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BEFORE THE

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REGENCY BALLROOM
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I would like to thank you for the opportunity to keynote the Atomic Industrial Forum's conference.

The topic for today's session is "Energy Policy, the Alternatives". This is a subject one could speak on for days.

But I know that the speakers in the sessions following will be giving you the technical specifics. So today I'd like to give you an overview of the situation as we see it.

The first thing that we must realize is that the Arab oil embargo did not cause the current crisis. Our problem had been building for years.

The fact is that for the past twenty years or so, we have been headed toward the situation we are in today.



Our coal production peaked in 1947. Domestic exploration for oil and gas began to fall off in 1956, and since 1970, our domestic oil and gas production has been decreasing. We haven't even built enough refineries to keep up with our domestic demand for refined oil products.

But at the same time, our domestic supplies of energy have been going down, our demand has doubled.

What is more, our demand for foreign oil has grown even faster than our appetite for energy in general.

Today, we import 40 percent of our total oil consumption. By 1985, if we do nothing, we'll import close to 50 percent.

The oil embargo of 1973 was a shock, but it came at exactly the right time for us. Another few years, and its impact would have been too great for any Federal program to alleviate.

We have been granted an opportunity to regain control of our energy use.

Whether we use that opportunity, or squander it in recriminations and political infighting is the main issue before America today.

We need a program offering forceful action right now, and careful long range planning for the future.

Only one such program is available to us now, when we need it.

The President of the United States has put together a comprehensive plan which I am confident will get us out of our difficulties.

So I'd like to go over with you now just what the President's program means for the alternate energy sources which this conference will be examining in the sessions ahead.

To begin with, we have to recognize one fact. In the immediate future, the next two or three years, there is nothing we can do to dramatically increase our domestic energy production.

Developing any new energy source requires a lead time, three years for a new oil field, five for a new deep coal mine, and up to ten for a nuclear installation.

The President proposes to open the naval petroleum reserve at Elk Hills, California for commerical development, but this will only supply us with 160,000 bbls. a day this year, and only 300,000 a day by 1977.

If we are going to bring our energy demand and our energy supply into any sort of parity, we will have to do it by reducing demand.

The President's plan does this in a number of ways:

-- It proposes thermal efficiency standards for every new home and commercial building.



-- It sets up a program for retrofitting existing homes with improved insulation, and a program of subsidies to enable even poor families to buy insulation.

-- The President has a pledge from the domestic auto manufacturers that if the government grants them a five year delay in enforcement of final auto emission standards, they can reduce gasoline consumption by 40 percent in their cars.

-- We already have a program of helping industry to conserve energy, which has already achieved a 5 percent saving in energy use. By following FEA guidelines, we can save another 20 percent in the years ahead.

But of course, none of the programs listed above have received as much attention from the press and the public as has the President's decision to place a 3 dollar per barrel tariff on imported crude oil.

Since this provision of the plan has received so much attention, it might be well to look at it in some detail, and to look at the programs which have been suggested as alternatives.

The tariff is being imposed in a series of monthly steps, a dollar per barrel on February 1st, a second on March 1st, and a third on April 1st.



But as you know, many in Congress are resisting the President's assertion of authority. They want to repeal the increases already posted and delay the imposition of any tariffs in order, they say, to "let the Congress examine the issue more fully."

But Congress has been examining the energy situation for a full year and has yet to bring forward any proposals for how to deal with the crisis this country faces.

We need action now, and the President is taking that action.

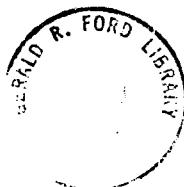
There are others who condemn the President's program as not being equitable. They want us to go to either a mandatory program of fuel allocations or a rationing system.

But are either of these programs really viable or equitable?

A mandatory program of fuel allocations would replace the free market system with governmental fiat.

Yet such a program would depend on government certification of a consumer's "need", and this is almost impossible to define.

