FOR RELEASE THURSDAY AM'S
APRIL 8, 1976

Office of the Vice President

OUR DANGEROUS AND GROWING ENERGY CRISIS -- AND HOW TO MEET IT
ADDRESS OF VICE PRESIDENT NELSON A. ROCKEFELLER BEFORE THE
NATIONAL ENERGY LEADERSHIP CONFERENCE OF AMERICANS FOR
ENERGY INDEPENDENCE, RESTON, VIRGINIA
WEDNESDAY, APRIL 7, 1976, 7 P.M.

(Seventh of a Series)

April 7, 1976

SUMMARY

"Despite the clear lesson of the embargo, the United States is more dependent on imported oil today than it was before our supplies were abruptly cut off in 1973. There are steps we can take to break this dependence, but we must take them now. Unfortunately, despite a worsening energy situation, the American people -- and, frankly, their representatives in Congress -- do not yet share this sense of urgency. Indeed, the renewed trend toward larger automobiles suggests that public understanding of the energy problem is declining rather than increasing. This paradox -- a lack of public awareness and concern in the face of a growing crisis -- may in the long run be as dangerous for our economy and our democratic system as the energy crisis itself.

"Continued reliance on foreign sources and insecure sea routes for nearly one-half of our oil places this Nation in a perilous position of vulnerability to economic, political and military pressure. If we don't take any effective action now, we'll be importing 50 to 60 percent of our oil by 1985, and things will get still worse rapidly after that.

"There are solutions to this problem. Over the next decade, these solutions require deregulation of oil and gas; strong conservation measures; and $600 to $800 billion in private sector investment in domestic energy production ...(But) unless we act quickly to get the country moving on the development and commercialization of domestic energy sources, long lead times and other delays will cost us the chance for energy independence in this century.

"This Nation cannot continue as a world power of the first rank, cannot maintain its position as the leader of the free world no matter how much it spends on arms and manpower, if it remains critically dependent on imported oil...Our supplies might be cut off by the unfriendly action of producing countries, as happened during the 1973 embargo; or our supplies might be halted by interdiction of straits and sea lanes over which we have little control...There are (also) tangible economic costs of continuing energy dependence...(Balance of payments deficits, flight of capital, inflation, unemployment)...It (dependency) threatens our credibility as the free world's leader, weakens our economy, and may reduce the rate of our economic growth over the long term. It is essential that we take immediately those short- and long-term actions which will reduce our dependence on imported oil before 1985 and eliminate it entirely before the end of this century.

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"Since for reasons of national welfare and national security it is absolutely essential that this Nation achieve energy independence, and the private sector cannot take all the necessary risks, the government -- in the interests of the American people -- must accept a share of these risks itself....

"It is for this purpose that President Ford proposed the Energy Independence Authority last Fall. Functioning like an investment bank, the Authority would have the power over a ten-year period to finance up to $100 billion in private sector energy projects which will contribute to energy independence -- but which would not otherwise receive private sector financing... It is solely a financing vehicle...permitted to invest its funds only in projects which fall into one or more of the following five categories: Technologies for the production, transportation, transmission or conservation of energy which are not in wide-spread commercial use; nuclear technologies, conventional and unconventional; production of electricity from sources other than oil or natural gas; projects involving conventional technologies for the production, transportation or conservation of energy which are so large that private capital cannot be assembled to finance them, and projects which would advance environmental protection.

"The Energy Independence Authority, by making available on a self-liquidating basis the essential financing for the commercialization of alternative energy sources, offers this Nation the only reasonable prospect for stimulating the achievement of energy independence in this century. In my view, no goal is more important to our national security and the well-being of the American people."

(FULL TEXT FOLLOWS)

FOLLOWING IS FULL TEXT OF SPEECH:

I am going to talk tonight about the energy problems of this Nation. And what I will have to say will not be reassuring or optimistic -- unless there's a radical change in the way things are going.

This year, the United States will import more than 40 percent of its oil from foreign sources. A few weeks ago, for the first time in our history, we imported more than 50 percent of the oil we consumed.

