barrels a day.

The answer here is that we are not going to, with space age tactics, solve our energy problem between now and 1990. Thereafter, I think it will be awfully important, and if the Congress approves your energy authority, your synthetic fuels bill, then these technologies will move along and move along very nicely.

If they don't, we won't even achieve that much of a result during that time period.

How are we going to do it with money? It is going to cost some \$600 billion to do it in the production side alone. We anticipate an additional \$200 million that isn't shown on that chart for conservation technology. That is so intertwined in the rest of our economy it is hard to show separately, but the point is we are going to need the investment dollars primarily in the electric sector, but also in the oil and gas sector.

Electric utilities are going to have to have the wherewithal to make substantial commitments to energy in the future. Now, while \$600 billion seems like a lot of money, it is no more in terms of percent of total capital investment the private sector has made in the energy area than has occurred over the last 10 or 20 years so that if we provide the right inducements, if deregulation provisions are allowed to occur, if the regulators at the State level are taking into consideration the needs of the future in their ratemaking, then there is going to be sufficient capital investment in this sector to get the job done.

\$600 billion is not an unreal number. On the other hand, it is an essential number if we are going to get this job done. I will end on this last point. It has been proposed that if we don't increase our electricity capacity by either nuclear or coal and make this kind of investment to do it, that we can quite easily make up for it with imported oil.

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The cost of that in terms of paying for imported oil is fairly high but the other point I would make is that when you look at that electric capacity need in the event of an embargo, during those years if we travel that road, we will turn off the lights in some parts of the country.

We did not have to face that the last time around, but as our needs expand, if we don't satisfy those needs with domestic sources, another embargo could be really catastrophic.

Mr. President, that is the overall summary.

END (AT 3:25 P.M. EST)