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Federal Energy News

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

THE HARVARD BUSINESS SCHOOL CLUB LUNCHEON
WASHINGTON ROOM, THE ARMY-NAVY CLUB
WASHINGTON, D. C.
MONDAY, SEPTEMBER 8, 1975, 12:35 P.M., EDT

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MONDAY, SEPTEMBER 8, 1975, 12:35 P.M., EDT

I'd like to thank you for inviting me here.

One of the most urgent necessities for the American people today is a clear understanding of the energy situation, and it is particularly important that businessmen, financial executives, and government personnel get the message across to them.

The American people must realize that reality will not go away just because we wish it to, that we must see the world not as we wish it to be, but as it is.

The first truth we have to face is that the United States is no longer master of its own energy house. When war in the Mideast caused interruptions in the flow of oil in 1949, or 1956, or 1967, it did not seriously affect us. We had enough surplus production capacity in our domestic fields to deal with any shortages of foreign oil.

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But in the 1960's that surplus began to vanish, and no one appeared to take any notice of the fact.

The bill for our neglect came due when we faced another cutoff of Middle Eastern oil at the end of 1973. This time, it did hurt our economy.

By 1973 35 percent of our oil supply came from insecure sources, and when part of that oil stopped flowing, a part of our national economy ceased operating -- at least temporarily.

Lines of cars waiting to buy gasoline, cold homes, reduced tourism, all gave us a foretaste of what could be expected on a vastly greater scale in the future if we continue to conduct our affairs without a firm energy policy.

I'd like to be able to say that, thanks to the warning given us by the 1973-74 embargo, we've begun to decrease our dependence on foreign oil.

But the fact is that we now import 38 percent of our total oil supply from foreign sources, a three percent increase since the Embargo.

And that trend has important implications, not only for our national security, but for our economic system as well.

During the twenty minutes or so that I will speak to you today, one million dollars will leave the United States to pay for imported oil, that is \$3 million every hour, \$72 million every day.

And every dollar that leaves the U.S. is a dollar taken out of our economy, a dollar that will not provide capital for American industrial development, purchases for American businesses, jobs for American workers.



So the first unpleasant fact we must face is that there is an energy crisis and it threatens the integrity of this nation's foreign policy and its economic stability.

And that brings us to our second unpleasant fact, OPEC is not going to disappear. They will not announce one morning that they have decided to reduce their prices as a gesture of international goodwill.

OPEC is in business, a very profitable business. Right now they have the market -- us -- cornered and they intend to keep us in that corner.

Like any monopoly, they want to maximize their profits. Anyone who thinks that they won't, anyone who ignores reality and dreams of the day when the cartel will disappear, might as well resign himself to remaining cornered -- cornered economically and cornered politically.

The only way that we can regain our independence, is to establish a tough, hard program that will reduce our reliance on foreign oil, particularly oil from insecure sources.

But we will never break out of that corner, never even take the first step out of it, if we refuse to see things as they really are.

If we keep dreaming of magic solutions to our current problems -- solutions without sacrifices and policies without hard decisions, if we think that oil will somehow return to three dollars a barrel, then we are living in a dream world.

We can't build castles in the air and then try to live in them, and anyone who promises us a return to the days of cheap, abundant energy is just trying to help us furnish our castles in the clouds.



But even if we try to live in those castles, we won't escape from reality for very long.

We can keep our domestic oil relatively cheap by maintaining price controls on more than half of it, but that simply means that our domestic oil production will drop. Our growing consumption will have to be met by expensive oil from insecure foreign sources, and there is no way that the Federal Government can control the price or availability of oil produced in another country.

So in the last analysis, the question before us is not whether the price of oil will go up, but rather when the price will rise, how much, and under whose control.

In effect, the oil producing countries of the world will decontrol our oil prices for us if we fail to act, and they won't offer to return the money to low and middle income Americans as the Administration has.

The third unpleasant fact that we must face is that the days of cheap energy are gone for good. Energy is scarce, therefore energy is valuable.

If we allow the domestic price of energy to reflect the new reality, then consumers, both individuals and industries, will have an incentive to conserve, in the home, in the factory, and on the road.

The American homeowner, faced with increased energy costs, will put up storm windows, add insulation, and take the other prudent steps required to make his home energy use more efficient.

In the same way, a factory manager who has to decide between two pieces of machinery, one of which costs more initially, but will keep his energy costs down, will have a new set of profit-and-loss calculations to apply to his decision.



We already have proof that our buying habits can be reshaped positively by the new energy situation.

Over the last two years the sales of compact and subcompact cars have gone from a little more than 41 percent of the new car market to 54 percent. Average new car mileage has gone from about 14 miles per gallon in 1973 to better than 17 in the same time.

The reason for that change has been market demand. The consumer expects better gas mileage, and he is making his feelings known to the manufacturer in the most direct way possible.

But he will only do that as long as the real value of gasoline tells him, "be careful, it's scarce."

