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THE WHITE HOUSE

PRESS CONFERENCE
OF
FRANK ZARB
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION
ALAN GREENSPAN
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
AND
ROBERT MONTGOMERY, JR.
GENERAL COUNSEL, FEDERAL ENERGY ADMINISTRATION

THE BRIEFING ROOM

4:25 P.M. EST

MR. NESSEN: While we are waiting for Frank and the cameras to get set up, I will tell you a little bit about the President's meeting with the Governors, although he probably told you about it himself.

Q Why did they go so late?

MR. NESSEN: I will tell you that.

The President opened the meeting with the Governors by telling them why he felt it was important to begin now on a program to conserve energy. He pointed out that foreign imports now amount to 38 percent of American energy use, and by 1977, that will go to 50 percent, that whereas foreign oil cost the United States $3 billion only five years ago, it will reach $32 billion a year in 1977.

He said, "This is intolerable for our national security and independence." He said he is going to sign the proclamation,which he has now done, but he said he is taking steps to solve what he called the "unique problems of New England," one, by allocating more domestic oil to them and, secondly, by changing the fees on imported products.

In fact, there will be no increase in the fee at all this first month of February. He promised to study other steps to relieve what he called the "unique problems of the Northeast."

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(OVER)

He also told the Governors that in order to join this plan of his for energy independence by 1985, they should concentrate on building more nuclear plants in their areas. He said, "We must start building and stop canceling nuclear plants." He said that 30 percent of America's energy must come from nuclear plants by 1985.

Q Energy or electricity?

MR. NESSEN: Energy. He said that there needs to be Outer Continental Shelf drilling, more conversion of plants in New England to coal and the construction of more oil refineries in New England.

The President said, "We will bend over backwards to help you." Then, the various Governors expressed their views, and in response, the President said, "We have looked at every option, and they were piled high, and my plan was the best one we could devise." The President said we were "at the threshold of a possible disaster. We have got to respond. Congress has not acted, and we just have to have some action."

The President also said that the impetus for Congressional action must come from strong Presidential action.

With that brief report on the meeting, I am going to turn you over to Frank Zarb, who will tell you about some of the technical details of the proclamation that was signed today, as well as some of the steps that were taken by the President to alleviate the special problems of the Northeastern States, and Alan Greenspan, also.

Q Ron, when did it begin and when did it end?

MR. NESSEN: The meeting with the Governors began fairly promptly, at 2:45 p.m., and it lasted until about five minutes before he went in to sign the proclamation, so we will get the exact times for you.

Frank Zarb and Alan Greenspan will answer your questions.

MR. ZARB: I have about a 60-minute statement here, which I will read, if that is all right with everybody. (Laughter.)

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When I first took the assignment as Administrator of the Federal Energy Administration, I had a good friend who counseled me that I was undertaking a "no win" proposition, and I would like to share with you an incident which helps to sustain me during periods where that sometimes may appear to be so.

It was with a meeting with the labor leaders recently where one of the more colorful labor leaders -- who, it turns out to be, is a hero to me -- pointed his finger at me, and he said, "Young man, the thing you have to do is to take the knee pads off our knickers because I am tired of kneeling for American oil."

I think therein lies the essence of the spirit with which we must go forward. The President has signed the proclamation. We have been talking about it for a week. I think you understand the substance of it.

With respect to the Northeastern areas of the country, you should know this: the basic burden of petroleum consumption in the Northeast is by way of product. A good part of that is imported product. Eighty-five percent of the fuel used to fire utilities in New England is residual oil. Most all residual oil, as far as utilities, is also imported, so you can see the dimensions of the difficulty with respect to the Northeast.

Recognizing that, we have done two things. An entitlements program was initiated in January, this month, whereby we share the value of oil or the lesser expensive oil, not only with those refineries that have only new, high-priced crude available to them, but also with the residual users in New England. That is already in effect and does transfer the value of some of the existing old oil to New England.

