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WEDNESDAY, APRIL 7, 1976

Office of the Vice President
(Reston, Virginia)

REMARKS OF THE VICE PRESIDENT
AT THE
NATIONAL ENERGY LEADERSHIP CONFERENCE OF AMERICANS
FOR ENERGY INDEPENDENCE
THE SHERATON INN AND INTERNATIONAL CONFERENCE CENTER
MAIN BALLROOM
RESTON, VIRGINIA

(AT 8:43 P.M. EST)

Reverend Burt, I would like to express my appreciation to you, sir, for that beautiful invocation. You created the kind of atmosphere and sensitivity and awareness for the start of this wonderful evening.

And to you, President Abel, I would just like to say, both in your capacity as president, and in your capacity as a concerned citizen who has devoted himself to so many of the key issues facing us in this country, and this great gathering here, I would like to say it was my privilege to serve with him on the National Work Quality Centre created by the Congress, and to know of the breadth of his awareness and vision in terms of the future of our country.

And I must say that prior to this gathering here this evening, I had the pleasure of meeting Dr. Selby, and my confidence in the realization of the objectives which have brought all of us here together this evening went up very markedly after that meeting. I think we are fortunate in her leadership and would like to thank her for what she is doing.

Of course, Dr. Bethe has been a respected leader in the community for so long and so highly regarded, and his presence here is so important.

Mrs. Benson, your organization is one we all respect and admire, and has played such an important part, also, in the growth of public understanding, which, of course, is the key to effective action in a democracy. And I guess that is what this meeting is all about, and this gathering is all about.

Governor Peabody I knew as a fellow governor, and I am delighted to see him here. He was always identified with important causes.

Pete Peterson, who did so much in Washington and now is helping to solve New York City's problems, we are grateful. I am not sure that the latter isn't even more difficult than the one he had before. But I will leave that up to him.

We are grateful to him and all the other distinguished guests, and all of you ladies and gentlemen gathered here this evening. Thank you for inviting me and letting me participate in this gathering.

And I must say I feel optimistic about the future. But I am not going to talk in that vein tonight because I don't think optimism is going to be achieved unless we have

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realism. And that realism is the problem we face. So I am going to talk tonight about the energy problem of this Nation. And what I have to say will not be reassuring or optimistic unless there is a radical change in the way things are going.

This year the United States will import more than 40 percent of its oil from foreign sources. A few weeks ago that figure reached a total of more than 50 percent of the oil we consume.

Despite the clear lesson of the 1973 embargo, the United States is more dependent on imported oil today than it was before our supplies were abruptly cut off that year. There are steps we can take to break this dependence, and we must take them now. Unfortunately, despite the worsening energy situation, the American people -- and, frankly, their Representatives in Congress -- do not yet share this sense of urgency.

Indeed, the renewed trend toward larger automobiles suggests that public understanding of the energy problem is declining rather than increasing. This paradox, the lack of public awareness and concern in the face of a growing crisis, may in the long run be as dangerous for our economy and our democratic system as the energy crisis itself.

Therefore, this situation requires all of us to double our efforts to make three key points clear to the American people: First, continued reliance on foreign sources and insecure sea routes for nearly one-half of our oil places this Nation in a perilous position and vulnerability to economic and military pressures. And if the boycott were renewed, to economic and social chaos in our country. Secondly, if we don't take effective action now, we will be importing 50 to 60 percent of our oil by 1985, and things will get still worse rapidly after that. Third, there are recourses that make possible the solution of this problem.

We are in a unique position to become a self-sufficient Nation in energy before the end of this century. But these solutions require a clear understanding of our options, some very hard choices, a national commitment of resources, and a sense of urgency.

Over the next decade these solutions require strong conservation measures, deregulation of oil and gas, and between \$600 and \$800 billion in private sector investment in domestic energy production.

Beyond 1985, we will need domestic sources of fuel other than oil and natural gas and atomic power. But lead time and development delays are such that we must start the demonstration and emplacement of these facilities now, in order to have productive capacity ready when our oil and natural gas supplies dwindle rapidly after 1985.

Above all, we must recognize that we no longer have the luxury of time. We have already lost the opportunity, even if we as a Nation take all the actions I have described, to cut our imports of oil substantially below 30 percent by 1985.

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The question now is whether we will continue to allow imports to climb through 1985 and beyond, or whether we now will take the steps required to limit our vulnerability by 1985 and achieve energy independence by the end of this century.

Let us turn to the question of need and supply. Before the 1973 embargo and the five-fold rise in oil prices, our use of energy was increasing at a rate of 3.6 percent each year. Now, the Federal Energy Administration now projects that higher prices and conservation will reduce our energy growth rate over the next decade to 2.8 percent per year. This is a significant decrease in the energy growth rate, but it still means this Nation's demand for energy will have increased by nearly 36 percent in 1985.

How do we satisfy that rising demand, to heat our homes, transport people and goods, and maintain economic growth? For only growth of the economy will enable us to provide the jobs and the promise of greater opportunity for a growing population in the future.

Realistically, there are only four principal means to meet our needs between now and 1985: conservation; oil and gas; coal; nuclear power. Other sources, although offering promise over the long term, will not contribute much to energy independence by 1985.

