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11/23/74
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MEMORANDUM FOR JACK MARSH ONLY

SUBJECT: Some Thoughts on U. S. National Energy Strategy

I. BACKGROUND:

A. The industrialized world, as we know it, has been developed with its very foundations resting on an assured supply of relatively cheap and abundant energy. If any modern industrialized nation is denied its very "life blood" because a supplier arbitrarily restricts oil or dramatically increases its cost to where the price cannot be paid, that nation will rapidly become anemic--some will die! It -- is -- that -- simple!

II. BASIC PRESIDENTIAL DECISION:

A. The President has to decide whether we are going to commit the United States to a serious cooperative effort to attempt to ensure the continued well-being of our industrial allies, and the eventual improvement of the status of the third world, or if we are going to commit to a retreat to fortress America. The effect of failing to fully commit to the first in effect results in a commitment to the second.

- B. An honest commitment to help supply the rest of the industrialized world will be a major political move in the United States--one counter to trends. For instance, are we really willing to commit to the rapid development of off-shore oil desposits near Santa Barbara, California, partially to keep the industry of Japan moving? Are we really willing to tolerate the disruptions that a major oil shale effort would bring to several Western States in order to partially supply fertilizer to India? Are we really willing to commit to major strip-mines in Wyoming to help keep the lights burning in London? Are we really willing to commit to the price increases, the sacrifices involved, and even to such things as the development of oil off-shore New England to help support the Government of Italy? And finally, are we really willing to commit the resources of our defense establishment so it will have the real capability of seizing and operating crucial raw material sources in various parts of the world to help protect the rest of the world against starvation, hunger, poverty, unemployment, and shortages!
- C. A decision for "Operation Independence" is easy. An honest decision for "Operation Interdependence" will be very tough!

- D. Without such a basic decision of what we want the overall picture to end up looking like, we must expect our efforts to assemble an energy puzzle--and to remain just that--an examination of confusing, unrelated, and often insignificant parts without any real idea of what the finished product should look like.

III. OPERATION "INTERDEPENDENCE."

- A. If the President decides to turn inward--this memo can stop right here. On the other hand, some of us have been working on operation "Interdependence" for over fifteen years. The rest of this memo can give you some observations and ideas as to how some of us are convinced that this country can literally lead the world, with or without--if need be--the cooperation of several key members of OPEC, into the next energy era. A positive and cooperative effort!
- B. First, one must fully understand that OPEC is not simply a group of Arabs. Look at this morning's paper--the Canadians, our "allies" to the North, have just informed us they are going to further restrict exports to the United States and that we should be prepared to see no Canadian energy exported to the United States by the early 1980's! Venezuela, and others, have long

been waiting for the shift of the United States from a "have" to an "importing country" on oil. Norway has not generously offered to accelerate the development of their deposits and to make them available to the industrialized world on a massive basis and at a low price. The Arabs, particularly the Saudis, are in a pivot position because of their reserves and productive capacity, but it must be remembered we are proposing a cooperative approach with all of OPEC-- not just one or two of the most noticeable. Saudia Arabia and Iran should be able to establish patterns that enough of the other OPEC countries would be willing to follow to the point that we will want to focus our thinking on these two. I believe that we have failed, to date, to convince Saudia Arabia and Iran to increase production and lower prices primarily because we have yet to make a serious attempt to treat their officials as intelligent humans or to honestly propose that the United States is willing to do its part in a world-wide cooperative effort. More about our "feeble" efforts in Saudia Arabia and Iran later.

IV. COMMENTS ON VARIOUS "U.S. PLANS."

- A. The so-called "Kissinger Plan," recently outlined by the Secretary, is basically a confrontation approach

between the industrialized world and the oil producers. While I agree that it may ultimately come to this, it is foolish to do it prematurely when we have failed to play our strong cards on a cooperative route. Any plan involving confrontation must be backed by a willingness to ultimately resort to force, of one form or another, or it is doomed to failure from the start. The idea that a cut-back of three million barrels a day of imports by the industrialized world will now bring down prices is wrong. It has been proven wrong already because we have now in effect a cut-back of at least that magnitude when compared to anticipated oil flows prior to the present world recession patterns. Saudia Arabia alone can absorb at least another five million barrels a day cut-back without threatening fund requirements for even its most ambitious domestic development and defense programs. Even more important as to whether or not such a cut-back will force OPEC to lower prices is an appraisal as to whether or not the "anemic patients" that we described in the first sentences of this memorandum, can survive self-imposed "bleeding" as a cure. The Secretary's ideas on increasing supply, international financial innovations, and such are brilliant. The majority of the plan is great--a minor part contains major flaws.