Secondly, the President has directed that, in the first month of the tariff program, there be no tariff or no fee on product, and residual oil product is one of the main culprits with respect to the Northeast situation. Therefore, consumers in New England will not begin to feel any impact at all until well into the month of March, and then it will be relatively minimal because it will be only a portion of the first 60 cents which will go on March 1st.

The second 60 cents goes on April 1st, thereby bringing the product fee up to $1.20, while crude is at $3. The equalization program, plus the variation in product fees, and the delay, are all designed to equalize the impact between the Northeastern part of the country and the rest of the country.

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We also have some information that I think we can make available -- I am not sure it has been duplicated yet -- which demonstrates that, after the President's program is fully enacted by the Congress, New England will not be disadvantaged versus the rest of the country. Those areas that use a lot of motor gasoline, as compared to heating oil, which is the opposite condition from New England, will pick up increased costs, and New England will not be that area which will take the excess of burden.

Now, with respect to your questions.

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Q Mr. Zarb, where does Connecticut get the idea that it is going to cost them $300 million?

MR. ZARB: I do not know. We had a considerable amount of discussion about numbers. As you know, the numbers and analysis which we have been using for the most part have been developed over a period of almost a year and developed through the Project Independence report.

Additional analysis has been gotten more recently with respect to specific areas, and there were some questions about data which the Governors themselves had accumulated about their States and the data which we had available.

At the suggestion of either ourselves or one of the Governors, we have agreed to put together our people who have responsibility for this kind of analysis and make some determinations as to how we arrived at our ideas. I plan that we should do that as soon as possible.

I also want to point out there is a more permanent solution to areas such as the Northeast, including the development of the Outer Continental Shelf, the construction of refineries, the construction of nuclear power, and coal conversion, where that is applicable.

We found little resistance to those notions to construct a more permanent solution so that they can have access up there to more domestic and more reasonable supply. It is going to take the Federal Government, working with the Governors, to expedite that program, and we intend to work with the Governors to see that that is accomplished.

Q Mr. Zarb, you say New England, the Northeast, will not feel the impact until mid-March. At the same time that you are giving a full rebate in February on imported products, are you not also taking products out of the entitlement program so that there will be a 60 cent impact in New England on every barrel of imported product?

MR. ZARB: No.

MR. MONTGOMERY: The 60 cents that every barrel of product gets under the entitlements program represents and is fully reflected in the reduction in the import fee on product.

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So, the reduction for the first month is not only 60 cents, which is the equivalent of the payment they would have under the entitlements program, but an additional 40 cents, which represents the adjustment to keep the parity between product and crude on the basis of the new $1 fee. In other words, during the first month, you wipe out the fee altogether, they get not only the 60 cents they would have gotten, but an additional 40 cents.

MR. ZARB: That was a long way of saying no.

Q Mr. Zarb, are there any exceptions to the program? When the previous fee program was announced, there was a certain amount of fee-free oil, and we got one schedule of fees as separate from this new $1, $2, $3 and you also made a commitment then that, for five years, new and expanded capacity would be exempt from fees for 75 percent of that capacity. How is this affected by your proclamation?

MR. ZARB: Bob Montgomery will get to the capacity question in a moment, but there are some exceptions and, particularly, those that relate to importing petroleum products, doing something with it, creating one or two processes and then exporting it. That has formerly been exempt and will also be exempt from this program. So, for example, the exporter of petroleum chemicals will not be affected.

Bob, the capacity exemption.

MR. MONTGOMERY: The capacity exemption and other exemptions that are currently in effect will be in effect, but the exemptions will apply only to the present fees. The supplemental fees, $1, $2 and $3, will not be subject to exemption, and the oil importer and so forth will not have the authority to grant exemptions from those fees.

Q Sir, you have given a great deal of consideration to New England. How about North Florida, Jacksonville in particular, that is totally dependent on foreign oil? Will they have any relief in that area?

