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REMARKS PREPARED FOR DELIVERY BY
THE HONORABLE FRANK G. ZARB, ADMINISTRATOR
FEDERAL ENERGY ADMINISTRATION, BEFORE THE

TWELFTH INTERNATIONAL CEMENT SEMINAR
CHICAGO MARRIOTT, CHICAGO, ILLINOIS,
MONDAY, DECEMBER 6, 1976, 9:00 A.M.

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MONDAY, DECEMBER 6, 1976, 9:00 A.M.

It is a pleasure to be here this morning to participate in this Twelfth International Cement Seminar.

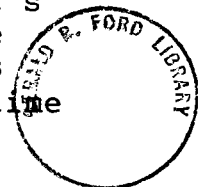
There is an expression commonly heard in Washington to express an absolute certainty about something. The expression is: "it's locked in concrete." I wish I could stand before you today, after almost two years in office, and report that this nation's energy future is "locked in concrete."

It is not. There is still much on the agenda we have set to reduce our dependence on foreign oil and protect our economy from arbitrary oil price increases. In the United States, your industry has been exceptionally active in contributing to the progress we have made so far -- and with good reason: you comprise one of our most energy-intensive industries.

Later today, I understand you will be attending a seminar to discuss some of the energy problems unique to this international industry. Since that interchange is likely to be technical, I thought I would stay away from technical talk this morning and share with you a rather simple -- but, I think, interesting -- idea.

The thought is simply: Where would we be today, if the oil embargo had taken place in the early Nineteen Sixties instead of the early 'Seventies? Where would we be now if the dramatic price increases of the past three years had come about gradually, over a period of a decade or longer?

I'd like to analyze these questions the way it's always done in Washington -- by creating a "scenario." Let's assume it's October 1963, a time when the nation was still finding more domestic oil and gas each year than it was consuming. Let's imagine further, that OPEC -- only three years old at the time -- has embargoed us and increased the world oil price.



How would the United States have reacted then? Would the response have been similar to that of October 1973? Would we have had the public outcry? Would the media have scrutinized every word and statistic coming from Washington, and stimulated a consensus for national action?

Maybe. Those were heady times in the sixties -- times of untarnished optimism -- of exuberant confidence in our ability to solve our problems, and the world's as well. It is easy to imagine the creation of a ten-year federal program aimed at preserving our energy independence. Certainly that kind of reaction -- the easy resort to federal programs -- would have been characteristic of the 'Sixties' response to a challenge. But would the challenge have actually been perceived?

After all, America was still energy independent in the early sixties: for every barrel of oil we imported, we had an excess barrel of domestic production capacity. Moreover, a shortfall in oil imported from the Arabs could probably have been offset by shifting a few tankers. We were, in effect, embargo-proof.

So, in all probability, motorists would not have noticed the embargo; nor homeowners; nor factory managers. Supplies would have been adequate. Just think of it: no shortages, no allocation program and no federal bureaucracy parcelling out supplies. But, as you well know, there is another side to the energy crisis -- oil prices.

Let's suppose that OPEC did have enough power to sustain an increase in world oil prices at the end of 1963 and that, having sustained one increase, it would, as it has done since 1973, follow that initial increase with a series of further increases.

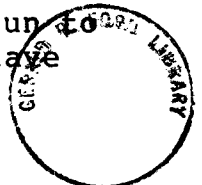
Neither the size nor the rapidity of such increases in the mid-Sixties could have matched those that we have actually experienced over the past three years, because OPEC's market dominance -- though impressive -- was not overwhelming at the time.

So, instead of having to cope with price increases in the neighborhood of \$5 per barrel per year, as we did following the 1973-74 embargo, we might have seen, in our scenario, increases in the range of \$1 per barrel per year.

But a series of even moderate increases would have awakened us to the trend of the future -- the inevitable rise of energy costs. The message would have rung clear, but it would not have carried the shrill overtones of panic that we heard in the winter of 1973-74.

Like an army receiving advance intelligence reports, the market place could have begun to prepare, to adjust and to equip itself to deal with changing circumstances.

The growing value of energy resources would have begun to receive gradual recognition, and that recognition would have induced a response from domestic oil producers.



For example, one reason that the United States had the surplus oil production capacity I mentioned earlier was the availability of cheap foreign oil. With its price beginning to rise, the logical response would have been to open up that capacity and to begin producing more domestic oil.

The increased profit from domestic oil would then have been fed back into further exploration and development of our own resources -- the outer continental shelves and Alaskan oil and gas.

But development would not have been restricted solely to oil and gas. The limits of petroleum reserves would very likely have become more apparent at an earlier time, and the natural action of the marketplace would have turned the economy toward substitutes.

Our coal resources would have begun to replace oil for some uses, and the rising value of oil might have made coal gasification and liquefaction more attractive at an earlier stage.

A synthetic fuels industry might have begun to attract capital on its own merits gradually and by increments, rather than needing substantial infusions of government funds.

Gradually, nuclear power would have become relatively more competitive with coal and oil in the production of electricity. And closure of the nuclear fuel cycle would have taken on a much stronger impetus at a much earlier date.

And with the growing value of energy being recognized by degrees, industry could have adjusted by investing in more efficient plants and equipment. The automobile industry could have been designing and building more efficient cars. And at the height of the construction boom, we'd have been building tight, efficient, insulated structures.

Finally, realistic energy prices in the 'Sixties -- and a realistic perception of where those prices were going to go -- would have led to a realistic balance between energy and environmental goals. Had the environmental movement and the recognition of our energy problem been born twin brothers in the 'Sixties, they would not have become seeming oponents in the 'Seventies.

Of course, history is always filled with "ifs," but we all know that our energy problems were not addressed in the 1960s, and that no effective embargo or price increase or any other event took place then to focus attention on our growing addiction to cheap foreign oil.

