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

LONG BEACH AREA CHAMBER OF COMMERCE  
GOLDEN SAILS INN  
LONG BEACH, CALIFORNIA  
MARCH 21, 1975  
12:00 NOON, PDT

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12:00 NOON, FRIDAY, MARCH 21, 1975

Thank you for the opportunity to address this distinguished gathering of California businessmen.

I appreciate the welcome I have received here. It's been chilly in Washington, although I am happy to say that some of the cold shoulders turned toward President Ford's energy proposals on Capitol Hill have warmed somewhat.

When the President assumed office last August, and again when he delivered his State of the Union message in January, he promised "communication, conciliation, compromise, and cooperation."

Today, as Congress leaves for its annual Easter recess, the result of that policy of "four C's" is becoming clear with some real progress toward solving our nation's economic and energy problems.



President Ford took the bold and forward-looking step in January of proposing a comprehensive and far-reaching package of proposals to cure the country's economic and energy ills.

At that time, he stated quite clearly that various elements of the overall program were subject to compromise and revision. That process has been going forward since that time.

But the President made it equally clear that the basic thrusts of the program -- encouraging economic recovery, curbing inflation, and moving the nation toward energy self-sufficiency -- are absolutely essential. Those goals must not be compromised.

His purpose was not to set forth a program chiseled in marble or set in cement with a take-it-or-leave-it challenge to the Congress.

On the contrary, his aim was to outline one complete program that could accomplish many vital economic and energy goals, to foster public and Congressional recognition of the urgent need for action toward those goals, and to provide a firm, specific basis on which both legislative and executive branches of Government could build an effective national energy policy.

He has accomplished this aim admirably.



On the economic front, most of President Ford's proposals have received favorable reaction in Congress, with differences of degree more than of substance. The important point is that great progress has been made in little more than two months.

On the energy front, a number of alternative proposals have been offered since the President's message. Some have been valuable, and have contributed to the process of evolving a sound energy policy. Others, such as gasoline rationing, were less well-conceived, and even their early proponents have found them wanting and discarded them, just as we in the Administration weighed and discarded them in developing our original proposals.

It is much to the credit of many members of Congress that this weeding out of unrealistic "alternatives" has taken place as rapidly as it has over the past weeks. It is much to their credit that we have moved so quickly toward a set of proposals that we all can support. Time, in this case, is very much of the essence.

Energy action remains a critical imperative for the nation. Solving our energy problems becomes more important with each passing day, as domestic energy production continues to decline, and our dependence on imported petroleum supplies continues to increase.



Our national wealth, our national defense, and our credibility in international affairs are all imperiled by our continued and growing reliance on foreign energy sources.

We must follow two avenues to minimize this over-reliance, and eventually to eliminate it. One is conservation of energy now. The other is increased development of our abundant domestic energy potential -- fossil fuels and new sources, such as nuclear fusion and solar energy -- so that we can reach the point, by 1985, where we can supply our own energy needs, without being vulnerable to foreign actions.

The President's program, I believe, outlines the best combination of actions to meet the dual goals of reducing imports and developing domestic energy, while at the same time minimizing the possible adverse effects on our economy, our environment, and our way of life.

California has a particularly large stake in the debate over the methods that will be used to put the country's voracious appetite for petroleum on a diet.

It is no secret to any of you here that California is among the states most dependent on automobile travel for virtually all activities of daily life -- commercial deliveries, travel to and from work, recreation, shopping, and so forth.



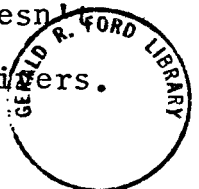
California has made giant strides in public transportation with the Bay Area Rapid Transit system, Mayor Bradley's commitment to improved public transportation in the Los Angeles area, and other innovative projects.

Still, the development of this state has been predicated on the use of the automobile for many years, and Californians in many cases simply have no alternative to the private automobile.

In contrast to some proposals, the President's energy program is designed to spread the impact of reduced oil consumption over all petroleum products -- home heating oil, diesel fuel, residual oil for electrical generation, as well as gasoline.