MR. ZARB: The areas such as the one you described, which are heavily dependent on residual oil for utility consumption -- some parts of Los Angeles as I recall are the same -- will enjoy the same benefits. Their product fees will not go into effect at all during the month of February. There will be a 60 percent impact or 60 percent increase in March and 60 percent in April, to a total of $1.20, rather than $3.

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So, the balancing of those who are in that particular predicament will also be affected. In addition, they have enjoyed the entitlements program benefit that we have been able to initiate.

Q The entitlements will not be extended, but the cost of a barrel of oil will only go up $1.20 to the electric authority?

MR. ZARB: For the moment, the entitlements will be extended, as well as the lesser rate of fee, which will be applied to all products.

Q I am speaking in terms of the exemption that they have received for the import tax in the past. That will continue by 50 cents a barrel, and they will have another $1.20 tacked on to the price of a barrel of oil, is that right?

MR. ZARB: Whatever exemptions were there before would continue to be exempt.

Q Mr. Zarb, your agency put out a rather detailed rationing plan today. Under what circumstances might that go into effect?

MR. ZARB: Unless there has been something put out from my agency today that I am not aware of, what we did put out was an analysis of the questions that have recently been raised concerning a rationing program and how it would be designed and how it would affect various families within our society.

That preparation was designed in response to the questions we have had in the last week, asking us how would it work and who would it affect and how effective would it be. There is no current plan to initiate a rationing program.

Q That was not the question, Mr. Zarb.

MR. ZARB: I am sorry.

Q The question was, under what conditions would such a rationing plan go into effect? The questioner I don't think said that there was a rationing.

MR. ZARB: I thought he said we had published a rationing plan. That is what I was responding to.

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Q I said that you put out details of how one would work if you put one into effect, and I want to know, under what conditions you might consider putting it into effect?

MR. ZARB: I would say a national emergency, such as another embargo, would bring us very close to making that decision.

Q What else other than an embargo might constitute an emergency?

MR. ZARB: That is about the only one I can think of right now, outside of the conditions we faced during World War II, which was also an emergency.

Q Excuse me if this question was asked earlier, but have you done any projections, estimated projections on the amount of reduction in fuel use that would accrue because of the President's importation increase?

MR. ZARB: Are you talking about the $1 program alone, or are you talking about the whole thing, or the entire President's program?

Q Starting out with what began today, the $1.

MR. ZARB: I don't know if we have the exact effects. Obviously, when you consider the $1 as compared to the total package, the amount of conservation will be very small, and the phase-in period is designed to create a period of adjustment rather than to have an immediate impact of urgent savings.

What the program does do in its entirety, once enacted by the Congress -- does get us to our million barrels by the end of the year. There are those who have said -- I think the Wall Street Journal said -- it was only 800,000 barrels by the end of the year. Our projection indicates it is between 800,000 and a million, with 200,000 barrels to be brought onstream by Elk Hills and coal conversion.

Q How small is the phase-in period? Are you talking about 100,000, 200,000, half-a-million barrels?

MR. ZARB: If we are talking about a $3 tariff alone, I really cannot give you that number. I had it, and if I give you one now, it will be hip shooting, but we will get it for you.

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Q Mr. Zarb, could we get Mr. Greenspan up there just for a moment.

MR. ZARB: It will be a pleasure.

Q Mr. Greenspan, could you tell us how you arrived at your estimate of only a 2 percent increase in the CPI from the combined effects of the President's program and your claim that there will be no ripple effects to speak of?

MR. GREENSPAN: Let me specify, first, what it is that our analysis does, and I want to, first, say that this type of analysis is not something which one has an exact number. There are small ranges which I think one must recognize in this sort of thing.

What we did was to calculate the total amount of oil and gas increase that would be involved in the cost structure. That comes out to that figure, which we have talked about, something in the area of $30 billion, and it is plus or minus a small amount.

Now, if you take that and you filter it through the total economy, you come up with a figure which is approximately 2 percent. Now, the question that has often been raised is, is there not a so-called ripple effect?

