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THE FEDERAL ENERGY ADMINISTRATION
FEDERAL BUILDING
12TH AND PENNSYLVANIA AVENUE, NW.
WASHINGTON, D.C. 20461

REMARKS OF THE HONORABLE FRANK G. ZARB
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION
BEFORE THE

NATIONAL ASSOCIATION OF COUNTIES
THE BLUE ROOM
THE SHOREHAM-AMERICANA HOTEL
WASHINGTON, D.C.
FEBRUARY 27, 1975
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I imagine that county official sometimes feel that dealing with Washington is like trying to discover life in outer space: you keep sending messages -- and wonder if anyone is listening.

Well, I assure you that there is life in Washington. Having said that, I would like to talk about President Ford's energy program, to explain it, and defend it. It is an excellent program because it is a unified, integrated, comprehensive plan that holds together. It is based on a thorough assessment of our national needs, and how we can meet them mostly from our own resources by 1985. It is not a rigid program, and there is room for change and flexibility.

One thing I am definitely not here to do, and that is to expect you to accept the program uncritically. Certainly you haven't done that so far, and neither has Congress.

But I must emphasize that, while we need to have a national debate on the energy program, we do need to have a national decision, and soon.

What would happen otherwise? What would happen if we continue to do nothing?

Do the proponents of delay and inaction expect the oil cartel to dissolve itself?

Do they think the producing nations will voluntarily cut the quadrupled price of oil back to tolerable levels?



Are those critics of the program not alarmed by the amount of money we are paying for imported oil, by the \$24 billion we spent for foreign oil last year? I'm sure it alarms you. And it should, because this is more than three and a half times what the Federal government was able to afford for all general revenue sharing and fiscal assistance programs in FY 1974.

And what of the future? How do those critics expect the United States to accommodate an outflow of \$32 billion for imported oil by 1977?

How do they expect to satisfy the overwhelming public demand for a national energy policy -- and action now?

How do they expect this Nation to survive another more crippling embargo next year or the year after?

When you give up 40 percent of your energy supply to foreign control, as we are doing now, you don't just give up dollars.

You eventually reach a point where foreign governments -- not the members of the United States Congress -- are the ones who "advise and consent" to your economic prosperity, international policies, and national security.

The President's program is designed to alter the course we are on, so that 10 years from now we can be largely dependent on our own domestic resources for our energy supply.

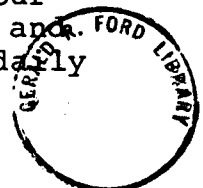
It will take a lot of time, a lot of money, and all the technology and know-how that we can pull together. It will also take a lot of understanding and effort by the American people, and you know as well as I do that Americans will look to you -- not just to Washington officials -- for much of the leadership and guidance required for success.

This brings me to a very important point. The American people must understand why President Ford chose to be guided by the market forces of our free enterprise system in coping with our energy problem.

Believe me, we spent many late hours on that issue. There were very strong recommendations made -- and they are still being made -- that we lay heavy Government hands on the energy industry, especially on the petroleum sector -- that we deal with our energy problems by injecting the Federal Government more and more into the activities of American businesses and the daily lives of American citizens.

We considered some of these recommendations.

For example, we looked long and carefully at gasoline rationing, and the President decided against it.



With rationing, we would be saddled with a bureaucracy of 25,000 people, with more than 3,000 local boards making decisions that historically have been made by a free system. And we would have to live with that cumbersome program for five or maybe ten years -- if the public was willing to tolerate it for that long.

Rationing worked with limited success during World War II, and only because people were behind a great national war effort. By 1945, after only three years, everyone was sick of it and it was starting to become unstuck.

What would rationing mean for the many thousands of Americans whose livelihoods depend on the tourist industry?

What would it mean for businessmen trying to expand their businesses or begin new ones?

What would it mean in terms of public outcry once its inequities, its frustrations and its burdensome bureaucracy took hold?

What would it mean to the local government of Dade County, Florida, for example, which operated 3,000 vehicles and used approximately three and a half million gallons of gasoline last year?

But -- more important -- what would it mean to the ordinary citizens of those and other counties who would be limited to 36 gallons of gasoline a month and would have to pay an estimated \$1.75 for every additional gallon used in the course of a month.