Despite the clear lesson of the embargo, the United States is more dependent on imported oil today than it was before our supplies were abruptly cut off in 1973. There are steps we can take to break this dependence, but we must take them now. Unfortunately, despite a worsening energy situation, the American people -- and, frankly, their Representatives in Congress -- do not yet share this sense of urgency.

Indeed, the renewed trend toward larger automobiles suggests that public understanding of the energy problem is declining rather than increasing. This paradox -- a lack of public awareness and concern in the face of a growing crisis -- may in the long run be as dangerous for our economy and our democratic system as the energy crisis itself.

This situation requires all of us to redouble our efforts to make three key points entirely clear to the American people: First, continued reliance on foreign sources and insecure sea routes for nearly one-half of our oil places this Nation in a perilous position of vulnerability to economic, political and military pressure. Second, if we don't take any effective action now, we'll be importing 50 to 60 percent of our oil by 1985, and things will get still worse rapidly after that. Third, there are solutions to this problem.

We are in a unique position to become self-sufficient in energy before the end of this century. But these solutions require a clear understanding of our options, some hard choices, a national commitment of resources, and a sense of urgency.

Over the next decade, these solutions require deregulation of oil and gas -- strong conservation measures, and $600 to $800 billion in private sector investment in domestic energy production.

Beyond 1985, we will need domestic sources of fuel other than oil and natural gas. But lead times and development delays are such that we must start the demonstration and emplacement of these facilities now, in order to have productive capacity ready when our oil and natural gas supplies begin to dwindle rapidly after 1985.

Above all, we must recognize that we no longer have the luxury of time. We have already lost the opportunity -- even if we as a Nation take all the actions I have described -- to cut our imports of oil substantially below 30 percent by 1985.

The question now is whether we will continue to allow our imports to climb well above 30 percent of consumption in 1985 and beyond, or whether we now will take the steps required to limit our vulnerability by 1985 and achieve energy independence by the end of this century.

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Let us turn to the question of needs and supplies. Before the 1973 embargo and the five-fold rise in oil prices, our use of energy was increasing at the rate of 3.6 percent each year. The Federal Energy Administration now projects that higher prices and conservation will reduce our energy growth rate over the next decade to 2.8 percent per year. This is a significant decrease, but it still means that this Nation's demand for energy will increase by nearly 36 percent through 1985.

How will we satisfy this rising demand, to heat our homes, transport people and goods, and maintain economic growth? For only growth of the economy will enable us to provide the jobs and the promise of a better life for a growing population in the future.

Realistically, there are only four principal means to meet our needs between now and 1985 -- conservation; oil and gas; coal; and nuclear power. Other sources, although offering some promise over the long term, will not contribute much to our energy independence by 1985.

According to FEA projections, however, the best we can expect from these major sources will still leave us short of the goal of complete self-sufficiency. FEA estimates that the following goals can be achieved:

First, conservation can save approximately five percent of our energy needs in the coming decade. But this will mean high prices, it will require deregulation of oil and natural gas, substantial capital investments by individuals and businesses in thermal insulation, and more efficient machines, appliances, and automobiles.

Second, domestic oil production can be increased by 50 percent -- from 8.4 million barrels per day in 1975 to 12.3 million barrels per day in 1985. But since production from existing fields will fall by 75 percent between now and 1985, much of this increased supply must come from offshore and other reserves which have not yet been proved to exist. Natural gas production can be increased by 10 percent through deregulation of prices, but new reserves, still undiscovered, will have to be found to replace dwindling supplies from currently producing sources.

Third, coal production can be doubled to over 1 billion tons by 1985 -- from 640 million tons today. But this can only occur -- if we find a formula which protects the environment while permitting surface mining and the use of coal as a boiler fuel; and if necessary railroad facilities are rehabilitated or built from scratch.

Fourth, nuclear power can be increased from nine percent of total electric power generation in 1975 to 26 percent in 1985. But this must be achieved in the face of growing attacks on nuclear power as an energy source, regulatory delays of all kinds, and rapidly inflating construction costs.

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Each of these elements is a massive program in itself, and in all candor it is unlikely that all these things will happen as we hope. But it is important to emphasize that even if they do -- even if the estimated $600 to $800 billion required to do these things is forthcoming from the private capital markets, even if the necessary regulatory changes occur at the Federal and State levels, and even if the oil and gas reserves we haven't yet proved are actually brought in, we are still going to be importing nearly one-third of our oil in 1985.

