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THE FEDERAL ENERGY ADMINISTRATION  
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REMARKS OF THE HONORABLE FRANK G. ZARB  
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION  
BEFORE THE

NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE  
MID-WINTER CONFERENCE  
HOTEL WASHINGTON  
WASHINGTON, D.C.  
FEBRUARY 25, 1975

EMBARGOED FOR RELEASE UNTIL:  
1:30 PM, EST, TUESDAY, FEBRUARY 25, 1975

It is a pleasure to be here today. I am especially glad to have this chance to discuss our national energy situation and the President's program with your Association.

As people who are intimately involved with agricultural activities and developments in the States and U.S. Trust Territories, you are the first to come under the gun when problems arise in the agricultural sector of our economy.

Clearly, our energy situation is contributing greatly to such problems -- problems that will be around for some time and will have a direct effect on all our jobs.

I hope that what I tell you today about the President's program -- especially as it might help to alleviate energy difficulties in agriculture -- will be of some assistance to you in meeting your responsibilities at the State level.



At the same time, you can help us at the national level: I look forward to your comments during the question-and-answer session and expect them to be of great help in guiding the final decisions on energy actions affecting agriculture.

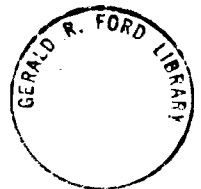
Before we get into specifics, I think it is important to look at the overall picture of where we are, how we got here, and where we are going as a nation in regard to energy.

The problems we face didn't arise overnight.

For decades, the industrial and technological advances made by the United States have been dependent on cheap and abundant supplies of energy. Unfortunately, but typically, we grew complacent about supplies and wasteful in energy use.

What attention we did pay to energy was fragmented: we concentrated research and development, for example, in certain areas and ignored others. As a result, when faced with the Arab oil embargo last winter, and the 400 percent rise in international oil prices that has occurred over the past year, we found ourselves virtually starting from scratch in trying to cope with the problem.

Our 40 percent reliance on foreign oil and gas subjected us to political and economic blackmail and made our ultimate goal clear: to eliminate our vulnerability to these imports by regaining domestic energy self-sufficiency.



FEA was created to lay the groundwork for our energy independence planning. Those of you who worked with Duke Ligon on the Federal Energy Advisory Committee on Agriculture are familiar with the type of information-gathering and assessment efforts that took place last year. The culmination of eight months of these efforts was the Project Independence Report from which President Ford chose the options for our first national energy program.

The President had to make some hard choices to come up with an effective plan. After all, no part of our national situation can be considered in a vacuum.

The goals we want to achieve in energy, the economy and the environment are often in conflict. Trade-offs must be weighed and tough decisions made to come up with a comprehensive and balanced approach that will advance us toward our goals in all areas.

I believe the President's program does just that. It requires sacrifice to conserve available energy and to reduce imports while we go about the longer-term goal of developing new domestic energy from both conventional and unconventional sources. It isn't going to be easy. But the program can and will work.



Critics who have attacked the plan call it "complex." Well, they're right. Of course it's complex. But, our problems are complex. They don't lend themselves to simple, easy or painless solutions. And, we're not going to solve them by a piecemeal approach involving rationing, allocation or a new gasoline tax that deal with only one portion of a much larger problem.

Furthermore, none of these so-called alternatives I just mentioned is anything new. We looked at them too, and assessed them by the same criteria we used for all policy options: effectiveness and fairness. They flunked both tests.

All would require more government interference in our everyday lives. All would have grave impact on the economy. All would hit hardest at those least able to adjust their lifestyles. And, all would be around for the next decade. Not one would do anything to increase our domestic energy supplies.

Those "alternatives" might be described as crisis management; but you cannot solve a crisis by simply managing its effects, no matter how politically expedient that type of approach may be.

In contrast, the President's program meets the problem head on. And, relying on traditional market forces, it provides a way to readjust both the economy and our individual lives to the new energy situation that confronts us.



Price is an effective regulator of both demand and supply. Higher energy prices will promote conservation of limited natural gas and petroleum in all forms and encourage domestic production of these resources.

Tax rebates and tax cuts for individuals and business will ease hardship for the poor, promote economic growth and employment, and eliminate inequities in different areas of the nation.

Setting conservation standards for energy efficiency in auto engines, lighting, building and appliances, and providing homeowner tax credits and subsidies for our low-income and elderly citizens to improve the energy efficiency of existing houses will further cut energy waste.

At the same time, a concerted program to bring new energy sources -- like solar, geothermal, coal gasification and liquifaction power -- into commercial development will be carried out by both government and the private sector.

Undoubtedly, some of these proposals will be changed or modified before the final program is adopted.

No one in the Administration, least of all the President, is opposed to compromise. In fact, if anyone comes up with a better plan, we want to see it. That is why we have emphasized our willingness to work with the Congress and interested groups like NASDA: we want the best exchange of ideas and the best solutions we can get.



Unless and until some viable alternatives are brought forth, delaying the President's program means continued inaction. And continued inaction is the option we can least afford. If we continue to do nothing today's 40 percent dependence on foreign oil and gas will increase to 50 percent by 1980. And by 1977, in just two short years, our vulnerability to an embargo will be doubled and the bill for these imports, which jumped from \$3 billion in 1970 to \$24 billion last year, will take another giant leap to \$32 billion.

That scenario might get a standing ovation in the Middle East, but it certainly wouldn't play here in Washington or around the country.

I ask you to keep these possibilities in mind as you consider the President's program and the so-called alternatives being offered by his critics, before you decide what you want to support.