- B. The "Morton Plan," or approach, appears to be more supply oriented and uses conservation more as an effort to convince the public and the world of our degree of determination than to solve the problem. Secretary Morton appears to have a good grasp of the political and economic consequences of failure to pump more "life blood" into the system.
- C. Assuming that the President will commit to an effort to literally prop up the industrialized world and eventually help the third world improve their situation, any U. S. national energy strategy will need the best of both approaches and some additional innovative ideas.

One has to understand more about Saudia Arabia and Iran--the only way that we can pump new blood into the anemic patients faster is to get more OPEC oil available at a faster and more reasonable net immediate cost to the patients.

V. SAUDIA ARABIA.

- A. Saudia Arabia is really not a country in a classic sense. It is a fairly small private family that happens to "own" a country. Despite U.N. population estimates of 8 + million people, Saudia Arabia is probably less

than four million people, and the Saudi family itself probably has only five or six thousand members. They are, in turn, governed by a "tribal council" of maybe 50 to 60 men. As hard as it is to believe, Saudia Arabia was borrowing against its future up until as recent as 1968 or 1969. You will find it was somewhere around then that that country had its first balance of payments in the black.

- B. Final decisions are made by King Faisal with some of the best paid consultants in the world making recommendations through one member or another of the "Seven Brothers." Faisal is a devout Moslem--never under-estimate his commitment to pray in the Mosque in Jerusalem.
- C. Think for a moment what Secretary Kissinger and Secretary Simon have in effect been proposing to King Faisal. They have been asking him to take the only effective resource that that family will ever possess and to produce it rapidly and cheaply to prop up the industrialized West. At the same time we are telling the world that we delayed efforts to produce Alaska oil for five or six years while we decided whether or not it would inconvenience caribou; delayed the production of off-shore California oil because

Southern California citizens want Wyoming citizens to produce their coal instead; delayed the production of coal from federal lands while we decide how much bonus should be paid to the people who own surface rights and who have always known that the minerals were owned by the U. S. Government; squabble over whether or not to even look for oil, let alone produce it, off-shore of our East Coast; have yet to produce our first commercial barrel of oil from one of the world's largest hydrocarbon sources--our oil shale deposits; have placed so many restrictions on our own use of nuclear power that it takes us eight to ten years to build a plant in this country, when the same plant can be built in Japan in less than five years by a U. S. company; we are asking Faisal to increase supplies to our world. Think how absurd it must seem to a prudent man when we come under those conditions and then ask them to accelerate the depletion of their only national asset, increase pollution in their area, and otherwise do for us what we refuse to do for ourselves.

- D. I have personally seen some of the cables and messages that King Faisal tried to convey to President Ford on how he, Faisal, could not bring down oil prices alone.

Instead of our intelligently trying to work with the Shah on some way he could save face and accomplish mutual goals, we keep getting published reports of our people calling "the Shah a nut."

- E. Saudia Arabia is not completely pro-American but they are very seriously anti-Communist. They do not want to destroy the very industrialized world that they hope to enjoy the fruits from, but without an honest and real commitment on our part for a cooperative way of taking not only our country but their children and their grandchildren into a new energy era in which they can also enjoy the fruits, you can not expect a prudent Arab to do other than what he is now doing.

IV. IRAN.

- A. The Shah runs Iran by himself. He does have some close advisors around him but when it comes to the final decision, you will find him by himself--no aides.
- B. He is dedicated to obtaining the maximum effective transfer of wealth to his country, and family, that he can achieve without completely destroying the industrialized world. Again, without real commitments on the supply side from our point to even produce our own facilities and resources, how can we expect him to cooperate into bringing prices down--we can't!