According to the Federal Energy Administration projections, the best we can expect from these major sources have still left us short of the goal of complete self-sufficiency. But FEA estimates that the following goals can be achieved by 1985:

First, conservation can save approximately five percent of our energy needs in the coming decade. But this will require higher prices, deregulation of gas and oil, natural gas and oil, substantial capital investment by individuals and businesses in thermal insulation, and more efficient machines, appliances, and automobiles.

Second, domestic oil production can be increased by 50 percent, from 8.4 million barrels per day in 1975 to 12.3 million barrels per day in 1985. But since production from existing fields will fall by 75 percent between now and 1985, much of this increased supply must come from offshore reserves which have not yet been proven to exist. Natural gas production can be increased by 10 percent through deregulation of prices, but new reserves, still undiscovered, will have to be found to replace the dwindling supplies from currently producing fields.

Third, coal production can be doubled to over a billion tons by 1985 from the 640 million tons today. But this will only occur if we find a formula that protects the environment, and if necessary railroad facilities are rehabilitated or built from scratch.

Fourth, nuclear power can be increased from nine percent of total electric power generation in 1975 to 26 percent in 1985. But this must be achieved in growing attacks to nuclear power as an energy source, regulatory delays of all kinds, and rapidly inflating construction costs.

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Now, each of these elements is a massive program in itself, and in all candor it is unlikely that all of these things will happen as we hope. But it is important to emphasize that even if we do, even if the estimated six to eight hundred billion dollars required to do all these things is forthcoming from the private capital markets, even if the necessary regulatory changes occur at the Federal and State level, even if the oil and gas reserves we haven't yet proven are actually brought in, we are still going to have to import nearly one-third of our oil by 1985.

The question is not whether but how dependent on foreign oil we will be in 1985. The picture after 1985 is even bleaker. Demand will continue to rise, but projected domestic supplies will dwindle as our oil and gas reserves are depleted.

The only significant replacement for oil and gas in this country are coal, and synthetic fuels from coal, nuclear power, and shale, and to a lesser but important extent, the recovery of electrical energy from solar, geothermal, urban waste, wind power and other advanced technological resources.

Coal gasification and liquefaction, and the recovery of oil from western shale are promising prospects. But to make any effective uses of these sources in this century, we must begin now to bring about their commercialization.

Quite bluntly, our situation is this: One, because of the long lead times in construction of new facilities, we have already missed the chance to become self-sufficient by 1985. Two, if everything goes exactly right -- and it won't -- we can keep our imports in 1985 to approximately 30 percent of our oil needs. Three, unless we act quickly to get the country moving on development and commercialization of domestic energy sources, long lead times and other delays will cost us the chance for energy independence even in this century.

The significance and threat of continued energy dependence cannot, in my view, be overstated. Devising the policies and programs which could bring this Nation to energy self-sufficiency as rapidly as possible is the most fundamental challenge of a challenging era. Yet it can and must be done, because our future and the future of the free world depends on both our military strength and the strength of self-sufficiency of our economy.

Today, we have begun a great national debate over future defense policy. President Ford has proposed to Congress the first real increase in defense spending in the past decade. Quite clearly, the American people understand and support the President's desire that the United States continues to have sufficient strength to assure the preservation of freedom in the world.

My concern is in this debate over weapons systems and military manpower, we may lose sight of an equally important element in our defense posture, our vulnerability to foreign, non-military, and political pressures on our critical raw materials.

And none of these raw materials is more critical than oil. This Nation cannot continue as a world power of the first rank, cannot maintain its position as the leader of the free world no matter how much it spends on arms and manpower, if it remains critically dependent and, therefore, vulnerable to imported oil.

Because of increased reliance on imported oil, another embargo could be devastating. And in the Northeast, where imported oil comprises 75 percent of consumption, it would be chaotic. But the significance of our dependence on imported oil goes beyond economic disruption we might expect from an embargo.

The Soviet Union is steadily acquiring influence down the East Coast of Africa and up the West Coast of that continent, the route followed by tankers from the Persian Gulf. The Soviet Navy is growing in strength and pervasiveness in the Mediterranean Sea and in the Indian and Atlantic Oceans, all key routes for the international oil trade. Thirty-six percent of the world's oil flows through the Strait of Hormuz, at the mouth of the Persian Gulf. What would happen if a sizeable tanker should be sunk in that narrow strait? What would happen if two or three tankers should be delayed by Soviet Naval Maneuvers in the Indian Ocean or mysteriously sink in the open sea?

These questions emphasize the free world's vulnerability is two-fold: Our supplies might be cut off by unfriendly action of producing countries. This happened during 1973, the period of the embargo. Or our supplies might be halted by the interdiction of straits and sea lanes.

Quite clearly, this adds a new dimension to our vulnerability and the Soviet challenge around the world. Moreover, the fact that the health of our economy is hostage to a continuing supply of oil from the Middle East has other consequences. Credibility is the coin of world leadership.

