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STATEMENT OF FRANK G. ZARB

ADMINISTRATOR

FEDERAL ENERGY ADMINISTRATION

Before the

COMMITTEE ON COMMERCE

UNITED STATES SENATE

February 7, 1975



I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS THE PROBLEMS CONFRONTING THE MARITIME INDUSTRY AND THE IMPACT OF THE ADMINISTRATION'S ENERGY PROPOSALS ON THAT INDUSTRY.

I'M SURE WE ALL AGREE THAT THE PRESENT ENERGY SITUATION REQUIRES BROAD, DECISIVE AND PROMPT GOVERNMENT ACTION TO PREVENT CONTINUED EROSION OF OUR ECONOMIC VITALITY AND NATIONAL SECURITY. THE CHALLENGE IS TO PROMPTLY IMPLEMENT A NATIONAL ENERGY POLICY THAT RESTORES OUR ENERGY INDEPENDENCE.

THE SCOPE OF THE TASK SUGGESTS ITS WIDE-RANGING AND LONG-LASTING SIGNIFICANCE. THE LIVES OF THE AMERICAN PEOPLE -- INDEED, THOSE OF THE PEOPLE OF MUCH OF THE WORLD -- WILL BE MOST PROFOUNDLY AFFECTED BY WHAT WE DO, OR FAIL TO DO, IN THE WEEKS AHEAD. AND THEY WILL NOT BE AFFECTED JUST FOR FIVE YEARS OR TEN YEARS, BUT FOR GENERATIONS TO COME. THE PROBLEM FOR OUR NATION AND INTERNATIONAL ECONOMIC SYSTEM IS SEVERE.

I WOULD LIKE TO FIRST REVIEW THE ADMINISTRATION'S ENERGY PROGRAM AND HOW IT GENERALLY AFFECTS THE MARITIME INDUSTRY; SECRETARY DENT WILL THEN ADDRESS THE SPECIFIC PROBLEMS OF THE MARITIME INDUSTRY WITH WHICH THE COMMITTEE IS CONCERNED.



THE PRESIDENT HAS PRESCRIBED TOUGH ACTION TO CURE OUR ENERGY ILLS. HE HAS OUTLINED THREE, TIME-PHASED GOALS.

ONE: IN THE SHORT-TERM, A CUT IN OUR OIL IMPORTS OF 1 MILLION BARRELS PER DAY BY THE END OF THIS YEAR AND OF 2 MILLION BARRELS PER DAY BY THE END OF 1977.

TWO: BY 1985, IMPORTS OF NO MORE THAN 3-5 MILLION BARRELS PER DAY -- AND THE CAPABILITY OF IMMEDIATELY REPLACING THAT AMOUNT FROM STORAGE AND STANDBY MEASURES IN THE EVENT OF A SUPPLY DISRUPTION.

THREE: ACCELERATED DEVELOPMENT OF ENERGY TECHNOLOGY AND RESOURCES SO THAT THE UNITED STATES CAN MEET A SIGNIFICANT SHARE OF THE ENERGY NEEDS OF THE FREE WORLD BY THE END OF THIS CENTURY.

IN THE FIRST CRUCIAL YEARS, THERE ARE ONLY TWO ACTIONS THAT CAN INCREASE DOMESTIC SUPPLY. WE MUST DEVELOP AND INCREASE PRODUCTION FROM THE ELK HILLS, CALIFORNIA, NAVAL PETROLEUM RESERVE. THE PRESIDENT HAS SUBMITTED LEGISLATION FOR THIS PURPOSE. THIS WILL PROVIDE 160,000 BARRELS PER DAY THIS YEAR AND 300,000 BY THE END OF 1977. WE MUST ACCELERATE CONVERSIONS FROM OIL TO COAL. THE ADMINISTRATION HAS SUBMITTED A SET OF COMPREHENSIVE AMENDMENTS TO THE ENERGY SUPPLY AND ENVIRONMENTAL COORDINATION ACT OF 1974 TO PROVIDE ADEQUATE AUTHORITY TO INCREASE SUCH CONVERSIONS.



