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OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
RONALD H. NESSEN
PRESS SECRETARY TO THE PRESIDENT
AND
FRANK ZARB
ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION

THE BRIEFING ROOM

12:35 P.M. EDT

MR. NESSEN: I am going to read this statement and then Frank Zarb is going to give you some elaboration of this and answer your questions. I will go when you are ready.

The President himself personally worked on this statement this morning. He has, I think you will see in the statement, quite strong views.

The President strongly regrets the price increase announced today by OPEC, even though it reflects a moderating influence by some oil producing countries. While the increase was not as large as some expected, nevertheless it will have a significant impact. It will worsen inflation throughout the world and it will hamper the fragile process of economic recovery. It will hit the poorer countries the hardest.

In the President's State of the Union Message in January, he warned the Members of Congress that we would become more and more vulnerable to oil price increases imposed on us by other people in other countries unless the Congress acted quickly to approve his program to free America from its dependence on foreign oil suppliers. And today's action by OPEC demonstrates vividly that the President's warning was accurate.

The American people should realize that Congress has refused to take any step to reduce our vulnerability to such whims of the OPEC oil cartel. So long as Congress refuses to enact a program which will allow America to produce its own energy with its own workers and to set its own prices, we will find ourselves increasingly vulnerable to OPEC.

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We will continue to be vulnerable to arbitrary OPEC price increases -- which will take away billions of American dollars and thousands of America's jobs -- until Congress faces up to the energy problem and makes the hard decisions for Americans to regain their energy independence.

Those Members of Congress who refuse to adopt an energy program would like the American people to believe they are trying to hold energy prices down. They are wrong, as today's OPEC decision demonstrates.

During the four years of so-called controls since 1971 our bill for imported oil has gone up more than 700 percent. Inaction or wrong action by the Congress means higher prices and increased dependence.

Every day we are forced to buy more and more oil from OPEC at higher and higher prices.

Congress must adopt an energy program which will permit us to control our own supply and set our own prices.

Until Congress acts constructively, we will continue to lose American dollars and American jobs to foreign energy producers. The President hopes that today's OPEC action will finally get the message through to the Members of Congress that we cannot afford to remain vulnerable and without an energy policy.

All right, Frank, do you want to add to that?

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MR. ZARB: No, I don't think so.

I guess I will just add that I have been before you on and off for the last nine months and we have been talking about the likelihood of OPEC taking such action and the need for us to have a domestic program.

I have said time and time again that we were going to pay the price on a continuing basis. It should be noted that the increase announced this morning from Vienna is effective until June first of this year, which means that nine months from now or so we will be again wondering what the next price increase is going to be, and it seems to me that it more than anything underscores the fact that we ought to get on with our own domestic energy program.

The bill that we are going to be paying with this increase announced today is about \$2 billion a year and that money is going from this country for the benefit of other nations. That is on top of the \$25 billion that we have already been committed to.

So it is an awfully good time to re-examine why we continue to drift into what is a worsening situation.

Q The Secretary of State indicated that he considers this price increase a middle line. He said it could have been worse. What is your reaction?

MR. ZARB: I think, based on what I have read and seen, there were those in that group that were trying to moderate the effect--recognizing that it had an impact not only on our Nation but particularly the poor nations -- and those that wanted to be substantially more extreme in price increases. I guess his perception was correct, within the context of those deliberations they would conclude to be moderate.

I would conclude this increase to be important in that it does have an effect. That means a penny or penny and a half a gallon more to the American consumer. It is only effective until next June first, at which time we will be thinking about more pennies per gallon that will be going for the benefit of other nations.

We just simply as a Nation can't continue to drift in the direction we have. I don't know how many times we are going to have to be hit over the head with a two-by-four before we wake up and take the firm actions required.

Q Does the President plan to eliminate the oil import fees?

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MR. ZARB: The \$2 import fee will be retained certainly during the period of this recent extension and at the termination we may, during that period, depending on how discussions with the Congress go and how that fits in with the ultimate program assuming we can develop one, in the next 50 days.