Now, what that means, of course, is that, in the process of these costs working their way through the economy, additional elements of cost or profit associate themselves with that actual increase and, as a consequence, the aggregative effect then proceeds to be in excess of 2 percent.

Now, if it is going to occur, it has to occur, essentially, really in only two areas. One is in increased wages and salaries, or in increased profits. Now, there are a number of contracts, with cost of living escalators in them, which would be triggered in the process of the CPI changing. We analyze the effect. It turns out the number is, in fact, quite small on an aggregate basis, because, as you know, there are only several million, 3 to 5 million -- it depends on the way you are looking -- which are directly affected by the CPI escalators, out of a total employment of 85 million.

The real impact, however, that a lot of people are arguing for, is on wages other than on the automatic CPI cost of living escalator adjustment, and there are a number of econometric models which somehow suggest there is a significant impact there. I have looked over these

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various calculations, and it is very difficult to justify. These are complex calculations. I don't want to get into the econometrics of it, but I do not find it very persuasive.

Secondly, we then proceeded to look at the impact that has occurred on profits, and the only evidence we had as a historical case, clearly, was the period around the embargo. And we looked at what occurred to corporate profits, ex-oil profits, which of course went up significantly during that period, and we found that they did not go up. On the contrary, they went down. Now, that is not conclusive evidence, obviously, because there are lot of other factors involved.

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Q Price controls were in effect, then?

MR. GREENSPAN: Not during the whole period. There are all sorts of cost passthroughs that were allowed, and we are talking about even subsequent to that because remember controls went off the end of April 1974, so you can still take a look at the process before and after.

We concluded that the evidence that profits are affected in a positive way, increasing, is clearly not there, and if anything, the evidence suggests that there will be an incapacity of companies fully passing through the price increase.

So, if anything, on the profits side, the ripple effect is likely to be negative.

I do think there is likely to be some positive effect on the wage side, some increase, and if we put all the numbers together, what we conclude is that there is no evidence which suggests figures of some of the large 3.5 or 4 percent numbers which I have seen. I just do not believe it. I think the evidence there is really stretching what we have far beyond the validity of the numbers.

I do not wish to say the figure is 2 percent. I really do not know that. I am saying it is in the area of 2 percent. It is possible it could even be less than that. My guess is it is slightly more.

Q Mr. Zarb, may I ask a question? Today at the briefing Ron said that the $1, $2 and $3 oil fees would probably raise the price of gasoline at the pump about one cent a gallon for each dollar of fees.

Now, is that going to be true across the United States, and when would that come into effect?

MR. ZARB: The calculation is nearly correct. Let's take the first dollar, which becomes effective February 1. The industry has the authoirty under our regulations to pass costs through only in the month following the one within which they occur.

So, in the case of the $1 on petroleum products, they will begin to be felt at the rate of one penny per dollar during the month of March. Since the total sales during the month of March are not going to be equivalent to the total imports, the impact will be lesser.

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With respect to product, it is even further drawn out because the product fee does not go on until March 1, and then the initial impact is not felt until a month later.

Q Can the people in New England expect a penny a gallon more, to have to pay that more for gasoline in March, April and May?

MR. ZARB: By the end of March in that product about a penny a gallon would be close to right. With respect to heating oil and utility rates, that would not be true.

Q What would be true?

MR. ZARB: Not until April would they feel that because the rate does not go on until March 1. They cannot pass it through for 30 days and then the pass-through is only a small part of the total.

So, the first month's action is between 30 and 60 days away in terms of impact being felt by the individual consumer.

Q What about the rest of the country outside of New England?

MR. ZARB: Outside of New England the one penny per gallon will have begun to be felt during the month of March, after the heating season.

Q Mr. Zarb, when the program is fully in effect, what percentage increase do you expect electric bills to show?

MR. ZARB: A lot of that is going to depend on how the electricity is generated. That is the problem, and you cannot strike an average that is going to be correct in each part of the country.