TO ACHIEVE OUR NEAR-TERM GOALS, WE MUST RELY HEAVILY ON ENERGY CONSERVATION, AND BECAUSE WE CANNOT WAIT MONTHS AND YEARS FOR LONG-TERM CONSERVATION MEASURES TO TAKE EFFECT, THE PRESIDENT HAS ADMINISTRATIVELY RAISED THE COST OF ALL IMPORTED PETROLEUM PRODUCTS BY IMPOSING A \$3 PER BARREL IMPORT FEE AS A FIRST STEP TO REDUCING DEMAND. THIS FEE WILL BE APPLIED IN THREE CONSECUTIVE MONTHLY \$1 INCREMENTS WHICH BEGAN FEBRUARY 1.

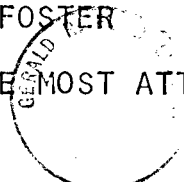
TO LESSEN THE IMPACT ON REGIONS HEAVILY DEPENDENT ON IMPORTED PETROLEUM PRODUCTS, SUCH AS NEW ENGLAND AND THE NORTHEASTERN STATES, THE PRESIDENT'S PROGRAM PROVIDES FOR REDUCED FEES ON PETROLEUM PRODUCTS.

THESE INCREASED IMPORT FEES ARE ONLY TEMPORARY AND WILL BE ADJUSTED TO \$2 WHEN CONGRESS ENACTS THE PRESIDENT'S COMPREHENSIVE TAX LEGISLATION, WHICH INCLUDES AN EXCISE TAX OF \$2 PER BARREL ON ALL CRUDE OIL AND PETROLEUM PRODUCTS.

IN ADDITION, A PROPOSED EXCISE TAX OF 37¢ PER THOUSAND CUBIC FEET ON ALL NATURAL GAS WOULD APPROXIMATE THE \$2 OIL EXCISE TAX AND WOULD, WITH DEREGULATION OF NATURAL GAS AS PREVIOUSLY PROPOSED BY THE ADMINISTRATION, SERVE TO ELIMINATE INDUSTRY SWITCH FROM OIL TO THE ALREADY-SCARCE NATURAL GAS.

THE PRESIDENT WILL ALSO TAKE STEPS TO DECONTROL THE PRICE OF OLD DOMESTIC OIL ON APRIL 1. ACCORDINGLY, CONGRESSIONAL ENACTMENT OF THE PROPOSED WINDFALL PROFITS TAX IS NECESSARY BY THAT TIME.

THE USE OF IMPORT FEES AND EXCISE TAXES TO FOSTER LARGE-SCALE ENERGY CONSERVATION HAS ATTRACTED THE MOST ATTENTION AND THE MOST CRITICISM.



I WOULD LIKE, THEREFORE, TO SPEND A FEW MOMENTS DISCUSSING ALTERNATIVES. FIRST, THERE IS THE ALTERNATIVE OF DOING NOTHING. DOING NOTHING ONLY POSTPONES THE TOUGH DECISIONS WE HAVE TO MAKE. IF WE TAKE NO ACTIONS, OUR TAB FOR IMPORTED OIL, WHICH WAS \$3 BILLION IN 1970, AND \$24 BILLION IN 1974, WILL REACH \$32 BILLION IN 1977.

LAST WINTER'S OIL EMBARGO RESULTED IN A SIGNIFICANT DROP IN OUR GROSS NATIONAL PRODUCT AND THE UNEMPLOYMENT OF PERHAPS ONE-HALF MILLION PEOPLE. IF WE DO NOTHING, OUR IMPORTS WILL GROW TO 8 MILLION BARRELS PER DAY (MMB/D) BY 1977, HALF OF WHICH WOULD BE VULNERABLE TO CUTOFF. AN EMBARGO OF 4 MMB/D COULD RESULT IN OVER ONE MILLION UNEMPLOYED.