The question, therefore, is not whether but how dependent on foreign oil we will be in 1985. The picture after 1985 is even bleaker. Demand will continue to rise, but projected domestic supplies will begin to dwindle as our oil and gas reserves are depleted.

The only conceivable replacements for oil and gas in this century are coal, nuclear power, shale oil, and, to a lesser but important extent, the recovery of electrical energy from solar, geothermal, urban waste, wind power and other advanced technology sources.

Coal gasification and liquefaction, and the recovery of oil from western shale are promising prospects. But to make any effective use of these sources in this century, we must begin now to bring about their commercialization.

Quite bluntly, then, our situation is this: (1) Because of long lead times in constructing new facilities, we have already missed the chance to cut our imports of oil below 30 percent of estimated U.S. oil consumption by 1985, (2) if everything goes exactly right -- and it won't -- we can keep our imports in 1985 to approximately 30 percent of our oil needs; (3) unless we act quickly to get the country moving on the development and commercialization of domestic energy sources, long lead times and other delays will cost us the chance for energy independence in this century.

The significance and threat of continuing energy dependence cannot, in my view, be overstated. Devising the policies and programs which can bring this Nation to energy self-sufficiency as rapidly as possible is the most fundamental challenge of a challenging era. Yet it can and it must be done -- because our futureand the future of the free world depend on both our military strength and the strength and self-sufficiency of our economy.

Today, we have begun a great national debate over future defense policy. President Ford has proposed to Congress the first real increase in defense spending in the past decade. Quite clearly, the American people understand and support the President's desire to assure that the United States continues to have sufficient strength to assure the preservation of freedom in the world.

My concern is that, in this debate over weapons systems and military manpower, we may lose sight of an equally important element of our defense posture -- our vulnerability to foreign, non-military, political pressures on our critical raw materials.

And of these raw materials, none is more critical than oil. This Nation cannot continue as a world power of the first rank, cannot maintain its position as the leader of the free world no matter how much it spends on arms and manpower, if it remains critically dependent on imported oil.

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Because of our increasing reliance on imported oil, the next embargo will be worse; and in the Northeast, where imports comprise 75 percent of consumption, there will be chaos. But, the significance of our dependence on imported oil goes beyond the economic disruption we might expect from an embargo.

The Soviet Union is steadily acquiring influence down the East Coast of Africa and up the West Coast of that continent -- the route followed by tankers from the Persian Gulf. The Soviet Navy is growing in strength and pervasiveness in the Mediterranean Sea and the Indian and Atlantic Oceans -- all key routes for the international oil trade. Thirty-six percent of the world's oil flows through the Strait of Hormuz, at the mouth of the Persian Gulf. What would happen if a sizeable ship should sink in that narrow strait? What would happen if two or three tankers should be delayed by Soviet Naval maneuvers in the Indian Ocean? -- Or should mysteriously sink in the open sea?

These questions emphasize that our vulnerability is two-fold: Our supplies might be cut off by the unfriendly action of producing countries, as happened during the 1973 embargo, or our supplies might be halted by interdiction of straits and sea lanes over which we have little control.

Quite clearly, this adds a new dimension to our vulnerability and to the Soviets' challenge around the world. Moreover, the fact that the health of our economy is hostage to a continuing supply of oil from the Mideast has other consequences. Credibility is the coin of world leadership.

If our vulnerability to embargo or to interruption of our supply lines is plain to us, it is plain to others. We cannot maintain our credibility -- and thus our world leadership -- without military strength coupled with a self-sufficient economy. And we cannot be economically self-sufficient if a basic constituent of our economy is under the control of others.

Looming always before us and before our allies is this key question: When the chips are down, will we have the military and economic strength to support our friends against the interests of those who control the production or transportation of our oil supplies? In the delicately balanced world of international politics, the mere fact that one can entertain doubt as to the answer to this question is significant in itself.

Quite apart from an embargo, there are tangible economic costs of continuing energy dependence. Before the OPEC price increases began in 1973, we were paying $4.3 billion as a Nation for the oil we imported from abroad. This year we will pay over $30 billion. We are only able to pay this staggering increase because of a massive rise in the value of our exports, particularly food and arms.