And, the costs of a rationing program wouldn't stop there. A cutback in refinery output of gasoline to save one million barrels of oil per day means cutting back on other products -- home heating oil, residual oil for utilities, jet fuel for aircraft.

And, finally, what would rationing do to produce a single extra BTU of energy? In short, what would it do to move us toward energy independence?

Many of these questions should be put to those who would establish an arbitrary ceiling on imports, and go to an allocation program.

How large should an artificially created shortage be?

How long should the lines at service stations become?

Let's face it, a ceiling on imports and an allocation program mean that the Government is creating a shortage, and then setting out to manage it. It is disruptive and it does nothing to increase our energy supply.



Both rationing and allocation use government intervention suppress supply. They leave demand unchecked and invite people to "beat the system." What we really need -- and what we have in the President's program -- is a means to restructure the marketplace, so that people, business, industry -- and government -- will adjust their use of energy to its real value.

We have to face up to the raised value of all petroleum products, not just gasoline. Now it is true that price increases don't have to be uniform for every product. Perhaps this is an area where valid compromise can be worked out with constructive critics of the program.

But the point is that the people who advocate delay on the President's program or a different approach should answer these questions. It is one thing to criticize that program; it is an entirely different thing to propose a valid alternative; and to show why and how it would work.

Now, let me repeat -- we know you won't accept our program without question. But we also know that you will give the reasons for the President's decision careful scrutiny and fair evaluation as you formulate the Association's position on it.

That is what we are asking from all levels of Government -- and especially from the Congress. But most important we're looking for constructive criticism from anyone who feels he has something to offer to improve the President's program.

And it is a very complex program, with each element figured in terms of its value in barrels of oil saved and energy produced. All of those elements have been built into an integrated program.

If one element is eliminated, or drastically changed, then something of comparable value must be offered to maintain the program's integrity. This is why we are urging members of Congress to do their homework, and be ready with viable alternatives.

Let me run over some of the points in that program in a brief way, because you have all read a lot about it by now.

First, de-controlling domestic oil prices and those of new natural gas as well as a system of import fees and excise taxes and other features of the program would save one million barrels of imported oil a day this year, and two million barrels a day by 1977. The \$30 billion estimated revenues from these will be returned to the economy through a series of tax credits and rebates to private citizens and to industry.



As you know, Congress last week dealt pretty roughly with that part of the program. But, believe me, we are still fighting. We are convinced that this recirculated money will help to straighten out the inflation distortions that penalize middle and lower income groups, by returning money to these people which will more than offset their increased energy costs.

Of course, not just individuals and industry are affected by the oil import fee. The President is well aware that some non-profit institutions might have difficulty sustaining the impact of higher oil prices.

Because of this, he has asked the Federal Energy Administration to analyze the effect of the program on farms, airlines, petrochemicals and non-profit organizations, such as educational institutions, hospitals, museums, and others. We're interested in these, not just for the sake of those businesses and institutions, but also for the people they serve.

And a continued high level of public service is why President Ford has requested \$2 billion in revenue sharing for state and local governments. Some of you, I'm sure, feel this won't lessen the impact of higher energy costs enough. If you have any ideas that will improve it, then we want to hear them.

Then there are some strong conservation proposals:

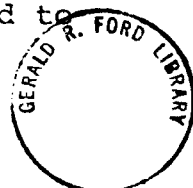
New housing and commercial buildings would have to fulfill Federal standards for thermal efficiency to reduce energy waste. This would save over one half million barrels of oil per day by 1985.

Naturally, Federal standards for thermal efficiency will affect the development of local building codes, as well as having an impact on people, literally, where they live. None of this can -- or will -- be done in an arbitrary fashion. We'll be seeking advice from local officials through an advisory board which will help to develop federal standards.

We want -- and need -- your assistance. That's why we held a briefing last Monday for the Executive Directors of each State Association of Counties on building codes and insulation.

And that's also the reason we have entered into a sizeable contract with your national association establishing an energy project to improve liaison between counties and the federal government. We've also placed people from the county level in our intergovernmental relations office as a part of a continuing exchange program.