Most of the alternative energy conservation proposals, suggested since the President announced his program, have included provisions which would put the brunt of cutbacks in oil consumption squarely on the private automobile driver, either through direct gasoline taxation, or rationing, or allocation, or combinations of those methods.

Gasoline accounts for only about 39 percent of the petroleum consumption in this country. While automobile travel is obviously one of the most discretionary uses of petroleum, and while a great deal can be accomplished by encouraging both more efficient vehicles in the future and more efficient use of cars on the road now, it just doesn't make sense to put the entire conservation burden on drivers.



To ignore other areas of possible conservation would be unfair both to various regions of the country, and to individual citizens -- many in lower-income groups -- who are more dependent on gasoline.

California consumes an average of more than 500 gallons of gasoline per capita each year, compared with states such as New York and Massachusetts, where consumption is less than 400 gallons per person.

Other Western states are even more dependent on gasoline than California. Wyoming, for instance, uses well over 800 gallons per capita each year, as does Nevada. In fact, of the top 18 states in per capita gasoline consumption, only one lies east of the Mississippi. The top 13 are all Western states.

The inequities of any plan which singles out gasoline for the lion's share of cutbacks in petroleum consumption should be obvious to Californians.

Still, even the cloudy Washington skies sometimes have a silver lining -- even they sometimes part to let in the sunlight of common sense. In this case, the good news -- of a sort -- is that most of the loudly-touted proposals for outright gasoline rationing have been discarded.

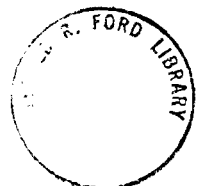


And proposals for allocation of short supplies are moderating as people come to realize that such Government action can have disastrous economic results. This was demonstrated graphically during the 1973-74 Arab oil embargo, when the necessity to allocate fuels on an emergency basis reduced our gross national product by an estimated \$10 to \$20 billion.

And, although a direct tax on gasoline remains a very live possibility on Capitol Hill, at least now we are hearing less about an extra tax of 40 or 50 cents a gallon and more about a more moderate increase as part of a broader program that would not focus strictly on gasoline.

All of this, I think, can be counted as good news for Californians and others dependent on automobile travel -- good at least by comparison with many of the proposals that were being pushed so strongly only a few weeks ago.

The energy actions proposed by President Ford are aimed at curbing oil imports by permitting petroleum prices to reflect its real cost -- at levels sufficiently high to allow the traditional forces of the free and open market to reduce consumption, free of arbitrary Federal controls.





In short, the new facts of energy life mean that our fuels, including gasoline, will cost more, the Administration believes that the American people would prefer to pay more for higher-priced fuel that is available than to wait in line for fuel that, because of artificially suppressed prices, has run out before they reach the pump. And, as I've tried to stress, we are convinced that these higher costs should be borne by all energy consumers.

Now I would like to turn to the other side of the energy coin -- increased development of domestic energy resources. The President's program calls for decisive actions to encourage increased production of fossil fuels and accelerated research into synthetic fuels, advanced nuclear power techniques, and other new energy sources.

This commitment to increase domestic energy supplies is conspicuously absent, or much more limited, in the alternative proposals which have emerged from Congress and other critics of our program.

The President proposed removal of Federal price regulations from old oil production to encourage additional production and to provide the economic incentives necessary for investment in expensive secondary and tertiary recovery processes to extract more oil from older fields.

He also called for removal of price controls on new natural gas production, again to provide economic incentives for private capital investment in exploration for and development of new gas reserves.



Removal of price regulations on old oil and new natural gas would be, in the view of Administration economists and many independent spokesmen, the quickest possible way to bring new domestic energy supplies to the market.

These two actions would spur private capital investment in new energy-oriented projects. And that, in our view, is far and away the best way to attain increased production. Those who feel that the Federal Government should take over energy exploration and production need only look at the track records of attempts by foreign governments to run their energy industries efficiently. They provide a history of failure that we cannot afford to share.

But, if the Government should resist the temptation to take over energy industries, it cannot shirk its duty to see that they operate more in the public interest than they have in the past. We must not permit domestic energy development to take place at the expense of unduly detrimental impact on our environmental and social legacy to future generations.