When the total President's program is enacted, the average American family will pay an average of $13 a year more for just electricity, but keep in mind in some areas of the country it is a lot lower than that, and in some areas it will be somewhat higher.

Q How about the Northeastern States?

MR. ZARB: It will get closer to $15 or $16, is that correct, just the electric portion?

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Q Per month or per year?

MR. ZARB: Per year.

MR. MONTGOMERY: That adds up to the 171. That is the increase.

Q Do you have a figure just for this proclamation on what it will do to gasoline prices?

MR. ZARB: That was the question he asked, and I just don't have it in front of me. I will get it to you.

Q The overall thing is 10 cents a gallon, but this is a couple pennies less?

MR. ZARB: I think we estimated it was between three and four cents, but you better let me get you the specific number.

Q I thought they gave five as the figure at that briefing earlier today.

MR. ZARB: Just for the $3. I don't believe it is quite that high.

Q Mr. Zarb, you said for the rest of the country the increase would be one cent a gallon and that would be felt during March for the rest of the country and then you stated it is after the heating season.

How about for gasoline for the rest of the country?

MR. ZARB: It would be felt at the rate of about one penny per gallon starting in March. Not entirely because the total penny impact will not be felt during the month of March. It won't be until April that the full one penny will be felt per gallon.

Q How will an increase in price of that magnitude restrain demand?

MR. ZARB: As I noted earlier, the constraint in demand is going to come from the full Presidential program. This program is designed to phase in and begin the process of adjustment so that when the total package is approved by the Congress, we have had a phase-in period.

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Q What will you do if Congress does not approve any of the rest of it and you end up with a $3 tariff April 1? Is that enough to constrain demand?

MR. ZARB: No. It really is not. It is hard to conceive that the Congress is not going to act. We would like them to act quickly so that we can begin to return that money to the economy. Those who are in the lower income brackets are going to receive more back than these increases that we have just talked about would affect them.

Q If they don't act, though, will you have to drop the whole tariff and come up with a whole new plan, or could that be coupled with something else?

MR. ZARB: Russ, I think if they don't act we will just have to review the situation and see what other actions need to be taken. The President is absolutely adamant that we need to turn this situation around and turn it around now.

An exposure of an additional two million barrels per day by the end of 1977 is completely intolerable.

Q Mr. Zarb, do you have a percentage or a dollar figure for the cost of heating a home for the Northern States?

MR. ZARB: I will give you a rough number. It would be in total about $56 a year additional. That is offset some because in New England there is a lot less driving than there is in some other parts of the country so that in parts of the country where there is a lot of driving, they pick up a much higher burden in gasoline as compared to heating oil.

So, in the ultimate, when you look at the total distribution of cost, you find that the imbalance does not accrue solely to Northeastern New England.

Q Is that an average family, that $56?

MR. ZARB: That is correct.

Q Is that based upon heating the home at the family's customary temperature or does that assume a reduction in termperature to compensate for the increased cost?

MR. ZARB: That does not assume the conservation effect, which we hope to ultimately get through storm windows and insulation.

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Q Mr. Zarb, you and Mr. Greenspan have just been justifying your estimate of the inflation estimate that you have made; that is, a one-time, 2 percent increase in the Consumer Price Index. We heard the Governors outside just now say their estimate is that it would increase inflation 5 to 6 percent, and I presume you discussed that disparity at the meeting.

Do you have any explanation as to why this figure is so different from yours?

MR. ZARB: As Alan said, the most formal number we have seen recently, publicly, was 4 percent, and that was with university models that said the number was really 4 percent. We look at that very carefully. Alan has examined it very carefully, and found that there is no way to justify the 4 percent number.

In response to the issue where the Governors say, "Our experts have come up with somewhat different numbers on the bottom line," we have said, and I have asked, that their experts meet with our people as soon as it can be arranged and go over our analysis in every detail and every last line and see where there may be an opportunity for variation.

