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Federal Energy News

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THE HONORABLE FRANK G. ZARB, ADMINISTRATOR
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Good afternoon, and thank you for that kind introduction. I appreciate very much being asked to share with you the views of the Federal Energy Administration on our energy situation, particularly as it applies to agriculture. And it is an honor to share the program with Congressman Whitten and Mr. Donnell.

The energy future and the agricultural future of the United States are increasingly interdependent. Without adequate supplies of energy in many forms, we cannot maintain the pace of our production of agricultural commodities, and without energy and food and fiber, our standard of living cannot be sustained.

The energy resolutions adopted by the Cotton Council Board of Directors last September recognize the fact that we do indeed have significant energy problems, but that those problems are soluble, and that -- as a nation -- we have the resources and the ability to work together to solve those problems.



We share the views expressed by the Board that national energy priorities should include a recognition of the need to provide sufficient energy supplies to assure full agricultural production. And we agree that, where energy supplies -- particularly oil and natural gas -- are insufficient to meet all requirements, any allocation plans should take into account essential uses such as agricultural production and processing operations where substitution of other fuels is either impractical or impossible.

But, in the final analysis, the answer to continued and increasing shortages of domestic oil and natural gas is not a parceling out of an ever-diminishing supply of energy.

The answer is increasing incentives for domestic energy exploration and development, and increasing incentives for conservation and efficient use of our energy resources.

It has been more than a year since President Ford proposed the first comprehensive national energy policy ever put forth by any chief executive, in his first State of the Union Message.

The plan the President laid out a year ago was the most carefully thought out and coordinated combination of inter-related economic and energy programs possible, and the overall aim was to begin working on solutions to both economic and energy problems. After a year of debate broad energy legislation was passed by Congress in December.

The Energy Policy and Conservation Act is far from perfect. But the bill is a start, and it does begin the long-overdue process of letting energy prices rise to the point at which



they truly reflect the value of energy, and the tremendous costs involved in producing energy -- whether it is oil, coal, natural gas, nuclear power, or other more advanced forms.

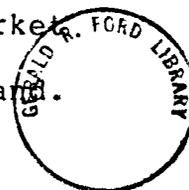
Perhaps the most serious problem confronting both the energy industries themselves and industries heavily dependent on energy supplies for their operations has been uncertainty -- uncertainty as to future supplies and prices, uncertainty as to federal regulatory policies, uncertainty as to future markets.

The bill signed by the President in December will remove much of the uncertainty. It establishes a clear direction for petroleum prices over the next 40 months, with some useful flexibilities leading up to the time when price controls will become discretionary, rather than mandatory.

The bill does not provide the complete and immediate removal of oil price controls that some would have liked to see. Nor does it provide the continued absolute controls that others would have wanted.

What the bill does do is to provide a capability to increase the incentive for new oil exploration and production activity, at a rate which allows the economy to absorb the impact of increasing energy prices gradually.

When President Ford signed the energy legislation, he renewed the Administration's commitment to insuring adequate energy supplies for consumers by allowing producers to receive fair value for the energy they produce, in a competitive market responding to the universal economic laws of supply and demand.



It is this responsiveness to competitive opportunities that has traditionally kept the cotton industry viable and changing with the needs of succeeding generations of consumers.

It has been plain old-fashioned American free enterprise that has built the strength of this industry and of our overall economy, and has sustained that strength through past crises and economic cycles.

The Energy Policy and Conservation Act includes the first key elements of what can eventually be the comprehensive national energy policy we have been seeking for so long.

The aim of this policy is to encourage both energy conservation and production through the price mechanisms of the open marketplace. This has traditionally proven to be the most effective way of balancing supply and demand for any commodity, especially one as vital to our economic well-being as energy.

And free market conditions are the only ones which will provide the economic climate necessary to allow us to regain our energy independence.

We have entered 1976 with our national energy vulnerability standing at roughly six million barrels of oil per day. In plain terms, that means we have to pay out nearly 75 million dollars every day to foreign oil producers for crude oil and petroleum products to fuel this nation's economy.



Our energy independence balance sheet is in the red by six million barrels a day now, and if we do not reverse the trends quickly, we will wind up two years from now with an eight million barrel per day deficit, and ten years from now with red ink on the balance sheet to the tune of ten million barrels of oil per day.