If we don't make use of the market mechanism to get the message across, then we're going to have to set up an alternative system -- a bureaucracy -- to tell the driver that gasoline is scarce, to tell the homeowner to turn his thermostat down in winter and up in summer, to tell the factory manager that he must buy a particular item or that he cannot expand his business because his fuel allocation cannot be increased.

In short, we can change our economic early warning system from the free market to the bureaucrat's memo, but in doing so, we will drastically change the foundations of our free system.

And constructing that sort of bureaucracy is like adding a wing to the castle in the air I mentioned a few minutes ago. It won't meet anyone's expectations, it won't add one drop more of oil to our supplies, and it will stifle the productive genius of the American economy.



The best course for government to follow is to help consumers make their own energy decisions. If higher energy prices will cause special hardships for certain segments of our population, reforming the tax code and returning excess profits to consumers, as the President has proposed, can help relieve those burdens. But equity for all Americans does not mean an abandonment of the principles which helped create this country's prosperity in the first place.

Now in talking about the realities of our energy situation, I have probably made it seem pretty grim, but there is another side to the picture. Unlike most of the world's countries, the United States does have the resources to replace its oil imports with domestic energy supplies.

We can develop additional energy supplies from our own reserves, more oil and gas, for example, from the Naval Petroleum Reserves, the Outer Continental Shelf, and Alaska.

But we must realize that there is some oil that will never be produced if we continue to artificially restrict the price of oil from wells in production in 1972.

As oil fields age, it becomes harder and harder to extract oil from them. Secondary and tertiary recovery methods are needed to produce the oil, and these methods are expensive.

But if the rate of return from older wells is artificially held down, there will be no reason for companies to invest in this production. The expensive technology will not be utilized, the oil will not be produced, and we will be dependent on foreign sources for that much more imported oil.



And this is not a minor loss. In some fields, the amount of oil abandoned could amount to half the reservoir. We need this oil to deal with the energy crisis we face.

This is one reason the Administration favors the decontrol of oil prices.

The President has shown a willingness to compromise on the timing and rate of decontrol, but clearly we must move in that direction.

The situation with regard to natural gas is very similar to that in oil. Here again, governmental regulation has interfered with the workings of the free market, and should be modified to encourage production.

In addition to oil and gas, the U.S. has the promise of new energy sources for the future. Nuclear fission, solar power, wind, tides, and nuclear fusion, all hold out promise of helping us with our energy future.

But one of our most vital energy resources is also one of the oldest -- coal.

The United States situation with respect to coal today is a prime example of the way that we must balance goals, each good in itself, against one another.

The Clean Air Act of 1974 has already made a great contribution to the welfare of the nation's citizens by reducing air pollution. But in some areas of the country, environmental restrictions on burning coal are more stringent than is necessary to protect the public health. What's more, as new deadlines in the Act come into effect, this situation will become more widespread.



And this could lead to problems in our effort to increase our usage of coal resources.

There is no necessity to sacrifice our environment to the need for energy, or vice versa. Reason and a willingness to sit down and discuss objectives can produce results which will be in the best interests of both parties.

The Administration's energy program is consistent with improving the environment. The President's proposed amendments to the Clean Air Act were worked out jointly by the FEA and the Environmental Protection Agency specifically in order to balance the goals of energy production and environmental safeguards, and attain both.

It is this sort of balance that we hope the Administration and the Congress can show, not just when it comes to Clean Air Act Amendments but in every phase of the Administration's energy program. Only then will the nation's energy future be assured.

This country has shown that it has a "can do" spirit when it is properly led. It is up to the Federal Government, Administration and Congress, to provide that leadership.

I've talked about realism with regard to the energy situation, and I've listed some energy truths for you, so let me conclude by giving you my complete list of energy truths.

Truth Number One:

It took us ten years to get into our current state of energy dependence. It will take time and a solid policy to get us out of it.



Truth Number Two:

OPEC is here to stay, and our continued inaction will only encourage them to raise prices even more.

Truth Number Three:

As a nation, we have become used to cheap abundant energy, and have abandoned our domestic resources, in favor of unstable foreign energy sources. The era of cheap energy is over, and it is time to rely on ourselves again.

Truth Number Four:

We have two choices: do nothing and watch the oil producers "decontrol" oil prices in their own way, or take our destiny into our own hands, and adopt a national energy policy that preserves our free society, our economy, and our national security.

Truth Number Five:

Our national energy policy should be one that simultaneously reduces the rate of growth in energy consumption and stimulates production from our domestic resources.

Truth Number Six:

We have to realize that there is no free lunch. We will have to sacrifice to have a viable energy policy.

Truth Number Seven:

We can have energy and a better environment.

Truth Number Eight:

The American people want the hard truth.



I think that some people underestimate the American people pretty seriously. They think that the people only respond to what they want to hear.

But the entire premise of democratic government is that the people can reason their way to the right decisions, that they can make the hard choices that self-government requires. I think that it's time that we showed some respect for the people. Let's have a frank discussion of the issues involved in the energy situation, bring all the facts out in the open, and let the people decide.

Now, I would like to hear your questions and comments. Let's open the floor for discussion.

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