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

NATIONAL LEAGUE OF CITIES AND CONFERENCE OF MAYORS
WASHINGTON HILTON HOTEL
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MONDAY, MARCH 3, 1975, 12:30 PM, EDT

I appreciate this opportunity to be with you this afternoon to discuss our efforts at the Federal level to cope with the nation's energy problems.

It's crucial that you know the foundation of the President's energy policy. The success of our efforts to make the United States independent of foreign energy sources will hinge, to a very significant degree, on the ability of officials at other levels of government to assist us in attaining that goal. This is still a Federal system of government, and any national policy must take into account the needs of specific regions and localities.

Although the oil embargo that shook us out of our complacency was imposed well over a year ago, we are still searching for solutions.

Here are some of the unpleasant facts:

In 1970 we paid \$3 billion for imported oil. That is a lot of money. But last year we paid eight times that much: \$24 billion. That's three and a half times more than the Federal Government's total revenue sharing aid to the states and localities in FY 1974.

In effect, last year we bought foreign oil at a rate of more than \$100 for every man, woman and child in the country.



Furthermore, if we do nothing about the situation -- if we just pretend it isn't there -- we will be paying \$32 billion for imported oil in 1977. That's nearly a 1000 percent increase in just seven years.

The President's program is designed to avoid that disastrous result, to turn things around and restore our self-sufficiency within a decade.

In developing that program, we considered -- and considered carefully -- every other option, including gasoline rationing, allocation, and a gasoline tax.

We judged each one by two criteria: whether it would be effective, and whether it would be fair. These proposals flunked both tests.

Let's take rationing. Say we used rationing to cut back our consumption of gasoline by a million barrels a day. We could do it -- just like that.

An adequate rationing program would guarantee only 9 gallons of gasoline per week per motorist -- and that would not be a short-term, temporary hardship -- it might well last for years. To get his tenth gallon, a motorist would have to buy a gasoline coupon on the so-called "white market" for an estimated \$1.20 -- and then pay another \$.55 per gallon at the pump. In other words, he would then be paying \$1.75 per gallon for his gasoline. An open "white market" in coupon sales between consumers would discriminate against lower-income people who could not afford to buy extra coupons. Rural areas without adequate public transportation, where people must drive more and further, would suffer.

And, despite its cost and unfairness, rationing would do nothing to encourage domestic energy production.

These, and a lot of other negative considerations, led us to discard rationing as an ineffective and inequitable method of reducing oil imports.

What about government management by allocation? This would entail creating a shortage arbitrarily, then parceling out limited supplies. No Government system can do this entirely fairly; certain industries and individuals would inevitably suffer. As with rationing, a huge bureaucracy would be needed for administration.

So, in weighing the possible options, we scrapped allocation as being ineffective and inequitable. And that is the same conclusion you come to when you consider government management by a new direct tax on gasoline. Again, this would deal with only one petroleum product, and would have many of the same disadvantages as rationing. It would create inequities for those regions, industries, and individuals who are most dependent on gasoline, and it would do nothing to increase domestic energy production.

What these programs of government management boil down to -- and this is the very reason a lot of people are attracted to them -- is that the Federal Government would become the U.S. oil lord -- the bureaucratic baron of petroleum, or, in the popular phrase of last year, a genuine and permanent Federal Energy Czar.

What we are left with, if we discard these alternatives as more harmful than helpful, is a market approach, which attempts to bring about change in our economic way of thinking with a minimum of damage to the economy itself. The President's program is such an approach, and we think, of all approaches, the best and the fairest that could be devised.

But the President's energy policy was not inscribed on stone tablets and presented to Congress like the Ten Commandments. The Administration is flexible and open to compromise. We realize that any effective national energy policy must be the product of Congress and the Executive working together in the interests of the people of the country.

Personally, I'm encouraged by the events of the last week. The house majority, as represented by the Democratic leadership, for example, has made public its concept of an energy policy. I call it a concept because it's not so much a policy as an outline -- a sense of the Congressional majority about how to control energy consumption and increase domestic production. But I regret to say that it is simply inadequate.