A strong, viable corporation can withstand one or two years in the red, but not a decade or more of continually increasing deficits. Its stockholders or board of directors would demand that something be done to reverse the picture, and that's exactly what the American public has been demanding of the Federal government in the area of energy.

In the past year, we have been able to begin the process of reducing the growth in the size of our energy deficit. The Energy Policy and Conservation Act enacts four of the thirteen specific proposals in the President's original program, and several more have either passed one house or are in conference.

The gradual decontrol of prices of domestically-produced petroleum, automotive fuel efficiency standards, and an extended authority to convert installations now burning oil and natural gas to coal are already part of the law.

Legislative proposals to authorize commercial production of oil from Naval Petroleum reserves and to provide tax credits for home insulation and to increase the production of natural gas are now nearing completion of Congressional action.



In addition, the emergency standby authorities and the provisions for strategic petroleum storage already enacted will provide us with a necessary "reserve for contingencies" which could enable us to withstand a prolonged embargo affecting a significant part of our foreign oil supplies.

All together, the combined effect of legislation already completed will be to reduce our vulnerability by the equivalent of some two and one-half to three million barrels of oil per day.

But that still leaves us with a five to five and one-half million barrel per day entry in the near term on the deficit side of our ledger.

In addition, our long-term energy picture is not bright unless we take positive action to increase supply and reduce demand.

We cannot, should not, and need not tolerate the perpetuation of a deficit of that magnitude. We have the resources, we have the technological know-how, and we have the ingrained desire for independence which can spur us to begin trimming away at our energy deficit by depending more on our own country's energy wealth, and less on the energy we have been buying from foreign producers.

To do the job, we need to move forward on four essential growth tracks in developing domestic energy supplies.



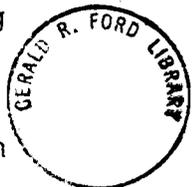
We need to encourage greatly increased development and production of crude oil -- partly from new areas of exploration and partly through enhanced recovery techniques in traditional producing areas. We need to facilitate production, distribution, and use of coal from our massive resource base of that fuel. We need the contribution that nuclear power can make to the growing need for electric power generation. And we need to accelerate exploration for new reserves of natural gas.

The House of Representatives is scheduled to vote this week on legislation which could significantly affect the future of natural gas supplies in this country.

Four alternative bills are under consideration by the House relating to the issue of removing wellhead price controls on new natural gas production. The Senate has already passed a bill which includes both short-term authorities to deal with natural gas shortages, and long-range deregulation of gas wellhead prices.

Action by the House would clear the way for consideration of both the Senate- and House-passed bills in a conference committee, leading to resolution of the long-pending gas price regulation issues, and the removal of another of the areas of energy uncertainty which have restricted long-term planning by both government and industry.

We need all the energy contributions we can obtain from oil, gas, coal and nuclear power. No one of them or even two or three can do the entire job of supplying the energy we will need two, ten or twenty years from now.



And we will have to run very hard just to stay where we are now, much less meet increased energy needs in the future.

The domestic oil fields which today produce eight and one-half million barrels of oil each day may be at the level of two and one-half million barrels a day of primary production by 1985. And production of natural gas not found in conjunction with oil from current fields, which was 15 trillion cubic feet last year, could decline to less than six trillion cubic feet per year by 1985.

Our coal mines are producing at rates equal to those of the 1940's, and to meet the need for energy from that source, coal production will have to increase to over one billion tons per year by 1985.

With oil and gas in increasingly short supply domestically, electric power to meet the needs of consumers and industry in the next 10 years will have to be generated with coal and nuclear fission.

All the energy actions aimed at increasing our available supplies of oil, gas, coal, and nuclear power are designed to interact to reach the common goal of having enough secure domestic energy to meet our requirements.

If any of the areas of development cannot proceed quickly enough to fulfill its part of the energy supply equation, then other development efforts will have to be accelerated to pick up the slack.

If new domestic reserves of oil and natural gas are not discovered and brought into production rapidly, we will need



even greater emphasis on synthetic fuels plants to produce the liquid and gaseous fuels we will need.

This in turn will impact on the demand for coal as a raw material for these synthetic fuels plants.

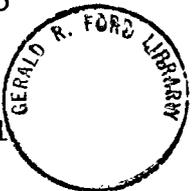
But, if we cannot mine, transport, and burn coal in sufficiently vast quantities to supply our future needs, then, we are going to have to look to other energy sources.

