The original documents are located in Box 9, folder: "Speech - May 8, 1975 - Greater Willamsport Jaycees Outstanding Young Man of the Year Banquet" of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

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REMARKS BY THE HONORABLE FRANK G. ZARB
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BEFORE THE

GREATER WILLIAMSPORT JAYCEES
OUTSTANDING YOUNG MAN OF THE YEAR BANQUET
THE LYCOMING HOTEL
WILLIAMSPORT, PENNSYLVANIA
MAY 8, 1975

EMBARGOED FOR RELEASE UNTIL:
7:00 P.M., EDT, THURSDAY, MAY 8, 1975

I would like to thank you for inviting me to address you today.

Today, the energy crisis may seem rather remote to most people here in Lycoming County.

Oh, those who use natural gas to heat their homes may notice that the price has soared.

And everyone has to pay more for gasoline, more absolutely, and more as a proportion of their income.

But otherwise, the crisis may seem as remote as the long lines at the gas stations last winter. It may even seem to be one of yesterday's crises.

Businessmen know differently, though.

You know the hidden effects that higher fuel prices have in contributing to inflation.

You know that the wealth shipped abroad to pay for oil imports means capital unavailable for domestic uses.

So this evening, I would like to spend a little time thinking and talking about some unpleasant facts:

About a country whose flexibility and effectiveness in foreign affairs is limited by energy supply decisions of other nations.

About an energy economy at home that is in large part tied to such decisions overseas.

About a land that is no longer the undisputed master of its own destiny.

About a people who were once -- secure enough in their own borders, -- strong enough by themselves, and sure enough of their own material and political resources, not just to make their own way in the world, but to clear a path for others less fortunate than they.

In short, I want to talk about the United States of America.

Not long ago, this country could formulate its foreign policy by consulting its own interests and the interests of its allies.

Now it must consider -- and weigh very carefully -- the interests of others -- interests which have differed sharply from ours in the past and may well do so in the future.

Once we could handle our economic affairs with an assurance of stable supplies of vital commodities at reasonable and predictable prices.

Now we must labor with the knowledge that our imported oil -- so vital to that production -- can be cut off at a moment's notice or priced at still more exorbitant levels.

A year ago, these dangers were brought home with force to the American people: The energy crisis -- years, even decades in the making -- suddenly became an everyday reality; service station lines and skyrocketing utility bills became common experience for most Americans.

Today, the threat is more subtle. But whether we choose to call it a crisis, or a problem, or a dilemma, it is no less dangerous and no less persistent. It has simply taken a different form.

Early last year, the energy crisis meant empty gas pumps.

Today it means a national pocketbook which is being emptied to pay quadrupled prices for imported oil. Not as dramatic as gasoline lines, perhaps -- a bit more subtle -- but every bit as serious as the shortages of last year.

In 1970, we paid $3 billion for foreign oil. In 1974, we paid those same foreign countries $24 billion. That means that last year we paid for foreign oil at a rate of more than $100 for every man, woman and child in the nation. And that translates, conservatively into $425 for every American family for foreign oil in 1974.

Last year, the United States ran a balance of trade deficit of more than \$5 billion dollars. If our oil import payments had remained at their 1973 level, that deficit could have been a surplus of some \$14 billion dollars. Had we paid twice as much for imported oil in 1974, our balance of trade still would have been in the black by as much as \$7 billion dollars.

But our oil payments were not only doubled, but, more than trebled. to add to this nation's debt.

Now to some people the balance of payments is a complicated creature of the economists. But in plain pay-day terms, it means dollars taken out of American pay checks and put into foreign banks. It means less for workers in Williamsport, more for bankers in Baghdad.

Still, there are those who have eyes and yet will not see, there are those who continue to deny the danger, defy the facts, and demand nothing more than "business-as-usual."

Doing nothing would mean by 1977 agreeing to a 1000 percent increase over 1970 in the annual cost of imported oil. It would mean \$32 billion drawn out of the American economy and transferred to other nations in only one year.

Now, we in Washington are very glib in tossing around figures like \$32 billion outflow and a 1000 percent increase. The average American wants to know what's going to happen to the family budget.

Business-as-usual means that in 1977 an American family would pay out -- and this is a conservative estimate -- an average of $575 per family to other countries for oil. Of course that is not the entire picture. International payments have been and will continue to be "recycled" -- returned to the economies from which they came.