For instance, it concentrates on saving fuel through restricting gasoline consumption. Personally, I'm convinced that we must save crude oil. And that means conserving all the products refined from it. But there is no reason why a greater percentage of the oil import fee cannot be passed through to gasoline -- at least for now.

Congress is also concerned about the timing of oil price de-controls. Some feel that the economic impact would be too much for the economy at this time. I think this fear is unfounded since the President's program of tariffs and price de-control, combined with tax rebates and reform are economically neutral. Nevertheless there may be room here for accommodation, and we in the Administration stand ready to make such accommodation.

There are other elements of these proposals that are noteworthy. For instance, the Democratic concept recognizes the value of using a market mechanism to reduce consumption. But rather than go into these elements in detail, let me say simply that it appears that the Democrats in Congress are moving closer to the hard realities we now face.

The Chairman of the House Ways and Means Committee, for example, just yesterday, unveiled proposals which go much farther than the guidelines offered by the Democratic leadership. These latest proposals recognize that we cannot take token action -- they recognize that there must be a significant increase in the cost of energy.

It is becoming increasingly clear that our major differences are over methodology, timing and degree. And that's good news to be because these are questions that can be resolved the same way Americans have always adjusted their differences -- through debate, compromise and conciliation.

The Administration is prepared now, as it has been in the past, to join in this process. The President put things in motion with his State of the Union message and his decision to impose a fee on imported crude oil. We want to keep things in motion. But what we will not compromise are the goals of our energy policy. We must:

- Stop the dangerous growth of our vulnerability to foreign oil suppliers,

- Become invulnerable by 1985,

- And -- most important -- accomplish these objectives in the most equitable and fair manner possible.

Having said that, let's see in a little more detail how the President's program would reach those goals.

First, de-controlling domestic oil prices and those of new natural gas as well as a system of import fees and excise taxes would save one 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 has 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 non-profit organizations, such as educational institutions, hospitals, and others. We're interested in this, not just for the sake of those institutions, but 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.

In addition, because of possible special hardships that the program might otherwise impose on certain segments of society or the economy, we have under consideration the possibility of cushioning its effects on the airline, petrochemical and heavy construction industries. In addition, we are giving serious consideration to possible rebates of up to \$1000 for farmers.

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.

Naturally, federal standards for thermal efficiency will affect the development of local building codes, but none of this can -- or will -- be done in an arbitrary fashion. We'll be seeking your advice through an advisory board which will help to develop federal standards.

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 by 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 from the Federal Government to low-income and elderly homeowners, for energy-conserving home improvements like insulation.

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.

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 the 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 use.

The President's proposals also call for accelerated exploration and development of the oil fields of the Outer Continental Shelf, judicious tapping of the vast Naval Petroleum Reserves of the West Coast and Alaska, and deregulation of the price of domestic oil. These steps will encourage increased competitive development.

Now, I would be the first to agree that elements of the Administration's program could be viewed as further encroachment by the Federal Government into areas that have traditionally been the province of the States and localities -- notably in our proposals involving facility siting, utility regulation, building standards and the onshore effects of OCS development. But I would emphasize that our national needs demand in these areas the kind of nationwide coordination that only the Federal Government can provide. And I would emphasize with equal strength that we have sought to hold such encroachment to a minimum, to make it more of a cooperative effort among the various levels of government than an intrusion by Washington into state and local affairs. Certainly, what we are talking about in this program is a far cry from the big brother approach that others have advocated.

At the outset of my remarks, I mentioned the mutual cooperation and support that all levels of Government -- Federal, state, local, and municipal -- gave each other during the embargo. That combined effort was forced on us. After all, if your ship has been torpedoed, everybody in the lifeboat has to pull an oar.

But the situation has changed. We're building a new ship, and that ship will be a lot trimmer, a lot more efficient, and will have a clearer destination than the one that went down in October 1973.

But it won't go anywhere unless we all turn to willingly, agree on its design, and launch it. And that still demands cooperation -- now.

Thank you.