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REMARKS PREPARED FOR DELIVERY BY
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BEFORE

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I appreciate this opportunity to meet with you to discuss U.S. energy policy. The United States has rarely seen a debate as intense, as comprehensive and as vital as our current deliberations on energy policy.

In the United States we hear a broad range of opinions, explanations, arguments and program proposals from all segments of society. We have reached a consensus on many of our basic energy objectives and have made some sound policy decisions.

The debate continues in many areas, but centers on the means to achieve our goals, rather than on the goals themselves. I would like to give you today a brief overview of the current U.S. energy problem and then discuss the evolution and future of U.S. thinking on energy.

Before World War II, energy consumption in the industrial countries was increasing dramatically. Coal, for years the major fuel in the world, was quickly taking second place to petroleum -- a cheaper, cleaner and more versatile fuel.

Between 1920 and 1940, U.S. coal consumption fell from the energy equivalent of 7.3 million barrels of oil per day to 5.9 million. Over the same period, petroleum consumption tripled from 1.2 million barrels per day to 3.5 million. Large petroleum and coal resources in the United States, combined with the technology and commercial skills of the U.S. oil companies, satisfied all U.S. domestic requirements with a substantial surplus for export.

The period after World War II witnessed two trends of importance. The world was experiencing a period of unprecedented prosperity. At the same time, domestic energy production in the industrial countries could not keep pace with energy requirements.

Western Europe in particular had virtually no domestic petroleum resources and began to satisfy a greater and greater percentage of its needs from the vast oil fields of the Middle East.



World oil production increased from 10 million barrels per day in 1950 to over 45 million barrels per day in 1973, an increase of 450 percent. Of that increase of 35 million barrels per day, 23 million -- or almost two-thirds -- came from the Middle East and North Africa. Saudi Arabian production alone increased from 500 thousand barrels per day in 1950 to 8.5 million in 1973.

Even the United States, once the world's largest exporter of petroleum, has experienced declining oil production in the 1970's and has developed a dependence on Middle East oil.

Total U.S. imports of petroleum increased from 2.5 million barrels per day in 1965 to 3.4 million in 1970 to more than 6 million in 1973. United States imports from the Middle East increased four-fold from less than 500 thousand barrels per day in 1970 to 2 million barrels per day in 1973. United States dependence on imports thus increased from almost zero in 1950 to 25% of petroleum consumption in 1970 and nearly 40% in 1973.

The year 1973 marked a turning point. Because a surge in world oil demand had temporarily outdistanced production and logistical capacities, the world petroleum market was in a period of temporary shortage. The October War temporarily overcame traditional mistrust among the Arab states and generated an effective consensus on the use of the "oil weapon."

The Arab states had developed the government capability and petroleum expertise necessary to make workable price and production decisions. The result was an embargo and a series of price advances resulting in a four-fold increase in the price of crude oil.

In the confusion of the embargo and price increases, fear, skepticism, accusations, and predictions of doom were rampant. Some vocal but misguided observers claimed that the crisis was artificial, manufactured by the oil companies for their own purposes. Others foresaw the demise of the industrial economies.

The debates within Governments were as intense as the public debate. We had first of all to determine what the problem was and then to agree on what to do. We have had within the U.S. Government substantial success on the former objective, but unfortunately much less success on the latter.

We have reached a general consensus in the United States on several basic aspects of the nature of the problem. First of all, we have agreed that the United States must have adequate long-term supplies of energy at reasonable cost.



Energy is vital to every economic activity, and continued and increasing prosperity is impossible without it. The Federal Energy Administration estimates that the 5-month oil embargo of 1973-1974 cost the United States \$10-\$20 billion in lost Gross National Product.

It is also of paramount importance that our energy supplies be secure. The United States and other industrial countries now face a situation in which they must rely for a substantial percentage of their energy on those same countries which applied the "oil weapon" to force concessions from the oil consuming countries. No nation can accept such a situation -- if it has any alternative course.

Until recently, the security of supply was considered primarily the responsibility of the private sector. The private international oil companies explored for, produced, transported, refined, and marketed at low cost the oil needed by the economies of the world.

With the recent emergence of the power of oil producing nations, however, it has become clear that the private sector alone cannot assure an adequate and secure supply of imported oil at a reasonable price. With their assets held hostage in the producer countries and with the governments of those countries making the major decisions on price, investment and output, the private companies no longer dominate the oil market.

In short, the United States, like other consumer governments, must reexamine the role of government in the international oil system.

Another point of consensus in the United States is that the vast energy resources of the United States should be tapped in an environmentally acceptable way, to increase our self-reliance in energy.

The U.S. has great potential in coal, nuclear power, and conventional oil and natural gas. The development of these resources, however, at acceptable commercial and environmental cost will require time -- on the order of ten years -- to have a substantial effect on our energy situation.

The development of new technologies such as synthetic fuels, shale, solar, and geothermal, frequently involves even longer lead times. The next decade will probably be our most difficult one, and we must take measures to hold our dependence on oil imports to an acceptable level.

Finally, we agree that cooperation among the petroleum consuming countries can be effective and that the United States must take the lead in promoting such cooperation. The U.S. has indeed played an active role in the international arena. Initiatives in, and support for, the programs of the International Energy Agency in Paris have been a key element in our co-operative efforts with other consuming countries.

A constructive approach to the Producer/Consumer Dialogue is a second, equally important, element.



Additionally, positive U.S. initiatives in more general international groups, such as Secretary of State Kissinger's recent proposals in the United Nations Special Session, can support our international energy policy.

Although we have much to learn about the new international petroleum system, it is clear that an effective international program to reduce consumption and increase energy production in the consumer countries can limit the monopoly position of the producer countries and be a force for moderation in world energy markets.