C. The Shah is smart enough to know that he will not own one-fourth of Krupp five minutes after West Germany no longer needs his oil and gas. He is beginning to see that the development of his country requires a long-range agreement with parts of the industrialized world. I am convinced that a cooperative effort here will bring much more fruit than our present ill-thought out versions of confrontation. It will not hurt to try--we can always resort to the confrontation approach if a honest cooperative effort fails.

VII. PLAN "X."

A. This approach calls for a Presidential decision committing the United States to literally help prop up the industrialized world during this period of "anemia," working in a cooperative way to bring the OPEC countries into "full membership in the country club," and to eventually trying to improve the material status of the third world. It would be a very positive approach. Ideally, it would involve simultaneous announcements and commitments by the President, the Shah, and King Faisal. The thrust would be to point out that we are now at a turning point in the history of the human race. We need to commit to move toward



the next energy era--without even defining whether it has to be fusion, solar, a combination, or what. The United States would be committing its technology, and resources, to help move the world into the next energy era, and in exchange for an assurance of their equal participation for their people in that next era, the Shah and King Faisal would be committing to help provide oil at reasonable prices to be used as a raw material to prop up the industrialized world.

- B. The points outlined on pages 5 through 14, of the attached notes that I had prepared in case we got into more Q & A during our meeting of the 19th, should give you some of the main thrust of what I think we would see in something like "Plan X."
- C. A cooperative approach with OPEC would require a more formal statement of willingness on our part to help design development programs for such as Iran, Saudia Arabia, etc., not only to be competitive now, but to be competitive several decades from now. We have not really done that yet--we've given them some lip service to help them use their own oil and gas--particularly such things as cheap fertilizer for India. We have not really helped lay out approaches that will make them competitive several decades from now--in the era of fusion, solar, etc.



VIII. PROPOSED ACTION:

- A. Pages 15 through 17 of the same memo has some ideas.
- B. I am going to write to Secretary Morton on a proposed extension of Georgetown University's group's efforts to convince the public we have an energy problem. While most people here inside the Washington fence seem to realize the problem, you have to face the fact that practically every poll still indicates that a vast majority of the public thinks this energy thing is a "con-job" by the oil companies, utility companies, etc., to raise prices. Probably a vast majority of the House Members just elected did not run on a positive program for anything--they ran against the oil companies and high energy prices.
- C. Think about the tactics of how one could best approach releasing a so-called Plan"X." You cannot keep the international approaches under Secretary Kissinger, and the domestic approaches under Secretary Morton very long--each going a different direction. The best way to start, using the best of each, may well be to announce the "Ford Plan,"



encourage a "Albert Plan," or get some nondescript
"MIT," "Georgetown Plan," or something else of
that nature.

I am scheduled back from this present trip to Saudia Arabia,
Kuwait, and Iran about December 10. Will contact your shop
then.


Jack H. Bridges



SOME THOUGHTS ON A U. S. NATIONAL ENERGY STRATEGY

(Jack Bridges: 11/19/74)

I. OPTIONS:

- A. Continue as we are with no real defined program.
- B. Commit in detail to a massive effort designed to eventually move the world toward the next energy era.
- C. Attempt to physically seize, secure, and produce certain raw materials in a manner and at a price that we consider appropriate--use force!

II. COMMENTS ON OPTIONS:

- A. The United States actually has no real options other than slight variations of one of the three listed above.
- B. The first option, that of following the course we are now taking, is the easiest one. It requires no major decisions, and relatively little political risk during the short-term. Unfortunately, however, we will continue to notice the Western World as we know it deteriorate and our alliances (such as NATO) and other international institutions may simply become ineffective. This approach has a chance of working if we discover massive quantities of oil and gas that can be cheaply produced in areas effectively controlled by the Western



industrialized world. Unfortunately, these discoveries would have to be made in the next few months in order to have effect. The risk of this option is obvious-- it is impossible to calculate at exactly what point the various sectors of the Western world will lapse into depression, or worse, with the resulting political turmoil. Once this happens, the lead times to correct the difficulties may rule out solutions.