Ideally, the best solution to any shortage lies in the operation of the free-market laws of supply and demand, without the inhibiting factors of Government regulation.

It is for this reason that the Administration's energy proposals rely primarily on competitive free enterprise both for reducing energy demand and for increasing supplies.



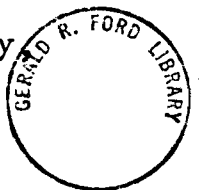
Some controls are, of course, necessary in any area such as energy, where the abrupt removal of all regulation could create undesirable economic distortions and dislocations. The President's proposals for windfall profits taxes on oil production and for excise taxes on both oil and natural gas have been structured to minimize such difficulties.

In these areas, as in others, there is considerable room for constructive compromise, and the Administration remains open to any alternative suggestions which will accomplish the same results.

It is significant that the best thought-out alternatives that have so far been offered recognize the basic need to increase the cost of energy considerably to bring about greater conservation and increased domestic production.

As I suggested earlier, Congress and the Administration are closer together today than at any time in the past in finding a mutually agreeable program. I would like to briefly mention some of the areas of remaining difference that we are trying to resolve.

Under the gradual approach recommended by <sup>some</sup> ~~the House~~ **Congressional Plans,** ~~Ways and Means Committee, which is by far the most serious~~ ~~Congressional alternative,~~ imports of oil would be reduced by one million barrels a day by the end of 1977, with only a 400,000 or 500,000 barrel-per-day reduction by the end of 1976. We feel that this is too slow a timetable, and that oil imports can in fact be reduced more quickly and without serious economic disturbance.



Some proposals would have us

~~Congressman Hillman's group~~ aim for an import level of about six million barrels per day by 1985, while the Administration position is that we should strive to reach a less than 5 million barrel-per-day level by then.

Various other

~~The ways and means~~ proposals include several steps in the direction of more Federal control of the petroleum industry, such as import quotas and allocation and a Federal oil purchasing agency.

This, we feel, would involve many of the same disadvantages of outright rationing -- an enlarged Federal bureaucracy, inequitable allocation of available resources, and, most importantly, disincentive for increased supply, at a time when incentives are much needed.

~~The Hillman plan~~ proposals for gradual decontrol of oil and natural gas prices would provide added production incentives slowly, while the Administration plan would allow the price of both fuels to reach market clearing levels now and would thus provide maximum stimulus for new investment in additional exploration and production.

Phased-out decontrol

~~The Hillman plan~~ would leave demand artificially high and economic incentives for new investment artificially low throughout the period of phased-out controls, while the Administration plan would both stimulate supply and discourage consumption.



Further, most of the criticism we hear about the Administration's proposed increased energy prices and their impact on consumers ignores the fact that our program includes tax relief for those same consumers -- relief which in most cases would exceed their additional energy expenses.

And it is vitally important to remember that this process is not just a matter of taking money from one pocket and putting it in another.

Higher energy prices will reduce consumption -- history has proven that. In the economists' language there is elasticity in energy consumption. And lower taxes will provide consumers with more disposable income to devote to purchases of goods and services to provide a renewed stimulus to all areas of the economy.

The Administration has worked with members of Congress since the first concrete proposals for plans other than the President's program emerged, and we will continue to do so.

Fortunately, much of the partisan rhetoric is over, and both the Administration and Congress are facing up to the realities of the energy problem and the critical need to act as soon as is humanly possible to provide solutions.



Shortly after the President announced his program in January, I was quoted in the New York Times as saying: "The more the program and its alternatives are exposed to public debate, the more we will get agreement that this program will work best."

I still believe that, and I believe that the process of public debate is moving in that direction.

If we succeed in reaching a viable agreement soon, the beneficiaries will be today's Americans and the Americans of many decades to come.

If delay continues, the losers will be the consumers, workers, and taxpayers -- everyone in the country -- today, five, ten and 20 years from now.

We can no longer afford the luxury of inaction. Debate is valuable and productive, but endless debate means endless inaction, and that is just too costly for our nation's present and future.

Thank you for your invitation to address you.

-FEA-

3/17/75  
4:40 pm.