The allocations system would require increases in governmental expenditures to administer it just at the time when we can least afford such expenditures.



It would retard the formation of new businesses. How could a new business be started when it had no assurance of being able to procure a reliable supply of fuel? Who would determine whether a prospective business could get the fuel it needed to start up? Would this mean that other enterprises would be cut back by that much in their allocations? It seems as though it must.

For the greatest drawback to an allocation program is that it merely serves to share shortages equitably, it does nothing to increase the supply of fuel.

A rationing program shares all the bad features of allocation.

Like the allocations, it would be costly, require a bureaucracy to administer, be extremely difficult to run equitably, and would do nothing to increase the amount of fuel produced in this country.

In addition, it would have defects of its own.

The allocation per driver would have to be reduced to 36 gallons per month. The average driver today uses 55 gallons.

If a driver needed to get more gasoline than this basic 36 gallon ration, he would either have to show special hardship under one plan, or buy surplus coupons from someone who hadn't used his whole quota, under another.



I think that it is obvious just from the description of the alternatives that such a rationing plan would be open to wide public abuse.

If the government made all decisions about coupon allocation, the program would bog down in a welter of infighting among special interest groups, and the bureaucracy required to administer the plan would be staggering.

There would also be the possibility of organized crime moving into the situation as they did during World War II, with forged gasoline coupons guaranteeing them the most lucrative field for exploitation since the end of Prohibition.

If, on the other hand, we allowed a so-called white market, under which the government let those with a surplus of coupons sell to those who needed them, we could see the rural areas of the country being forced to subsidize the cities by purchasing their surplus gasoline coupons.

I think that if we take time to think about the issues involved, we will see that the alternatives offered to the President's mixed energy development-and-conservation program are really no alternatives at all.

For the immediate future, conservation is the only way to bring supply and demand into balance.



But in the slightly longer range, the energy development programs which are included in the President's program will start bearing fruit, and we will find more and more of our energy needs being met from domestically available supplies.

Exploration of the Outer Continental Shelf will begin to produce results. Preliminary estimates indicate that we could be producing as much as 1.5 million barrels a day from this source by 1985.

We cannot be sure that such estimates will prove accurate, but this is all the more reason to begin exploration now.

The opening up to production of Naval Petroleum Reserve #4 in Alaska will also help provide petroleum domestically. We estimate that production from this source will reach 2 million barrels per day by 1985.

Since the government's share of this production, 15-20 percent, will go to build up a strategic reserve against any future oil embargo, this production will serve a doubly important purpose.

The end of the two tier price system for oil, and deregulation of interstate natural gas prices will allow the price of domestically produced oil and gas to rise enough for it to be worthwhile for the reopening of oil and gas fields from which it is currently uneconomical to produce.



Moreover, the President's plan to set a floor for energy prices, will make it impossible for the OPEC cartel to undercut this domestic supply with future price cuts.

At the same time that we are increasing domestic oil production we will also be taking action to develop our coal resources. We feel that coal can eventually replace oil and gas in most industrial and utility uses. To encourage this conversion, the President is proposing amendments to the Clean Air Act to allow more widespread use of coal by utilities, and a new strip mining bill which will make it more economically profitable to exploit our western coal reserves.

The President is also sponsoring changes in our coal leasing policies which will allow us to assure more timely production from existing leases, and legislation on public utilities which would help them meet the capital crisis which has proved so harmful to them as they try to create new generating capacity.

This might be the place to say something about this Administration's position on nuclear power, since it is so closely bound up with the entire question of electric power.

The members of this audience need not be reminded of the current crisis in nuclear plant construction.



While 30 percent of non-nuclear plant construction has been postponed or abandoned in recent months, the rate for postponement or abandonment of nuclear facilities is running at 60 percent.

There have been many reasons for this rate of delay.