The potential energy contribution of nuclear power has been and will continue to be a vital part of our total energy base.

Like coal, nuclear power is a completely domestic energy resource, which can contribute greatly to our future energy needs from within our own borders, minimizing our need for energy imports.

The ultimate answer for future energy supplies is development of our own indigenous resources -- new and relatively inexhaustible sources for the distant future, and traditional sources for the present and the immediate future to give us the time to bring the new sources to commercial reality.

In the meantime widespread diligent conservation efforts, in combination with the lingering effects of the economic slowdown, have brought us to the end of 1975 with oil consumption running about a million barrels a day less than our earlier projections. Part of that figure is attributable to warmer-than-usual weather during the fall and early winter. But much of the saving has resulted directly from industrial and individual conservation efforts.



The federal government has reduced its energy consumption by 28% as a result of its energy management program. Implementing the conservation programs in the new energy bill should lead to a 50% improvement in automobile gas mileage by 1980, significant improvements in major household appliance efficiency, and considerable efficiency improvement in industrial energy consumption.

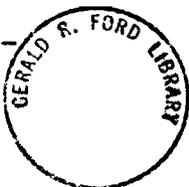
With these new conservation authorities, and continuation of existing FEA programs, as well as other conservation and production incentives, we hope to encourage additional import savings of a million barrels per day over the next two to three years.

But, even with optimum saving of energy, conservation is only one important part of the answer to our energy problems.

In the long term, we will need many parallel energy actions, nearly all of which will require the cooperation of the energy industries to help translate potential into reality.

We cannot simply let the oil and natural gas in Alaska sit there like money in the bank. We have to explore further the vast potential of the frozen north, and transport that oil and gas to the consuming areas of the lower 48 states.

We cannot afford to let the potential energy supplies of the Outer Continental Shelf remain largely unexplored and undeveloped. We must explore the Atlantic OCS, the Gulf of Alaska, the areas of the Pacific Coast, and the remaining untapped areas of the Gulf of Mexico, to find out whether there are in fact new reserves of oil and gas upon which we can count for future energy.



We cannot just talk proudly of our vast coal reserves and then fail to put them to work for us, both in natural form as coal, or in gaseous or liquid form as synthetic fuel.

We cannot ignore the energy potential lying trapped in oil shale beneath portions of our Western states.

And we must harness geothermal steam and build hydro-electric installations where they are feasible.

Nor can we disregard the proven potential for clean, efficient generation of electric power using nuclear fission.

Perhaps the single most important fact tying all of these potential energy sources together is that the attainment of our energy production goals through development of all of them need not and must not conflict with the simultaneous achievement of environmental protection and improvement.

This year is an election year and that means lots of politics. But the issue of energy independence and the need to bring our country back to the invulnerability we enjoyed for many years transcends politics.

Our political independence requires economic independence to give us strength in world trade. And it has become increasingly clear that we cannot have true economic independence without energy independence.

If nothing else, the energy crisis has taught us that energy is basic to everything we do in our society. We do not live in log cabins any more; we do not cut down trees to heat our homes and cook our meals; we do not keep horses for transportation; and we do not live the bulk of our lives a few miles of our birthplace.



The United States has come far during the 200 years of its political independence, and it is not exaggerating one bit to say that a great measure of that progress has depended upon adequate supplies of energy available at reasonable cost to consumers and industry.

As we launch the Nation's bicentennial year, we have an unprecedented opportunity to complete the development of a national energy policy that will assure energy, economic and political independence in the third century of our history.

But we can fashion that bright future only if all of us work together -- environmentalists, developers, manufacturers, consumers -- all of us working to reach the balanced approach which traditionally has meant progress toward national goals.

We have done it often in the past when the Nation has been threatened. And today we are no less threatened by excessive dependence on foreign energy supplies than we might be by overt military threats.

Our response must be no less decisive than it would be if we faced the threat of war. But it can be a peaceful response. It simply requires that we roll up our sleeves, work together here within our own boundaries and get the job done.

It is just that sort of cooperative spirit that has maintained the cotton industry's position as a vitally integral part of our agricultural and industrial economy for the two centuries of our existence as a nation.



I know all of you will continue to do your part to build America's future for its next 200 years. And I assure you that this Administration will continue to press for the economic climate which both allows and encourages the private industry of the nation to do the job it has done so well in the past.

Thank you.

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