EVERY MONTH WE WAIT WILL MAKE IT THAT MUCH HARDER TO ACHIEVE OUR 1985 GOALS. WE WILL CONTINUE TO BE SUBJECT TO INTERNATIONAL COERCION AND NOT BE ABLE TO EXERT CONSUMER NATION LEADERSHIP. TO THOSE WHO SAY ACTION IS TOO EXPENSIVE, THEY SHOULD ALSO REFLECT ON THE FUTURE COST TO THE NATION IF WE DO NOTHING NOW TO REDUCE OUR VULNERABILITY.


SOME, HOWEVER, FEEL THAT RAISING PRICES OF ENERGY AT HOME WILL NOT HELP US CUT BACK ON CONSUMPTION. THEY ARE WRONG. A COMPARISON OF OUR PRESENT CONSUMPTION WITH THAT OF LAST YEAR'S SHOWS THAT WE ARE ACTUALLY USING SLIGHTLY MORE NOW. BUT MORE IMPORTANTLY, WE ARE USING MUCH LESS THAN WE WOULD HAVE BEEN IF PRICES HAD NOT INCREASED DURING THE EMBARGO. OUR PROJECTIONS OF PRICE EFFECTS WERE WITHIN 5 PERCENT IN THE LAST YEAR. THE

CARTEL HAS HAD TO CUT BACK ON PRODUCTION BY SEVERAL MILLION BARRELS PER DAY -- YET THERE IS STILL A SURPLUS OF OIL ON THE WORLD MARKET. THERE IS EVIDENCE ALL AROUND US THAT PRICE IS INDEED EFFECTIVE IN REDUCING DEMAND.

THE OTHER ALTERNATIVE TO DOING NOTHING IS THE GREATER USE OF GOVERNMENT CONTROLS -- WHETHER IMPORT QUOTAS, ALLOCATION SYSTEMS OR RATIONING, OR ON ANOTHER LEVEL, SUNDAY CLOSINGS OF GASOLINE STATIONS, NO DRIVING DAYS, ETC. WE LOOKED AT ALL OF THOSE LAST YEAR. WE CHOSE SOME AND REJECTED OTHERS. AND OUR REASONING WAS GOOD FOR A SHORT-TERM CRISIS. WE NOW FACE A LONGER-TERM ONE. EACH OF THESE ALTERNATIVES WOULD INVOLVE SOME FORM OF SELF-IMPOSED SHORTAGES AS WELL AS BUILT-IN INEFFICIENCIES, BURGEONING BUREAUCRACIES AND REGULATORY PROLIFERATION AND DEMORALIZING DISRUPTIONS IN THE LIFE OF ALL AMERICAN CITIZENS. AND REMEMBER TO BE EFFECTIVE THEY MUST BE IN PLACE FOR THE LONG-TERM AT LEAST 10 YEARS. I DOUBT THAT THE AMERICAN PEOPLE WOULD BE WILLING TO PUT UP WITH SUCH ALTERNATIVES. AND MOST OF THEM WOULD ALSO INVOLVE HIGHER COSTS TO EVERYONE. GASOLINE TAXES, FOR EXAMPLE, WOULD HAVE TO BE INCREASED ABOUT 40¢ PER GALLON TO SAVE 1 MILLION BARRELS OF OIL PER DAY.

WE MUST ALLOW THE FREE MARKET TO WORK TO THE MAXIMUM EXTENT POSSIBLE. THIS IS WHAT THE ENERGY CONSERVATION TAXES AND FEES WOULD DO.