So, some of our dollars come back to us in the form of purchases of goods and services -- food, machinery, technology, and so forth. But those same dollars can also buy control of American companies in whole or in part.

Foreign investment in the United States is not necessarily an inherently evil phenomenon. But the magnitude of these international cash flows makes it clear that this kind of re-cycling can provide no viable, permanent solution to the energy crisis.

Recycling may be necessary crisis management, but it is not crisis solution.

Until we solve the energy crisis, we will remain vulnerable to exorbitant prices and to another embargo and cut-off of oil imports, and the resulting economic disruptions.

In fact, the mere threat of another embargo could be, in a way, as effective as the reality. Unless we take decisive steps to protect ourselves now, the gravity of that threat and the potential impact of an actual embargo will grow with each additional barrel of oil we import.

Let's see what that means for the future.

In two years' time, if we do nothing, almost half of our petroleum supplies will be coming from overseas sources. If all those supplies were cut off, a six-month embargo would bring a $45 billion drop in the Gross National Product. It's difficult to say exactly how much it would increase unemployment, in 1973 the embargo -- which involved only 14 percent of U.S. petroleum consumption -- threw half a million people out of work.

And the price of imported oil will continue to increase. Those who think that the OPEC countries will drop their oil prices significantly are -- quite frankly -- dreamers.

The cartel is not about to break up. If we do not demonstrate to the oil-producing countries -- and to the world -- that we are serious about conserving energy to cut our imports, and about developing our own domestic energy supplies to meet our future needs, the price of imported oil could well increase markedly between now and 1977.

The international credibility of our nation is at stake. The President's energy proposals are a challenge to all of us to reach the point by 1985 where our nation is no longer vulnerable to foreign actions which imperil our energy supply or our international balance of payments.

It is a challenge we can and must meet.

It's been said that those who don't learn from history are condemned to repeat it. Well, we should have learned a lot from the past 18 months, at least enough to try to change the future.

And no nation is so capable of molding its energy future as the United States. Yes, it will cost billions, but this is a trillion dollar economy. It will take resources, but we have those in abundance. It will take some sacrifice, but we have never shrunk from that in the past.

I may have made our situation sound fairly dismal, but, in fact, the challenge we face constitutes another test of our fundamental resilience and strength as a people.

The shape of our energy future is in our hands now. The way we -- the Congress and the Administration -- act <u>now</u>, the initiatives we develop jointly <u>now</u>, the measures we enact <u>now</u>, will affect the security of our nation and the stability of our economy for decades to come.

But it's not 1985 or the 21st century that we're talking about. We're talking about 1975, and the necessity for prompt action today -- prompt action that will permit us to repair immediate damage and give us the opportunity to form a more secure future for our children.

I'm slightly encouraged by what's been done so far.

In January, for the first time in history, a national energy policy was prepared. President Ford's leadership and his willingness to make difficult choices have given the country its first truly comprehensive policy -- to reduce consumption, to stimulate the production of conventional fuels, and to expedite the development of more advanced energy technology.

Luckily, some members of Congress, like Congressman Schneebeli, know the seriousness of the situation, and are willing to take action to deal with it.

Unfortunately, for far too many others, the lesson that we must act, and act now, has not yet registered.

The President has never sought a confrontation with the Congress on energy. He has stated time and again his willingness to compromise on the issues.

But there is no compromise possible on certain fundamentals.

We need an energy program that will stop the dangerous growth in our vulnerability to cutoffs by foreign oil suppliers and stop that growth now.

That will enable us to become largely invulnerable to a cutoff by 1985.

That will achieve these ends in a balanced manner, cutting the rate of growth of our energy use as it increases our domestic energy production.

Having said that, let's see, in a general way how the approaches of Congress and the Administration compare.

The Administration plan relies primarily on the free market mechanism, balances every element of the program in terms of barrels of oil produced, saved, and consumed, it integrates all of our energy initiatives into an overall economic structure.

Because of the flexibility, the economic soundness and -- in the final analysis -- the basic fairness of the marketplace, it must be used in any solution.

The Administration prefers to combine uncontrolled domestic oil and gas prices with import fees and excise taxes to achieve the necessary savings. In short, we prefer a system that will allow the price of energy to reflect its true value to the economy.