Now, I'd like to turn to agriculture and some observations on the Administration's proposals in regard to your particular area of interest.

Let's start with a few givens.

We can give up a lot of things to survive a crisis like that we face in energy. But eating isn't one of them.



Furthermore, from an international economic standpoint, agriculture plays a major role in maintaining our balance of payments: food exports were one of the primary reasons that our overall deficits last year -- incurred largely because of imported oil bills -- didn't run even higher. So, for this reason, too, the productivity of the Nation's farmers is a national concern.

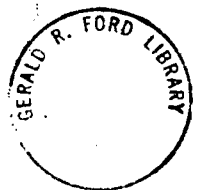
Thus, from the beginning, the importance of agriculture, as an energy-intensive industry, made farming a high priority in considering energy options.

During the past year, the Federal Energy Administration acted on that priority to assure the availability of energy to the farm sector. Gasoline has been allocated to agricultural users at 100 percent of current requirements, as have propane, butane and residual fuel oil.

We also worked with other Federal agencies to see that migrant laborers had sufficient fuel to travel where they were needed.

And FEA regional offices throughout the country established a coordinated program with the Department of Agriculture to help farmers with their fuel problems on a priority basis.

The President made it clear a couple of weeks ago in Topeka that agriculture will continue to receive the same kind of priority support under his new programs.





In order to help farmers adjust to higher costs and minimize pass-through increases to consumers, the President has proposed a special tax rebate for on-farm energy costs.

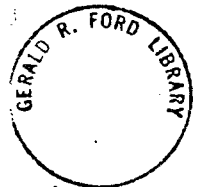
These direct energy expenditures account for about 3 percent of total farm production costs and include prices paid for the gasoline and diesel fuel needed to run trucks, cars and machinery; plus heating fuels needed for other farm uses such as drying crops and heating farm buildings.

Our estimates indicate that farm production costs will rise less than 1 percent as a result of the President's program. Studies are underway now to calculate the size of the rebate necessary to offset even this small increase in farm production costs, and the best method for refunding the money.

I look forward to hearing your thoughts on what should be done in this area.

Another special energy concern for agriculture involves our dwindling supplies of natural gas and the nitrogen fertilizers derived from gas. And, here, again, I would like your advice on what should be done.

Of course, productivity is critically dependent on the use of commercial fertilizer. But, as you know, dwindling supplies of natural gas caused a 2 percent production loss in nitrogen fertilizers last year. Forecasts are for a 3 to 4 percent loss this year.



This loss in fertilizer will mean corresponding loss in 1975 crop outputs, and I don't have to tell any of you that we can't afford such a loss.

There are four major courses of action that the Federal Government could take to alleviate the problem. I will outline them briefly -- but with the advance warning that, as is the case with most policy options in the energy area, none of them is foolproof, infallible or free.

The Executive Branch could allocate natural gas. To do this, we would have to utilize the Defense Production Act. This Act provides for the emergency allocation of materials upon a finding by the President that the material in question is critical for national defense and that that defense need could not otherwise be met.

Obviously, first, we would have to stretch the point a bit to prove the fertilizer shortage has a direct bearing on the national defense. Secondly, there are few precedents for using the Act in peacetime; we would be feeling our way in the dark. Finally, allocation would do nothing to produce more fertilizer, which is what American farmers want.

For the three remaining options open to us we have to turn to legislative action.

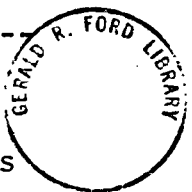


The first of these remaining options, although this may sound strange, might be to take no action at all. Congress could well claim that the fertilizer shortage is a symptom of our energy illness, not the disease itself -- that the real malady is natural gas shortage. Hopefully, however, Congress would then address the basic problem, deregulate the price of gas and thus encourage increased production.

Or, Congress could pass a law requiring the Federal Power Commission to allocate gas, giving fertilizer production a higher priority than other industrial uses. This, of course, would involve some painful choices for many politicians; and some powerful industrial lobbies would have to take a back seat. Nevertheless, this is the course of action most popular on Capitol Hill at the present time.

By and large, economists don't seem to favor any of these approaches. They suggest a fourth one, which would entail, in effect, a limited deregulation of gas for the fertilizer industry. Here's how this option would work:

An individual plant, like the one in Tunis, North Carolina which is experiencing severe curtailment problems with its interstate pipeline supplier--Transco--would be allowed to enter the intrastate market in another state if it so desired. As you know, the Federally regulated price of interstate gas is considered to be unrealistically low--and with good reason--by many suppliers, who claim that it isn't worth it for them, at that price, to take the gas out of the ground.



The intrastate price, on the other hand, is not regulated, and sells at more competitive prices. Thus, you find the situation of a relative abundance of the fuel within state lines, and a scarcity of it flowing across them.

By allowing the fertilizer industry to buy gas wherever it could find the product--regardless of price regulation--we would enable plants with curtailment problems to sidestep the interstate shortages and keep producing fertilizer.

These are the options as we see them, and I invite your comments on them.

As I've tried to suggest this afternoon, resolution of the energy crisis is going to require sacrifices by all Americans, including American farmers. But whatever course of action we choose to follow, the agricultural community will continue to receive priority attention in our efforts to cope with that crisis.

Now, before I open the floor for your questions and comments, I have one brief announcement to make.

As you know, there has been no specific contact within the FEA for Agricultural matters--an organizational or structural defect that has caused major problems for most of you and for your constituencies.

When I became FEA Administrator two months ago, I resolved to remedy this problem, and I am today announcing the appointment of Acting Assistant Administrator, Gorman C. Smith to serve in this capacity.