Just as the President's program needs your assistance, it also needs the support of industry. And we've already made gains in that area by securing an agreement from the auto manufacturers to increase fuel efficiency 40 percent by 1980. We intend to monitor the industry's progress closely.



Also, energy efficiency goals for major appliances would be obtained by agreement with the major manufacturers, or mandated. This would save another half million barrels by 1985.

Tax credits to homeowners making heating and cooling efficiency improvements in existing homes would save still another half million barrels.

There would be a low-income energy conservation program of direct subsidies to low-income and elderly homeowners, for energy-conserving home improvements like insulation.

Earlier, I mentioned the need for leadership from government officials. Many local jurisdictions have demonstrated that leadership by managing their energy budgets wisely.

At the Federal level, for example, we have demonstrated what gains can be made in energy conservation through the Federal Energy Management Program. Federal buildings have been operated in accord with certain guidelines for almost a year. As a result, the cost of lighting and heating them has dropped 24 percent.

Nevertheless, substantial conservation gains can still be made at all levels.

We are very strong on conservation because this can result in immediate, positive benefits, compared with the longer-range benefits of resource development.

And I will make the point, too, that we can't expect much support from other industrial nations unless we can prove that we know how to tighten our own belt.

Then there is the question of moving quickly to develop the enormous resources we know that we have.

Deregulation of natural gas would provide incentive for further exploration for gas, and alleviate the serious shortage we are now facing -- a shortage that is growing yearly in size and effect. Utilities and industries now using natural gas would be called upon to convert to more abundant and relatively cheaper energy sources, such as coal or nuclear power, as soon as practicable.

This nation has half the coal reserves of the free world -- some one trillion, 500 billion tons of it. The shifting of utilities and industry from precious natural gas to coal would save the clean-burning gas for use in commerce and the home, where it would be of more value.



Increased construction of energy facilities is encouraged under our program by provisions which expedite siting and licensing. We also hope to promote expanded nuclear generating capacity by spending \$41 million on safety, safeguards and waste management. Converting electricity generation from oil and natural gas to nuclear energy would again save scarcer fuels for better uses.

But expedited siting and licensing is only one problem faced by the utilities. Fuel and construction costs as well as inflation have all eroded the ability of the electric utilities to raise capital. Generally speaking, the industry is in dangerous financial condition.

As a result, sixty-three percent of all future planned nuclear capacity has been canceled or postponed. Let me remind you that, in the long run, electricity from nuclear power will be less expensive than uncertain supplies of high cost oil.

Hoever, if the electric utilities industry continues to be an unprofitable investment, that nuclear capacity will never be achieved; the prospects for a healthy, growing economy -- in other words, jobs -- will be severely diminished; and the economic vitality of all our communities will be impaired.

We can't let that happen. We must restore the health of the industry, not simply out of concern for its price-earnings ratio, but out of sheer national self interest -- and I mean job security as well as national security. And that is the reason we need to reform state regulatory processes.

The President's proposals also call for the replacement of costly imported oil with domestic product obtained in a number of ways. By accelerated exploration and development of the oil fields of the Outer Continental Shelf, by judicious tapping of the vast Naval Petroleum Reserves of the West Coast and Alaska, and by deregulating the price of domestic oil, we will encourage increased competitive development.

One other point. As an insurance premium against another embargo, the President has provided for the emergency storage of 1 billion, 300 million barrels of crude oil in case of national need, with one billion barrels earmarked for civilian use and the rest for the military.

Those are some of the highlights of the President's program. As I said, it is a comprehensive, balanced attempt to make this nation invulnerable to the effects of the oil boycotts. But beyond that it seeks to make the United States, eventually, an exporter of a significant share of the world's energy. that that, it is an effort to return control of the American economy, society and future to Americans.



It is not a rigid, inflexible and arbitrary device concocted in Washington to be forced on the country -- we are prepared to compromise where possible, change when necessary, and make exceptions in the interests of fairness.

Finally, your views and those of the Federal Government will sometimes diverge. That's inevitable because of the difference in our perspectives. But I can personally guarantee that your views will be known; your ideas will be heard; we will continue to listen. But in the end it must lead to action -- and soon!

Thank you.

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