- C. The second option is a viable one. The United States does have the necessary technology, and we and our allies have the raw material base that would permit us to intelligently work our way out of the dilemma. The thrust would be in a positive way and would rival the Marshall Plan in magnitude and ability to attract support. The commitment would be based on the fact that we anticipate requiring large quantities of oil and gas for the next several decades. We would accelerate our own efforts to increase our capabilities in those fields, not only to soften the U. S. requirements for imported petroleum systems, but to get into a position to even export to allies and assist them through any boycotts that might take place.

Our commitments would be to fusion, solar, and systems of that nature without even attempting to define the



end "mix" at this time. Emphasis would be on a positive effort to supply the necessary effective energy for increasing the well-being of our people. This option would require many very tough and controversial political decisions, and while the cost will appear to be massive, the sooner the commitment is made, the less will be the cost of the end result.

With luck, this commitment could result in access productive capacity in oil, gas and coal in the United States within the next decade. The advantages of a possible surplus on the price mechanism should far outweigh the risk that we would run with relating to cost and trade-outs with the environment.

The threat of fully and seriously mobilizing U. S. technology toward improving our conversion efficiencies (and therefore indirectly conserving energy) and of eventually developing systems for the new era is probably the strongest card we have in attempting to deal with the oil producing countries at this time. This option would require a massive effort toward obtaining public support. Again, this was the sort of thing that was done during the time of the Marshall Plan, and with our present communication techniques we should be able to muster public support again.



D. The option of using force must always be considered. The very existence of our defense establishment states that we feel that there are conditions where we will use weapon systems. Up until now our Defense Department has been geared to counter-weapon systems in direct and indirect use of force against our friends and allies as well as our own homeland. However, two new weapon systems have now emerged--the ability to control and deny the flow of oil to the industrialized world through a production embargo, and the ability to manage large blocks of currency and to effectively disrupt or even destroy specific international financial institutions. The facilities available to our Department of Defense, and others, must be examined in relationship to possible ways that the oil and money weapon can be countered.

III. ASSUME PRESIDENTIAL COMMITMENT TO FOLLOW OPTION II:

A. The strategy would require some initial bluff, but not for long. The major strength for the short-term would be to use the evaluation by others of the U. S. technical capability as a lever to attempt to get better cooperation from the oil producing countries. From personal experience, I would state that many of the citizens of emerging nations have a even greater confidence in our



technical ability than we do ourselves. The tactics of the approach would require immediate acceptance of members of the OPEC countries as "full members of the country club." It will require tactics on our part that would permit them to "save face" if they in effect honestly agree to bring down the net cost of crude oil to the industrialized world. In order for this approach to work it will require a national commitment of establishing goals and doggedly pursuing them in a way that we have not displayed recently.

- B. Suggested tactics can probably best be seen by following a outline of some ideas for a possible statement by the President if the decision is made to pursue Option II:

Remind the world of three major accomplishment of the United States in the past few decades. First, the United States is the only country in the history of the human race that actually had the physical power to rule the world (when we had the nuclear weapons monopoly), and voluntarily walked away from using that system. The United States is the only country in the history of the world that has done anything like the Marshall Plan. And finally, at the very time that we were having



self-doubts about our own technical competence, we publicly committed to go to the moon within a decade. The only footprints on its surface today bear the mark "Made in U.S.A."

We are now asking the people of the United States to make an immediate and total commitment to a fourth major effort. We are committing this country to lead the world into the next energy era. No single item, short of food itself, means more to the human race than the availability of abundant and cheap energy produced within an acceptable environmental restraint. We do not know at this moment exactly what the energy sources of the future will be, but we expect they will be some combinations of solar, nuclear fusion, and others. We are making the commitment now to develop these systems--we hope we have the cooperation of the world in these attempts.

A fully cooperative approach during the next few decades while we will continue to be basically dependent upon the various fossil fuel systems--oil, gas, coal, etc.,--can assure that all of us, oil producers and consumers alike, will reap the benefits of the next energy era together.