As a consequence, the only thing this country adjusted to during the decade between 1963 and 1973 was ever increasing consumption of oil, and an inexorably decreasing capacity to satisfy our own energy needs.



While in 1963, we were importing roughly 14 percent of our oil consumption, by 1973 that figure had risen to 36 percent. And, over the same period of time the percentage of those imports which came from insecure foreign sources more than doubled -- from less than ten percent in 1963 to almost 25 percent a decade later.

Furthermore, while the United States had a cushion of almost three million barrels a day in idle oil production capacity in 1963, by 1973 we had virtually none.

In that same period, domestic consumption of oil rose from roughly ten million barrels per day to more than 17 million.

And -- more significantly -- price increases which, in the mid-Sixties, would have had negligible impact, by the mid-Seventies would be costing the American economy \$20 to \$30 billion a year -- more than \$125 for every man, woman, and child in the country.

And the situation has continued to worsen since 1973: this year imports will probably account for more than 40 percent of our consumption at a cost of perhaps \$34 billion. And we are currently dependent on insecure foreign sources for almost 35 percent of those imports.

My point in contrasting the two situations -- one hypothetical and one real -- is not to indulge in some pointless academic exercise. It is to illustrate the magnitude of difference between the situation that faced the United States in 1973 and the past history of energy use in this country.

With only a decade gone by, the problem had grown from one that could probably have been accommodated by a flexible and adaptable economy to one that -- of necessity -- propelled the federal government into a prominent position in the marketplace.

A gradual increase in world energy prices in the sixties, instead of the decline that took place, might, once and for all, have closed the option of cheap, foreign oil, forcing us to face up to the need for domestic resource development.

As it turns out, everything we must do today to regain our self-sufficiency -- in haste and with extensive government participation -- might well have happened more naturally if only Adam Smith's invisible hand had been allowed to regulate energy supply and demand based on its real value in a free market place.

Despite the difficulties of the energy problems we face today and the short amount of time we have to solve them, I am convinced that what we have started in the past two years can be continued, built upon, and can lead to a successful solution.

Let's examine where we were some two years ago.



Two years ago, the only legal instruments this country had to cope with a radically new energy situation were a complicated allocation program meant to deal with shortages that no longer existed and other measures -- price controls -- that retarded domestic oil production. Today these are being phased out gradually -- with sensitivity for people's pocket books -- to provide adequate incentives for more energy conservation, greater efficiency, and increased oil production.

And today, there are signs -- tentative signs -- that the decline in oil production may soon be turned around.

Two years ago, another embargo would have meant hoping that oil could be shifted to the United States from friendly countries that were unaffected by the cutoff. Today, we can look forward to an oil storage program that will reduce the threat of future disruptions of imported oil supplies and cushion the effects of any that might occur.

Two years ago, coal was a relic of the nineteenth century, and we had no means of assuring its increased use. Today, we are actively converting industry and utility boilers from scarce oil and gas to coal.

Two years ago, the American people and the automobile industry were just beginning to think about the urgent need for more efficient cars. Today, new cars are achieving 34 percent better gas mileage than 1974 models.

Two years ago, the closest thing we had to an energy policy was an analysis of the Nation's energy options. Today, the United States has a program that addresses all phases of the energy issue exhaustively -- from point of production to point of consumption.

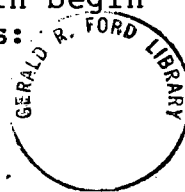
Two years ago, none of that program existed in law. Today, a number of major pieces of legislation have been enacted -- legislation that will stimulate domestic energy production and foster conservation.

Two years ago, this nation faced the prospect of importing twelve million barrels of foreign oil every day by 1985. Today, as a result of those parts of the program that are now law, that prospect has been reduced by four to five million barrels daily.

Those are barrels of oil we won't import; and that means American dollars that will stay at home to stimulate economic recovery and growth.

All of this -- the record of the past two years -- in my opinion, can be summed up in one word: progress.

But we have only made a beginning -- a still uncertain beginning. Much remains to be done. We still need to take steps:



- to encourage conservation by individual Americans;
- to stop the decline in oil and natural gas production;
- to almost double coal production;
- to increase from nine to about 25 percent the amount of electricity produced from nuclear power;
- to ensure the commercial availability of synthetic fuels; and
- to proceed with the development of alternate energy sources.

So, although much remains to be done, progress has been made. It is unfortunate that that progress could not have taken place in the context of the scenario that I described earlier -- the scenario of gradual, natural adjustment. But circumstances in the winter and spring of 1974 dictated otherwise: in the face of severe energy and economic dislocations it was necessary to force what would, in more normal times, have occurred in the usual course of events.

We have done so reluctantly. We have sought to minimize government intrusion into the private sector. And, whenever and wherever it has been feasible to do so -- as in the case of price controls on domestic oil -- we have sought to make that government intrusion truly temporary.

We have pursued these policies because we are committed to the premise that a free economy is the best economic regulator and that a healthy marketplace -- where government participates only in its essential functions and as a partner of the private sector -- assures, through price incentive, maximum productivity and, through competition, the lowest possible prices. We have pursued these policies, in short, because we believe that the free enterprise system is the best servant of the American consumer.

The energy crisis is not the first that this nation has been called upon to face. And, as in the past, American workers and American industry, American technology and know-how, American financial and natural resources, can be mustered to overcome it. As in the past, we can demonstrate our resilience and resourcefulness -- our capacity to meet new challenges and master them.

And, over the past two years we have begun to do so. We have begun to prove that we have, not only the capacity, but also the will to survive the energy crisis and to emerge as a stronger nation in the end.

Our capacity will continue; it only remains for us to sustain the will to win.

Thank you.