Q Frank, what do you think the economic effect of this increase will be on our economy?

MR. ZARB: I prefer that you save the deep economic questions for Alan Greenspan, who I am sure will be available to answer your questions through your normal sources.

Q That wasn't very deep.

MR. ZARB: You know, if you are asking the question in sort of a general way, I will give you sort of a general answer. We now pay \$25 billion a year to foreign countries. That used to be \$3 billion a couple of years ago. It is now up \$2 billion, just like that. We are told that is only good until next June first, in which case there will be more.

That means American wealth, it means balance of payments, it means American jobs, because if we were paying that amount of money for domestic energy, it would be Americans we would be putting to work.

So any increase can't be of benefit to our economy. I consider this continued erosion to OPEC as having some very serious consequences as the years wear on, regardless of the individual impact of a penny and a half a gallon right now.

Q Frank, you were quoted on the radio this morning as saying you were outraged at the OPEC actions. Are you outraged at OPEC, Congress, or both?

MR. ZARB: Outraged seems like kind of a boilerplate term. Am I mad? Yes, I am. I think, as a Nation, we continue to let the situation worsen. We sat here for a week with all kinds of speculations as to how our prices were going to go up because a group of other nations had that particular conclusion in their hands rather than our own.

We have been for nine months attempting to develop a domestic answer to that situation and have been unable to do it. I think that is a sorry state of affairs and the longer we continue the way we have for the last several months, the worse things are going to get.

I guess in total I feel that we have kind of let ourselves down.

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Q May I try to get an answer to that question? I don't think you answered it. I am asking whether you are directing your anger toward OPEC, or Congress, or equally to both.

MR. ZARB: I wasn't directing it. I was giving you my reaction to the increase and to the events leading up to the increase. I think everything else speaks for itself.

Q Mr. Zarb, do you think, if last January when Mr. Ford presented his State of the Union Message, if, say, in February, Congress had bought that package lock, stock and barrel, we still would be having the kind of impact the OPEC increase means today? Would any action in the last nine months have prevented that or are you looking at the whole thing as a long-range warding off of OPEC influence in the longrun?

MR. ZARB: Ann, there is a possibility -- and you get into an area of predicting what may or may not have happened had circumstances been different -- there is a possibility if we had demonstrated we had what it took as a Nation to develop a tough program back in April and began to show in fact we were going to begin to reduce our imports by bringing on our own supplies and bringing down or improving the effectiveness of our use of energy, that that could have impacted the various balance of things in these deliberations.

There is no question in my mind that long-term, next June and the following December and the following June, that the ability of this Nation to demonstrate that we are firmly moving in that direction will have a considerable influence on price decisions and other kinds of decisions. Keep in mind that the more we move into this area of vulnerability, the more we are going to be subject to an embargo because the more an embargo can hurt, the more it is used as a tool or a threat. And when that happens the next time around, if it does happen, as I said before, the last one is going to look like a picnic. I really mean that.

The impact on American employment and six months of an embargo would mean American people put out of work like that. How long can we continue to play that kind of roulette?

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Q Mr. Zarb, a couple of days ago the Administration and the Congress reached a compromise on working out a program. Now, two days later, the White House is attacking Congress. Why introduce this name-calling and blaming so early when Congress says we are going to do it?

MR. ZARB: I don't think in anything I have read and, hopefully, I have said has been a name-calling exercise.

Q You are blaming Congress, right?

MR. ZARB: It is a laying out of the fact that we need to move forward and develop a plan and develop it now. It kind of places some urgency in our hope that the next fifty days will not only produce an energy bill but will produce an energy bill which will in fact get the job done.

Q Frank, are you willing to make any compromise on your 39-month program? I know the President, in one of the paragraphs, says, "those Members of Congress who refuse to adopt an energy program." That is not synonymous with the President's program.