As we increase our efforts to develop these new systems, we will strive to increase the efficiency with which we utilize energy and to decrease our reliance on imported fuels. Not only would this improve our domestic financial situation but it will relieve some of the pressure of demand for petroleum. It will eventually make this material available to those in the third world as they attempt to improve their standard of living and as they must pass through a development stage based on petroleum type energy.

I am proposing that effective next month the United States establish a dollar limitation that we will pay for imported petroleum, or their products. The total amount (say fifteen billion dollars per year), will be corrected annually for inflation factors. This total also will initially be based on purchase of petroleum at \$9.50 per barrel. If the base sale price is lower than this, then we will permit a larger ceiling on purchase. In this way any country attempting to maximize its annual income from oil will actually increase its gross take by decreasing the price it sells its oil for.



I am also proposing that as the world monetary system guarantees the purchases of investment by the so-called petro dollars, that the percentage of this guarantee vary with the price of oil. For instance, if the exported oil sold at \$6.00 or \$7.00 a barrel, these bonds would be guaranteed at say 80 or 90%. Anything where oil was sold around \$5.50 or something of that nature, give them a 100% guarantee. If oil is sold at \$10.00 or \$11.00, drop the guarantee to 15 or 20%, and if it gets to the absurd but possible price of say \$12.00 or more, give them no guarantee of repayment.

*Major tower
Quar. of loan
to 3rd world
in % of world
return
oil
out*

The amount of useful energy available to our people is the basic keystone to the improvement of the standard of living. It is essential for jobs, improvement of the quality of life, and other things we all desire. This total effective energy availability can be accomplished in two ways: First, we can increase it by improving the conversion efficiencies in the ways that we utilize energy, and second, we can improve our available effective energy by increasing domestic supply.



I am insisting that Congress accelerate their considerations of our energy problem, and "define the rules of the game." Continuing vacillation on tax treatments, oil depletion allowance, the nature of environmental requirements on strip-mining of coal, the nature of tax treatments for foreign company operations, and other such uncertainties, is one of the largest single factors to date in the increased cost of energy to the American consumer. It is impossible for a person investing in any energy system to do anything other than prudently estimate the worst he can expect in all of these areas. That makes it mandatory that energy be sold at a much higher price than would be appropriate if someone could calculate with some assurance what his actual costs would be.

The American private enterprise system has so far successfully supplied the U. S. citizen with not only the best standard of living the world has ever seen, but has helped ensure the greatest degree of personal freedom and selection of choices. This is something that should not be forgotten during this period of self-examination. We need to unshackle



this system more than we have to date. Making certain that anti-trust provisions are properly enforced, we should decrease regulations of our energy industry. It is foolish to add regulation upon regulation, and then as the industry appears to falter, try to solve the problem by adding still more regulations.

I am asking for an examination of the possibility of developing an energy "stamp" system that could help remove the impact of increased energy costs on the poor.

I am asking for acceleration of off-shore exploration in all areas of the United States.

I continue to propose de-regulation of the prices of crude oil and natural gas to encourage more of these products and to accelerate secondary and tertiary recovery techniques.

I am instructing the Department of Defense to complete the evaluation of deposits on the U. S. Naval Petroleum Reserve System on an emergency basis.



I, then, am asking for their full development--not production--but development to a stage to where they would be able to produce on short notice.

I am requesting a speed-up in decisions concerning the utilization of coal. I am also requesting an acceleration in efforts to determine detailed capabilities of techniques for utilizing oil shale and other systems. We have to remove the technical questions that still exist. It is foolish to have emotional public debate on whether one system or the other should be used, when quite often these debates are based on paper estimates and nothing else.

I intend to establish a seven member citizen's committee, with an appropriate staff, to recommend to the Secretary of the Interior a detailed proposed national energy strategy. I am requesting that this proposed strategy be defined in such a way as to remove the doubt that now exists concerning our real objectives.

As soon as I receive such a suggested strategy, I then expect to ask the Congress for a Resolution

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supporting it and defining it as a national goal and commitment. We must have such a definition before we can ask Americans to bear their fair share of the sacrifices and effort that must be made. Unfortunately, until this is done we will continue to have a bickering between the different portions of the country, with each feeling the other should carry the load.