THE LONG-TERM AIM OF OUR ENERGY PROGRAM IS THE ELIMINATION, BY 1985, OF OUR NATION'S VULNERABILITY TO ECONOMIC DISRUPTION




BY FOREIGN SUPPLIES. IN OTHER WORDS, BY THEN OUR PETROLEUM IMPORTS SHOULD AMOUNT TO ONLY ABOUT 3-5 MILLION BARRELS PER DAY OF OUR CONSUMPTION, AND WE SHOULD BE ABLE TO IMPLEMENT STANDBY EMERGENCY MEASURES AND DRAW FROM STORAGE ENOUGH TO MAKE UP FOR ANY SUPPLY DISRUPTION. THIS IS NOT MUCH LESS THAN WE IMPORT RIGHT NOW, BUT IF WE WERE TO DO NOTHING, WE WOULD BE IMPORTING ALMOST 13 MILLION BARRELS PER DAY BY 1985. THE PRESIDENT'S MID-TERM PROGRAM INCLUDES TOUGH CONSERVATION AND SUPPLY EXPANSION MEASURES. TO CUT DEMAND, HE HAS PROPOSED MANDATORY THERMAL EFFICIENCY STANDARDS, A RESIDENTIAL INSULATION TAX CREDIT, FUEL EFFICIENCY AND APPLIANCE EFFICIENCY GOALS, MANDATORY APPLIANCE AND AUTO EFFICIENCY LABELING, AND LOW-INCOME CONSERVATION ASSISTANCE PROGRAM. TO INCREASE SUPPLY, THE PRESIDENT PROPOSED DEREGULATION OF NEW NATURAL GAS, INCREASED OFFSHORE OIL AND GAS DEVELOPMENT, AMENDMENTS TO THE ENERGY SUPPLY AND ENVIRONMENTAL COORDINATION ACT, FACILITY SITING REGULATIONS, ASSISTANCE TO ELECTRIC UTILITIES, AND A SYNTHETIC FUELS PROGRAM.

THE COMMITTEE IS CONCERNED THAT THE PRESIDENT'S ENERGY PROGRAM IN GENERAL, AND THE IMPORT FEE ASPECT OF IT IN PARTICULAR, WILL RESULT IN THE SEVERE DAMAGE, IF NOT COLLAPSE, OF THE U.S. TANKER INDUSTRY. FIRST, I THINK WE SHOULD ALL UNDERSTAND ANY POLICY TO REDUCE OUR RELIANCE ON IMPORTED PETROLEUM PRODUCTS WILL AFFECT OUR DOMESTIC TANKER INDUSTRY. THE MORE WE IMPORT, THE GREATER THE NEED FOR TANKERS, AND THE BETTER OFF OUR DOMESTIC TANKER INDUSTRY WILL BE. CONVERSELY, ANY POLICY WHICH ATTEMPTS

TO REDUCE OUR VULNERABILITY BY INCREASING DOMESTIC SUPPLIES AND REDUCING DEMAND THROUGH CONSERVATION WILL RESULT IN FEWER IMPORTS AND, THEREFORE, LESS NEED FOR TANKERS. IT'S AS SIMPLE AS THAT. THIS IMPACT WILL, HOWEVER, BE SOMEWHAT OFFSET BY THE INCREASED USE OF TANKERS AND OTHER OIL-RELATED SHIPPING TO SUPPORT OUR DOMESTIC OIL DEVELOPMENTS.

SECOND, WHEN WE TALK ABOUT REDUCING IMPORTS BY 2 MILLION BARRELS PER DAY BY THE END OF 1977, WE ARE TALKING ABOUT A REDUCTION FROM PROJECTED IMPORTS THAT WOULD RESULT IF THERE WERE NO ENERGY PROGRAM AT ALL. IF WE DID NOTHING, IMPORTS WOULD BE 8 MILLION BARRELS PER DAY BY 1977. ADOPTION OF THE PRESIDENT'S PROGRAM WOULD REDUCE THIS BY 2.2 MILLION BARRELS PER DAY, OR IMPORTS OF 5.8 MILLION BARRELS PER DAY. COMPARED WITH PRESENT IMPORTS OF APPROXIMATELY 6.5 MILLION BARRELS PER DAY, WE ARE ONLY TALKING ABOUT A VERY MODERATE REDUCTION OF IMPORTS OVER A TWO-YEAR PERIOD. EVEN OVER A TEN-YEAR PERIOD, WE ANTICIPATE IMPORTS OF PERHAPS 3-5 MILLION BARRELS PER DAY BY 1985 - HARDLY A SIGNIFICANT REDUCTION FROM WHAT WE ARE IMPORTING NOW, BUT DRAMATIC COMPARED TO THE 12 OR 13 MILLION BARRELS PER DAY WE WOULD BE IMPORTING BY 1985 IF WE DID NOTHING. WHAT THESE FIGURES TELL US IS THIS: THE PRESIDENT'S ENERGY PROGRAM WOULD AFFECT THE U.S. TANKER INDUSTRY NOT BECAUSE IT WOULD DRAMATICALLY REDUCE IMPORTS, BUT BECAUSE IT WOULD SEVERELY LIMIT THE FUTURE GROWTH OF IMPORTS.