If our vulnerability to embargo or to interruption of our supply lines is plain to us, it has got to be plain to others. We cannot maintain our credibility, and thus our world leadership, without military strength coupled with a self-sufficient economy. And we cannot be economically self-sufficient if a basic constituent of our economy is under the control of others.

Looming always before us and before our allies is this key question: When the chips are down, will we have the military and economic strength to support our friends against the interests of those who control the production or transportation of our oil supply? In the delicately balanced world of international politics, the mere fact that one can entertain doubt to the answer of this question is significant in itself.

Quite apart from an embargo, there are tangible economic costs of continuing energy dependence. Before the OPEC price increases began in 1973, we were paying \$4.3 billion as a Nation for the oil we imported from abroad. This year we will pay over \$30 billion. And we are only able to pay this staggering increase because of a massive rise in the value

of our exports, and those include, importantly, agricultural production which went from \$8 billion in 1973 to over \$22 billion this year, and the sale of arms which is running at the rate of \$10 billion.

Despite these factors, in the past few weeks increased oil imports have resulted in a balance of trade deficit for the first time in quite a while. This is a very interesting and sensitive point. We must seriously consider the effect on our economy of a continuous and rising year-to-year trade deficit running into billions of dollars. If we had the capacity to meet our energy needs with domestic production, the \$30 billion we will send abroad this year for oil could have produced 1,200,000 jobs here producing the energy at home. The OPEC price increase was one of the basic causes of the recession and remains one of the most serious inhibiting factors to a rapid and complete economic recovery.

Other economic consequences of energy dependence must also be considered. With adequate supplies of energy increasingly uncertain, it may become more attractive for certain industries to locate their production facilities closer to their energy sources than to their customers. This could produce an accelerated flight of American productive capacity and capital investment to other areas of the world, areas which have the availability of energy, further reducing the jobs available at home and our productivity as a Nation.

Finally, while the causes of the severe inflation of the past several years are complicated, most economists would agree that the sudden rise in oil prices in 1973 was a principal cause. Now, as long as the price of this basic commodity is set by a cartel, we will have to expect price rises to continue. And in reaction we can expect government policies to hold down inflation by reducing economic growth, and that affects employment and opportunity for our citizens.

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The continued energy dependence has consequences which go beyond the constant threat or embargo of the interdiction of our supply lines. It threatens our credibility as the free world leader, weakens our economy, and may reduce the rate of our economic growth over the long term.

And we must not forget that we need a strong and growing economy to meet our needs at home and our responsibilities in the world.

In summary, it is essential that we take immediately those short and those long-term actions which will reduce our dependence on imported oil before 1985 and eliminate it entirely before the end of this century.

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The President, as you know, has submitted to Congress a many-faceted energy program with three essential elements -- actions to increase supply, actions to decrease demand, and standby measures for use in the event of an embargo.

Only minor parts of these proposals have been passed by the Congress. The gradual phase-out of controls on oil prices which Congress reserved the right to veto at any time, mandatory labeling of autos and appliances with respect to their energy efficiency; and the development of a strategic reserve system for oil. And those are the principal actions that have taken place.

But we must begin rapid development now of alternatives to oil and natural gas as our primary sources of energy. We must begin now to develop the first commercial-size plants for producing gas or oil from coal, oil from shale, and more electric power from nuclear processes, solar, geothermal and other advanced energy sources.

The difficulty is that there are many unknown factors -- technological, regulatory, economic and political. And these unknowns create risks which have deterred private sector investment in new domestic energy sources -- and will deter it in the crucial years ahead.

Since for reasons of national welfare and national security it is absolutely essential that this Nation achieve energy independence, and the private sector cannot take all the necessary risks, the Government -- in the interests of the American people -- must accept a share of these risks itself.

It is for this purpose that President Ford proposed the Energy Independence Authority last fall. Functioning like an investment bank, the Authority would have the power over a ten-year period to finance up to \$100 billion in private sector energy projects which will contribute to energy independence and cannot receive private sector financing.

The Authority would be managed by a five-member board appointed by the President with the advice and consent of the Senate. No more than three of the board may be members of any one political party.

Under the President's proposal, the Authority would be able to provide financing in a wide variety of ways, including direct loans, loan guarantees, guarantees of price, and the construction of facilities for lease-purchase.

The Authority is forbidden to own and operate energy production facilities itself. It is solely a financing vehicle. It is directed to provide its resources in conjunction with private sector financing to the maximum extent possible, and only when the amount of private sector capital available is insufficient to make an otherwise promising venture viable.

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The Energy Independence Authority is permitted to invest its funds only in projects which fall into one or more of the following five categories: technologies for the production, transportation, transmission or conservation of energy which are not in widespread commercial use; nuclear technologies, conventional and unconventional; production of electricity from sources other than oil or natural gas; projects involving conventional technologies for the production, transportation or conservation of energy which are so large that private capital cannot be assembled to finance them, and projects which would advance environmental protection.

Thus, the Energy Independence Authority, by making available on a self-liquidating basis the essential financing for the commercialization of alternative energy sources, offers us the only reasonable prospect of getting this country off dead center and achievement of energy independence in this century.

In my view, no goal is more important to our national security and the well-being of the American people.

I thank you very much indeed.

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(9:10 P.M. EST)