MR. ZARB: I think, Steve, the important thing that we feel strongly about is what does it do in that period of time? If in the general 39-month timeframe we get the goals that we set out to achieve -- and it will require more than just a pricing issue, it will require Elk Hills, which is still not law, it will require some of the changes to enable us to burn some more coal. But if the plan achieves those objectives, within that framework we are willing to work on any number of different approaches.

Q Your objective is no longer the 2 million barrels a day reduction it was by the end of 1977?

MR. ZARB: With the 39-month approach, it is 1,000,000 by 1978.

Q By the end of '78?

MR. ZARB: Towards the end of '78. It would be the last half.

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Q Mr. Zarb, why does the Administration have harsh words for OPEC and for Congress and say nothing about the major oil companies which, by all implications, are withholding production in anticipation of the much higher prices the Administration continues to assure them they will get?

MR. ZARB: You know, both my predecessors went through that exercise of looking for the hidden supply of oil that is not being produced and I have gone through about the same paces -- is that kind of thing happening in one place or another to a small degree? If it is, we will locate it and find it and make sure that is made public.

To conclude that our energy plan is going to be solved by finding a stash of hidden oil somewhere is kidding ourselves and kidding the American people. I would just urge those who would follow that track to consider themselves what happens if they are wrong, and we do nothing else but examine that particular type of solution. What happens years from now if they are wrong?

Q Is the Administration considering any retaliatory actions in view of this latest increase?

MR. ZARB: That is not my end of the business and I would raise that with the Secretary of State. I am not dodging the question. I have not engaged in any conversations that were in that particular area.

Q You referred to a stash somewhere, but what about oil company research? There has been a lot of talk from the oil companies about research but there is very little evidence that they have done anything to find new supplies.

MR. ZARB: I certainly don't want to defend big oil companies, or big anything, or any sector of the industry, or the industry in total. The decisions made over the last ten years, many by the industry and many by the Government of the United States, have led us to where we are. To say that more research should have been produced to develop synthetics or other kinds of things, I am on your side. I agree.

I think for ten years we all sat by and we sold out to cheap oil and as we sold out to cheap oil -- including that sector -- we led the country to where it presently is and we are paying the price.

You know we have had a Roman feast in energy consumption and we ought to understand that we are consuming ourselves to death and not lead people to believe that we can continue on that road without any difficulty or inconvenience to correct it without paying a more desperate price later on.

Q Frank, after your conversations on the Hill this week, how do you assess the possibility of reaching a compromise now? Is the fact the President is willing to sign another bill to revive controls a sign there is a strong possibility of a compromise?

MR. ZARB: Steve, I am hopeful, as I have been right through the entire process. As you know, we have had a rather agonizing process over the last nine months.

Q Yes.

MR. ZARB: I believe that a number of Members of the Congress do want to work this out so that it accommodates their points of view and also gets the job done.

I have never once doubted Senator Mansfield's intent to approach this in a way that it gets done and gets done properly. I have a great amount of respect for both his views in this matter and his integrity.

I think we need to be sure that we can work, and the honest intent to achieve those hard goals and lay it before the Congress, and hopefully we will get enough Members to vote in favor of a solution.

I am hopeful the next 50 days will produce that result.

Q Frank, it seems to me there is a certain amount of inconsistency here in your argument there is no hidden stash, and then you are advocating decontrol in order to give the companies more money to find a hidden stash. I don't quite understand how you can claim that there is, as far as we know, no more oil to be had and yet the companies have to get more profits in order to reinvest it to find it.

MR. ZARB: Let's talk a little bit about the two natures of reserves. The implication of the last question was that there were reserves that could be economically produced right now that were being withheld from the market.

If somebody had an area where that was occurring, I would sure like to know about it, and along with all other enforcement agencies of this Government we would look into the question.

The other question you need to raise is, are there other reserves under current fields that could be developed if the economics were different? Could secondary and tertiary recovery be effective in producing more oil?

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The answer to that question is yes. Secondary and tertiary recovery could bring on well over a million barrels a day over a period of time. That, under current law, restricts that oil to old oil control prices. And part of the issue of decontrol is to allow the economical extractions of that particular oil.