THIRD, THE AMERICAN SHIPBUILDING INDUSTRY IS NOT THE ONLY PART OF THE ECONOMY WHICH WILL BE AFFECTED BY THE PRESIDENT'S ENERGY PROGRAM - OR, IN FACT, ANY ENERGY PROGRAM WHICH MIGHT BE ADOPTED. OTHER INDUSTRIES WILL BE AFFECTED TO A GREATER OR LESSER EXTENT: TOURISM, AUTOMOBILES, AIRLINES AND FARMERS, ETC. BUT THESE ARE THE EXPECTED EFFECTS OF AN ENERGY PROGRAM; WE HAVE ANTICIPATED THEM, BUT BELIEVE THAT THE POSITIVE RESULTS FAR OUTWEIGH ANY LIMITED EFFECTS ON THE ECONOMY. THE WAY TO SOLVE THESE PROBLEMS IS NOT THROUGH CONTINUOUS, SELECTIVE TINKERING, BUT THROUGH A TOTAL, BALANCED PROGRAM AS SET FORTH BY THE PRESIDENT. WE HAVE SUBSIDIZED THE AMERICAN SHIPBUILDING INDUSTRY FOR MANY YEARS NOW - SURELY THE WAY TO TREAT ANY PROBLEMS WHICH ARISE IS THROUGH EXISTING PROGRAMS. IT SHOULD NOT BE DONE BY BLAMING OTHER LEGISLATION WHICH HAS VERY LITTLE TO DO WITH THE INTRINSIC PROBLEMS OF THE AMERICAN TANKER INDUSTRY.

THIS BRINGS ME TO MY FOURTH AND LAST POINT REGARDING THE CONNECTION BETWEEN THE PRESIDENT'S ENERGY PROPOSALS AND THE CURRENT STATE OF THE AMERICAN TANKER INDUSTRY: THE CURRENT PROBLEMS RELATE MORE TO THE DECLINE IN THE WORLD PETROLEUM TRADE THAN ANY DECLINE IN AMERICAN IMPORTS. IN FACT, U.S. IMPORTS CURRENTLY ARE APPROXIMATELY WHAT THEY WERE BEFORE THE EMBARGO. DECISIONS ON WHETHER TO CONSTRUCT NEW TONNAGE WERE BASED ON INDUSTRY PROJECTIONS OF GROWING DEMAND FOR PLENTIFUL AND INEXPENSIVE IMPORTED OIL FOLLOWING THE 1973 EMBARGO, SHIPYARDS AROUND THE WORLD HAVE BEEN FACED WITH CANCELLATIONS AND SLOWDOWNS. THE QUADRUPLING OF OPEC OIL PRICES