I am challenging American technology to throw its full weight behind this effort.

I am asking NASA to accelerate utilization of satellites in search for new oil, gas, and other energy sources on a world-wide basis.

I am asking ERDA to accelerate its efforts, not only to find new sources of energy, but to increase its efforts to improve various conversion efficiencies and techniques.

I am instructing the Department of Defense to submit me a proposal whereby the U. S. Air Force would commence work on the development of new aircraft



types that would be fueled with non-petroleum products of one sort or another. The United States has been the leader in the development of the jet aircraft, and I intend that we will be in a similar position several decades from now when non-petroleum fuels must be utilized.

Finally, I am proposing a major re-direction of our defense establishment. Up until now we have concentrated almost exclusively on being in a position to react to conventional and nuclear weapon systems. But the ability to control the production of oil has now been used as a device for influencing the attainment of national goals by others, and the pricing policies can soon be used as tools, just as effective in many ways as tanks, planes, and missiles. I am instructing our National Security Council and Department of Defense to investigate what changes we must make in order to use our facilities to help prevent the type of problems I just described. You all now know that famine and other human miseries can kill millions of people just as effectively as an uncontrolled weapon system.



I fully expect that the world will join us in this effort. I want to emphasize we will be prepared to go it alone if need be, and others can then bear the consequences of their decision not to cooperate in this massive humanitarian effort.

Again, I suggest we consider history--we did have the power to physically rule the world during the period we had a monopoly on nuclear weapons; the Americans did voluntarily and gladly finance the Marshall Plan; the American flag still stands where it was placed by human hands on the moon; and, we will now make those first moves to enter the next energy era.



V. PROPOSED ACTION STEPS:

- A. Take the bold action of publicly announcing and defining in detail a commitment by the United to move, alone but preferably in cooperation with others, into the next energy era. This would involve publicly defining a serious national energy strategy.
- B. If present organizational instructional difficulties prohibit this move at this time, then announce the establishment of a citizen's committee to propose a national energy strategy. This should operate in a manner similar to the Council on Economic Advisors, with an independent staff, and should have the purpose of focusing on proposing long-range plans in energy strategy. All operational responsibilities for energy should remain as presently distributed.
- C. Once a strategy is agreed to by the Administration, then a detailed Resolution of Intent from the U. S. Congress should be sought. In general "motherhood, apple pie, the flag, and sex" resolutions are useless, and should be fought against from their conception-- sufficient detail is mandatory.
- D. Mount a major effort to describe the magnitude and complexity of our energy problem to the American public. The Georgetown University, through the Center for Strategic and International Studies, has long ago

proposed to FEA that an effort be made through State legislative systems to try to gain State support and describe the energy situation. Cooperation of State Governments will be vital and essential. Details of such a program are available.

- E. Have a study made through non-U. S. government agencies (Battelle Memorial Institute), as to the anticipated impact of price on energy demand in the United States. Certain "break point" in Europe have finally given us real indication as to how we can make such estimates.
- F. Informally encourage several off-the-record meetings between senior officials of the oil producing states and representatives of the various sectors of the oil consuming society. In this way, we could possibly determine if areas of possible cooperation actually exists prior to having the formal meetings between heads of States that may be assumed as confrontation affairs under the present situation.
- G. Initiate many of the ideas discussed earlier in this paper--for instance, instruct the Navy Department to accelerate the exploration of Naval Petroleum Reserve No. 4, accelerate ways of building full-size coal gasification and liquefaction plants, encourage full-size operation of several oil shale facilities, etc.



H. Instruction the National Security Council, the Department of Defense, the State Department, etc., to evaluate our very strategic and tactical systems to determine how we can best modify our defense mechanisms to reach maximum efficiency in ways that may propose effective countermeasures to the use by others of oil as a weapon, the ability to shift monies as a weapon, or other anticipated changes in the consumer-producer relationship. Full contingency plans for pre-defined situations should be prepared, and monitoring techniques or programs developed that would permit rapid evaluation of the changing situations.