Now, at the same time a windfall tax program, such as the one we have endorsed, ought to be implemented to insure that we guard against any of the oil industry reaching a profit they should not have. We should provide sufficient return to get at that deeper oil, or get at the Alaskan oil, or the Outer Continental Shelf oil, or get at that extra pool in an old field that you have to drill 100 feet deeper for.

The real question is, are we going to sit by and watch our prices go up and up and up and up at the whims of other nations, or are we going to put our own energy house in order?

Let's look beyond the price issues, since we are deeply into the total program question anyway. Let's look at them.

There are two mandatory measures that we asked for that are not forthcoming. The first is a building standards issue. Back in January we asked for standards on all new construction everywhere in the country, recognizing that the value notion isn't going to get us there.

That bill has not been passed and I don't think it is going to be passed, but it is a very simple bill that provides every new construction in this Nation would have to follow a very narrow range of thermal efficiency tests or it would be precluded from certain mortgage arrangements. We are not getting that.

My authority... to mandate the conversion to coal ran out in June. I repeatedly asked for a simple extension not tied to anything else controversial that will get mired in veto discussions. That still has not been proposed and brought forward.

So it really isn't a question of just this one issue of settling the pricing issue -- and we have certainly demonstrated our willingness to be as flexible as can be in that whole discussion -- it is a question of facing all the hard issues that surround the national energy program.

Every one of those issues are tough because they have a constituency or a group who are opposed to them. We haven't had one yet that was simple and neat -- maybe the national storage program, which is coming along.

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Q Frank, you mentioned the figure \$2 billion on what the OPEC oil will cost next year. ~~Would you cite~~ a comparable figure on how much domestic uncontrolled oil will cost as a result of its rising to meet that OPEC figure?

MR. ZARB: I would have to calculate it. When oil went from what it was to \$14, domestic oil moved to about \$13.50 in the East and about \$13 in the West, so we would have to calculate how much movement would happen within the domestic market. Keep in mind that under the President's 39-month plan, that would not even be an open question.

Q Mr. Zarb, do you believe this latest OPEC price increase will cost some jobs in America right now?

MR. ZARB: I will answer it generally only because I can't make that statement flat out and be credible, and Greenspan probably ought to focus on it.

There are \$2 billion more American dollars that are going to leave this country to go to other countries. The return of that in return investments is an open question. It has never been proven that the recycle theory is anything more than a trickle back theory.

So, when we consider that Americans are paying \$2 billion more per year and that they are not being invested in this economy to buy American products produced by Americans, you have to have some effect in that sector. But I think in terms of how fast, or the size, we ought to leave that to the economists to explain.

Q Mr. Zarb, you mentioned that you have respect for Senator Mansfield's integrity and the intent of at least some Congressmen to work with you for an honest resolution of that problem. How can the Administration assure consumers here that they are not being gouged by the oil interests when we see repeated examples of illegal corporate payoffs not only to foreign governments but to American politicians?

MR. ZARB: You know the question of suspicions about all of our institutions and skepticism about all of our institutions is a real question and those suspicions and that skepticism is based on reality; unfortunately, it is there. It is an obstacle in dealing with this issue. We can't let it overwhelm us to the point where we don't take any forward action and, by the same token, we have to insure that we don't allow the process to let anybody reap an extra profit and that is what the windfall profits and rebate mechanism was all about.

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Beyond that, the institutions, all of them have to earn that respect back from the American people. It is not going to happen overnight no matter what anybody says.

It is a problem. It just shouldn't be allowed to stop us dead from developing an energy program and really cave completely to the OPEC nations. You can see how easy it is to raise prices by \$2 billion with one several day meeting in Vienna and another probably next summer.

Now we have to do something about it. I don't think anybody disagrees with that. My point is let's get that something done and let's argue about substance, about the various approaches to getting it done and just get on with it.

But it is not going to be easy and you can't promise people no sacrifice.

THE PRESS: Thank you.

END (AT 1:19 P.M. EDT)