HAS RESULTED IN REDUCED CONSUMPTION BY THE CONSUMING COUNTRIES, REDUCED PRODUCTION BY THE PRODUCING COUNTRIES, AND STILL A GLUT OF UNSOLD OIL ON THE WORLD MARKETS. WITH LESS OIL TO TRANSPORT AND MORE TANKERS HAVING COME INTO SERVICE, WORLD TANKER RATES HAVE DROPPED DRASTICALLY. OF COURSE, THIS IS PARTLY THE CAUSE OF THE CURRENT DIFFICULTIES OF THE U.S. TANKER FLEET. IN FACT, THE PERCENTAGE OF THE WORLD TANKER FLEET WHICH U.S. BUILT VLCCs REPRESENT IS QUITE INSIGNIFICANT; THAT IS, LESS THAN 1 PERCENT OF THE WORLD TOTAL. FURTHERMORE, ACCORDING TO THE MARITIME STATISTICS FOR 1973 ONLY 6 PERCENT OF U.S. OIL IMPORTS WAS CARRIED IN U.S. TANKERS.

HOWEVER, I DO NOT PRETEND TO BE THE EXPERT ON THE CURRENT STATE OF OUR TANKER INDUSTRY. SECRETARY DENT WILL ADDRESS HIMSELF MORE SPECIFICALLY TO THE ORIGINS AND NATURE OF THE PROBLEMS. I ONLY WANT TO IMPRESS UPON THE COMMITTEE THE FACT THAT THE CURRENT PROBLEMS OF THE U.S. TANKER INDUSTRY WILL NOT BE SIGNIFICANTLY WORSENERD AS A DIRECT RESULT OF THE PRESIDENT'S ENERGY PROGRAM.

I WOULD FINALLY LIKE TO ADDRESS MYSELF TO CERTAIN ASPECTS OF THE PRESIDENT'S PROGRAM WHICH ARE BENEFICIAL TO THE AMERICAN SHIPBUILDING INDUSTRY.

DEVELOPMENT OF THE OUTER CONTINENTAL SHELF AND THE NORTH SLOPE OF ALASKA OIL RESOURCES, WILL PLAY A MAJOR ROLE IN SIGNIFICANTLY REDUCING THE NEED FOR OIL IMPORTS BY THE END OF THE DECADE. IN FACT, THESE ARE THE ONLY LARGE SOURCES OF POTENTIAL FUTURE INCREASED DOMESTIC SUPPLY AS PRODUCTION IN THE CONTINENTAL U.S. WILL CONTINUE TO DECLINE. EACH OF THESE UNDERTAKINGS WILL REQUIRE CONSTRUCTION WITHIN A SHORT TIME OF NEW EQUIPMENT AND ADDITIONAL SHIPPING CAPACITY SUITABLE TO SERVICE THEM. ON THE OUTER CONTINENTAL SHELF, WE WILL NEED MANY ADDITIONAL DRILLING RIGS. JUST FOR OUR OWN NEEDS, WE KNOW THAT WE WILL REQUIRE MANY MORE DRILL SHIPS, SUBMERSIBLE AND SEMI-SUBMERSIBLE DRILL RIGS, FIXED PLATFORMS, WORK BOATS AND OTHER MARITIME FACILITIES. SIMILARLY, NEW TANKERS WILL BE NEEDED TO TRANSPORT OIL FROM THE TRANS-ALASKA PIPELINE DOWN TO THE WEST COAST OF THE UNITED STATES, SINCE THE JONES ACT PROVIDES THAT SHIPS ENGAGED IN THIS TRADE MUST BE U.S. FLAG VESSELS. THIRTY-TWO SUCH TANKERS WILL BE REQUIRED JUST TO HANDLE THAT TRADE. FURTHERMORE, IT IS LIKELY THAT WE WILL NEED MORE VESSELS SUITABLE FOR COASTAL TRANSPORT OF CRUDE AND REFINED PRODUCTS RATHER THAN LARGE CARRIERS NEEDED FOR OVERSEAS IMPORTS.

I BELIEVE THAT THE INTERESTS OF THE NATION WILL BE BETTER SERVED IF THE MARITIME INDUSTRY SUPPORTS THE DEVELOPMENT OF DOMESTIC RESOURCES RATHER THAN CONTINUE TO COMMIT RESOURCES BASED ON AN INCREASED DEPENDENCE ON IMPORTS.