Q Basically, you don't know right now why their figures are so different from yours?

MR. ZARB: The first time I heard those numbers was today.

Q What figure were you settling on, Mr. Zarb then -- to repeat -- for the cost on this proclamation for gasoline and for heating?

MR. ZARB: In terms of total inflation rate by the $3?

Q Yes.

MR. ZARB: We don't have the number. It is maybe 2 percent, 2.5 percent for the total package, so obviously it has to be substantially less than that with just a $3 tariff on imported oil alone.

Q Will there be a straight percentage figure there if we took the total cost of the $3 import fee and the $1.20 import fee and figured out how much money that really involves.

Could we then compare that with $30 million for the total package and draw our own conclusion about the inflation impact?

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MR. ZARB: I think that would be fair. You would have to get approval from Alan Greenspan, but from a noneconomist, it sounds correct.

Q Mr. Zarb, what will you do if Congress passes a joint resolution and delays imposition of the fees to roll them back or rescind them?

MR. ZARB: That decision, what we would do next, would really be up to the President.

Q What would you recommend that he do?

MR. ZARB: I stay out of the business of really telling everybody else what I recommend to the President. I think we ought to just wait and see what happens if those things occurred.

It is hard for me to believe, after recognizing and realizing the extent of our exposure as a Nation, that we won't get some forward movement. I said before and I will say again that every step of the President's program has a value and the value is in barrels of oil.

If one of those steps is removed, it should be substituted with another one that has an equivalent effect and the same value. I do believe that we made some material headway here. It is kind of interesting and warms the cockles of my heart to sit here and talk to you about the national energy problem.

It has been six to ten days now since the President's plan has become public in full. We are talking about the energy problem like we for the most part believe that it is serious. The Governors sat in there and to a Governor endorsed the fact that we had a serious energy problem and should be doing something about it..

There was no question about that. There was no question about the goals that the President set out. There was complete agreement with about 75 percent of the President's package. And those other steps affect long-term conservation and long-term substitution of domestically controlled energy sources to back out the imports.

So, if you look at that in total, we are 60 yards downfield and the remaining portion of the 15 percent of the President's program that we are debating publicly is the strategy to use to achieve short-term conservation.

From the standpoint of progress over ten days, I think thatis pretty nifty.

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Q Mr. Zarb, you gave us the figure of 2 to 2.5 percent that you and Dr. Greenspan estimate we will increase the inflation rate. Could you give us a dollar figure per gallon of gas and the dollar figure per gallon of heatingoil as a result of the President's proclamation in the areas outside of New England? That is an estimate.

MR. ZARB: I am reminded that per gallon the increase is the same everywhere. Now, there is a variation because of the New England resid imbalance, so it is very hard to come up with a number for you. I think you are going to have to work with the ten cents per gallon when the full program is implemented and probably something more than ten cents in gasoline, something less than ten cents in the elastic products such as home heating oil and then just extrapolate backwards using the $3 tariff, but you have to then crank in the $1.20 for product.

In New England, they import a lot of heating oil as well as a lot of residual oil. Buildings in New York are heated with residual oil. That is an imported product. So, you have to look at all these variations. That is why I hate to give you national averages because somebody who lives in Alaska looks at the national average and says, "This guy is really out of his mind."

Q Mr. Zarb, the heating oil will come under the distillate, the product program which is 60 cents.

MR. ZARB: If it is imported, that is correct, and a good part of it is in that part of the country imported. But I did try to make the point -- and after the meeting I visited with several of the Governors -- that in the Northeast the more permanent solution is what we really ought to be after.

Governor Noel made the point that the situation as it exists now with the ultra-high dependence for power on oil in that part of the country is a prime source of the difficulty. So, we need to attack the symptoms and I think the government working with the Northeast group can sit down and develop a New England plan within the total plan that can expedite the development of some of the domestic sources required there.

THE PRESS: Thank you, gentlemen.

END (AT 5:00 P.M. EST)