It is clear that, only by working together within the same framework of objectives, can the industrialized countries bring about a sufficient shift in the world's supply/demand balance for oil to end the producers' unilateral control over oil price and supply.

We have achieved a broad consensus in the United States on these points. Although we have had difficulty translating this consensus into a comprehensive program of action, we should not minimize the importance of our successes so far.

In addition to the development of U.S. resource potential and consumer country co-operation, an effective U.S. energy program must have two elements: the stabilization of domestic pricing policy and the eventual removal of price controls from domestic petroleum are essential.

Secondly, the development of a strategic petroleum storage capability of up to one billion barrels must be undertaken. Such a capability would greatly improve the ability of the United States to resist the pressures of a supply curtailment.

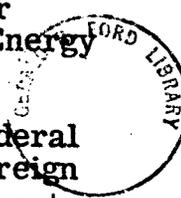
The United States has embarked on a massive research and development effort, centered in the new Energy Research and Development Administration. This agency is responsible for U.S. Government programs designed to improve technology in both conventional and unconventional energy sources.

The United States as a whole -- and particularly the Congress and the Administration -- still have major unresolved differences. Our disagreements on energy policy reflect, not a lack of resolve, but an ongoing national debate on political and economic philosophy.

The resolution of our differences on energy policy hinges on questions of the basic role of government in the United States.

I raise this point this afternoon because the United Kingdom and virtually all other industrial democracies in the world face the same questions: What is the proper balance between private sector and public sector activity, and what are the roles of price and of profit? In short, our traditional approaches to national problems are being questioned. Energy is at the center of this debate.

On one extreme, we hear that the government should form a Federal Oil and Gas Company to produce domestic petroleum or purchase foreign oil. On the other extreme, we hear that the government should stay out of private sector activity. In between, we hear every shade of opinion.



The economic prosperity of the United States and most other industrial countries has been based on private sector activity. A cornerstone of Western economic theory is that the open market provides the best allocation of resources, reflecting the preferences of consumers and balancing a system of infinitely complex economic forces. Many of us believe that government involvement in the economy is an expensive, ponderous -- and often counterproductive -- activity.

In the world energy system, however, basic market forces are not allowed to work. A small number of oil producing countries have established an artificial price based on their almost monopolistic position. That price is determined as much by political as by economic considerations.

We can expect that, whether we like it or not, the terms of trade for petroleum, and perhaps other commodities as well, will be determined by government-to-government relations as much as by market forces.

Domestically, we find a maze of government regulations and political uncertainties which, combined with the distortions of the international market, have magnified risks and complicated normal private sector decisions.

Although most of our historical energy development has been strictly in private hands, we now find that a great deal of our undeveloped energy resources are on government land, in the far West, offshore areas and Alaska. The government thus finds itself the owner of much of our future energy potential. The political forces at work to influence government decisions on the disposition of those lands are naturally great.

The best solution would be one which would utilize the technical, managerial and commercial skills of the private sector, but reserve to the government the right and responsibility to define the national interest and to take steps to ensure that private sector activity is consistent with that national interest. In essence, the government must assure the security of U.S. energy supply and -- at the same time -- assure that a disruption of energy supplies cannot be used to bring political pressure on the United States.

Although we can expect the private international oil companies to play an important role in the world energy system, energy must continue to be a basic component of foreign policy.

The domestic component of the government's responsibility should be to create the proper conditions and investment climate for the maximum efficient development of domestic energy resources and for the reduction of consumption. A stable, consistent and rational set of government regulations would be a step in this direction.

Government incentives for the development of new energy sources might include tax policy, loan guarantees or -- if necessary -- government financing. The thrust of such a program should be to encourage private sector activity wherever possible.



At the center of the public sector vs. private sector controversy is the question of price. Since World War II, the Middle East has been the major source of incremental energy in the world. The cost of production in the Middle East, often as low as a few cents per barrel, allowed the oil companies to land oil in the United States for about two dollars a barrel before 1973.

We became accustomed to this cheap energy. With the price increases of the last two years, it has become clear that this cheap energy is no longer available. Middle East oil landed in the United States is now over \$12 per barrel. Part of our price controversy hinges on our reluctance to accept this situation.

Another part centers on the fact that, even within the United States, the cost difference between the lowest cost oil and the highest cost oil can be as much as \$10/barrel. The distribution of this "economic rent" is a basic subject of contention. The cumbersome price control system employed in the United States was an attempt to redistribute this rent from producers to consumers.

Although we all understand and sympathize with the considerations involved in this debate, we have only a poor understanding of the operation of a complex industrial economy. The effects of attempts to "fine-tune" the economy are always unpredictable and often counter-productive.

Price controls are an example. Real cost, in economic terms, means the resources we must forego or exchange to obtain an additional unit of a good. We know both by theory and practice that the optimal balance of production, consumption and investment is maintained when prices reflect real costs.

Price controls generally distort -- not reduce -- costs, leading to a misallocation of resources which ultimately hurts the very consumers the controls were designed to protect.

The U.S. energy debate thus centers on means rather than ends. If we can reach agreement on the proper balance of private and public sector activity, we will have eliminated most of the obstacles to the completion of our task.

Although we have a long way to go in the process, we have reason for optimism. Each day, the pressures of our energy problems increase and, with them, public awareness of the seriousness and urgency of undertaking a comprehensive energy program.

We can expect to see in the near future not the adoption of one point of view or another, but a series of compromise decisions and policies. The Administration has demonstrated its willingness to compromise and to work hard for the kind of program we need.

I am convinced that the United States Government will finish the job it has started, to ensure the energy needed for our continued prosperity. Thank you.