Design flaws have appeared in some existing facilities. Construction applications have become bogged down in red tape at the state and local level. The economic squeeze on utilities has caused many of them to cut back their construction plans.

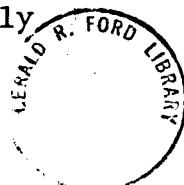
But perhaps the single more important reason for the slowdown in nuclear siting and construction is the growing fear of the public that nuclear power plants are dangerous to those living around them.

This is reflected in the increased reluctance of localities to have nuclear power sites located within their boundaries and the rate of challenges to construction filed before state power commissions.

In all the discussion of nuclear power, more heat has been generated than light, and it pays to look at the record.

In point of fact, there has never been a serious case of escaped radiation from a commercial reactor in the U.S.

We know more about the safety of nuclear power than about that of any other energy source, and we know that it is the least environmentally harmful of any currently available energy technology.



This administration has made a commitment to nuclear power production, and we shall honor that commitment.

The President has set a goal of 200 major new nuclear installations by 1985, and has proposed programs to meet that goal.

We support a Nuclear Facility Licensing and Siting Act to reduce the delays which now hamper approval of plant siting.

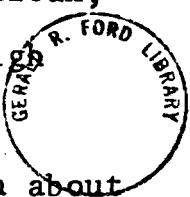
We are also supporting a budget increase of \$41 million in fiscal year 1976, to improve our methods of dealing with nuclear safety, waste disposal, and protection against terrorist attacks and sabotage of nuclear installations.

But we must realize that the American people have to be convinced of the safety of nuclear power production, and words will not be enough. We must show them by our actions that we are determined to do all that is humanly possible to ensure that this source of power fulfills its power and environmental potentials.

Recently, a group of distinguished scientists, led by Nobel prize winner Dr. Hans Bethe released a statement emphasizing the crucial role that nuclear power must play in solving the energy crisis.

In their words, "On any scale, the benefits of a clean, inexpensive, and inexhaustible domestic fuel far outweigh the possible risks."

That summarizes the position of the Administration about as well as anything I could say.



Discussion of nuclear power leads us to a discussion of our long range energy plans, for the nuclear plant is destined to play a crucial role in our power picture right into the next century, when new energy technologies will appear.

Oil shale and synthetic fuels may replace the currently used fuels for vehicular use, or perhaps hydrogen can provide a non-polluting vehicular fuel source.

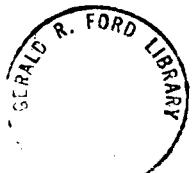
The nuclear breeder reactor may achieve the seemingly impossible, a power plant that produces more fuel than it consumes.

Improved designs for capturing the energy of the sun, either directly, or through winds and ocean currents, may enable us to exploit a power source which is practically endless, and available all around us.

Finally, nuclear fusion holds out to us the possibility of tapping the basic power of the universe, a power which is, literally, inexhaustible.

But in gazing into the future, we must not lose sight of the present. If we are to achieve the dream of limitless non-polluting power in the future, it is necessary that we keep our economy viable today.

Moreover, it is important that we remember that none of the more visionary energy technologies have yet been subjected to the laws of the marketplace.



It will be years before we determine whether one or another of them is the ideal system, or whether a mix is needed to ensure the best possible blend of power sources.

One thing is sure, there are no easy solutions to our energy crisis.

To overcome the current problems will require plenty of hard work, and hard thought. And it will require us to make difficult decisions about our economy and our life style.

It is not a time when we can permit ourselves the luxury of partisan bickering. All of us, Congress and the Executive Branch, Government and Private Industry, energy producers and energy consumers, must work together to ensure that our economy and our society endure into the 21st century.

A. (If Mr. Zarb is unable to stay for the morning's session.)

We might open the floor now for questions.

B. (If he can stay through the session.)

I look foward to hearing the rest of the speakers on this morning's schedule, after which we will have a general question and answer session.

(20 minute Q & A will follow the speeches, with questions addressed to all participants.)