But then there are many who are prone to see government intrusion into the economy as the desirable way to deal with our difficulties.

Some, for example, would establish a federal purchasing system for all oil imports. This would be a major step in the direction of greater government control over the entire energy industry and would involve many of the bureaucratic disadvantages of quotas and allocations.

Whether such a system would place any significant pressure on the world price of oil is also open to question. There are those who believe that a federal purchasing authority would drive the cartel even closer together and, therefore, generate higher prices over the long-term.

So these our our basic differences. The President as I said, is willing to compromise, he showed this in his delaying an increase in the oil import fee.

But he is still committed to return to a free market system, that is why he has begun administrative actions to end the current system of crude oil price controls within two years.

Decontrol of oil prices <u>will</u> mean higher fuel prices it is true.

But higher prices can provide a sound reason for practicing energy conservation, and can stimulate the investment needed to develop our domestic energy resources.

At the same time, sensible economic and tax measures can assure that the poor, the elderly, and those living on fixed incomes will not be harmed by the higher energy prices.

And we should remember one thing. The money paid for higher energy prices will ensure that we continue to have domestically-produced fuel supplies available to run our factories and businesses.

You have recently had an example, right here in your area, of what failure to increase our domestic fuel supply could mean.

This winter, businesses in Lycoming County found that they wouldn't be receiving the supplies of natural gas that they had come to rely on.

Factories which were completely dependent on natural gas found themselves forced to cut back production, some even had to close briefly.

Coming at about the same time that Piper announced closing of their Lock Haven plant, these closings were the last thing that Lycoming County needed.

We in the Federal Energy Administration tried to help, through setting up a program for the blowing of propane into the gas system for those companies willing to pay the increased price, but such measures, necessary as they may have been at the time, were only a stopgap. The underlying problem remains the same.

The natural gas shortage says a lot about what this country should do, and should not do, to deal with the energy crisis.

For years we have had price controls governing the interstate rate charged for natural gas.

Since this interstate rate artificially restricted profit, capital was attracted away from investment in natural gas and into fields where the returns were greater.

As a result, since 1970, we have been using natural gas at a faster rate than we have been discovering new supplies. A situation, needless to say, which will cause shortages.

The solution, as we see it, is to decontrol the interstate natural gas price and allow the price for natural gas to rise to its normal free market level. At this rate, market forces would begin working to ensure more exploration and production of natural gas.

We also should press ahead with development of sources of synthetic natural gas extracted from coal.

But even if these measures are taken, there is going to be an increasing demand for natural gas in the years ahead, and manufacturers should equip themselves with the capacity to convert to alternate energy sources in the event of further curtailments.

The FEA is working right now to convert utilities and large manufacturers from natural gas use to use of coal.

This would free up natural gas supplies for use in homes, businesses, and smaller factories, and it would also provide a much-needed steady source of demand for our domestic coal industry.

While the coal industry may not be of much direct importance in this area, its revival would certainly boost the economy, and the tax revenues, of the Commonwealth of Pennsylvania, and thus have a powerful indirect effect on the Williamsport area.

There is no doubt that all energy costs are going to be higher in the years ahead. Energy is more valuable today, and the price should reflect its increased value.

But the way to deal with increasing energy costs is by practicing energy conservation, by being fuel efficient in our factories, and by directly helping those most likely to be harmed by increased fuel prices.

The way not to deal with the situation is by government intervention to artificially restrict the price charged for domestic energy.

The way in which such a policy leads is pointed out by the example of thhe natural gas industry.

Artificially low energy prices, mean in the long run, lowered domestic energy production, increasing energy shortages, and in the end, increased reliance on foreign energy suppliers rather than autonomy from their demands.

The choice is clear. Either we develop our domestic energy resources at the same time that we practice energy conservation, or we will not break free of foreign dependence.

Williamsport, and the Williamsport Association, provide an example of what the American businessman can do if he is allowed to work within the free enterprise system, free from unnecessary governmental restraints.

What we need today is a return to the free market system in allocating and developing our energy resources.

What we do <u>not</u> need is massive governmental interference with the free market which, in seeking to "help the people", actually makes their condition worse.

I have no easy, pat formulas to end the energy crisis.

But I do believe that if Americans work together for the common good, we <u>can</u> overcome the crisis.

At this point, I would like to open the floor for questions.

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