Despite these factors, increasing oil imports have resulted in a recent balance of trade deficit. We must seriously consider the effect on our economy of a continuous and rising year-to-year trade deficit running into many billions of dollars. If we had the capacity to meet our energy needs with domestic production, the $30 billion we will send abroad this year for oil could have produced 1,200,000 jobs here at home. The OPEC price increase was one of the basic causes of the recession and remains one of the most serious threats to a rapid and complete economic recovery.

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Other economic consequences of energy dependence must also be considered. With adequate supplies of energy increasingly uncertain, it may become more attractive for certain kinds of industries to locate their productive facilities closer to their energy sources than to their customers. This could produce an accelerated flight of American productive capacity and capital investment to other areas of the world, areas which can assure the availability of energy, further reducing the jobs available at home and our productivity as a Nation.

Finally -- while the causes of the severe inflation of the past several years are complicated -- most economists would agree that the sudden rise in oil prices in 1973 was a principal cause. As long as the price of this basic commodity is set by a cartel, we will have to expect exorbitant price rises to continue. And in reaction we can expect government policies designed to limit inflation by reducing economic growth.

Thus, continued energy dependence has consequences which go beyond the constant threat of embargo or the interdiction of our supply lines. It threatens our credibility as the free world's leader, weakens our economy, and may reduce the rate of our economic growth over the long term.

We must not forget that we need a strong and growing economy to meet our needs at home and our responsibilities in the world. In this light, it is essential that we take immediately those short and long-term actions which will reduce our dependence on imported oil before 1985 and eliminate it entirely before the end of this century.

The President, as you know, has submitted to Congress a many-faceted energy program with three essential elements -- actions to increase supply, actions to decrease demand, and standby measures for use in the event of an embargo. Only a few of these proposals have been passed by Congress, notably: The gradual phase-out of controls on oil prices; mandatory labeling of autos and appliances with respect to their energy efficiency; and the development of a strategic reserve system for oil.

But we must begin rapid development now of alternatives to oil and natural gas as our primary sources of energy. We must begin now to develop the first commercial-size plants for producing gas or oil from coal, oil from shale, and more electric power from nuclear processes, solar, geothermal and other advanced energy sources.

The difficulty is that there are many unknown factors -- technological, regulatory, economic and political. And these unknowns create risks which have deterred private sector investment in alternative domestic energy sources -- and will deter it in the crucial years ahead.

Since for reasons of national welfare and national security it is absolutely essential that this Nation achieve energy independence, and the private sector cannot take all the necessary risks, the Government -- in the interests of the American people -- must accept a share of these risks itself.

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It is for this purpose that President Ford proposed the Energy Independence Authority last fall. Functioning like an investment bank, the Authority would have the power over a ten-year period to finance up to $100 billion in private sector energy projects which will contibute to energy independence -- but which would not otherwise receive private sector financing.

The Authority would be managed by a five-member board appointed by the President with the advice and consent of the Senate. No more than three of the board may be members of any one political party.

Under the President's proposal, the Authority would be able to provide financing in a wide variety of ways, including direct loans, loan guarantees, guarantees of price, and the construction of facilities for lease-purchase.

The Authority is forbidden to own and operate energy production facilities itself. It is solely a financing vehicle. It is directed to provide its resources in conjunction with private sector financing to the maximum extent possible, and only when the amount of private sector capital available is insufficient to make an otherwise promising venture viable.

The Energy Independence Authority is permitted to invest its funds only in projects which fall into one or more of the following five categories: Technologies for the production, transportation, transmission or conservation of energy which are not in widespread commercial use; nuclear technologies, conventional and unconventional; production of electricity from sources other than oil or natural gas; projects involving conventional technologies for the production, transportation or conservation of energy which are so large that private capital cannot be assembled to finance them, and projects which would advance environmental protection.

Thus, the Energy Independence Authority, by making available on a self-liquidating basis the essential financing for the commercialization of alternative energy sources, offers this Nation the only reasonable prospect for stimulating the achievement of energy independence in this century. In my view, no goal is more important to our national security and the well-being of the American people.

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