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REMARKS PREPARED FOR DELIVERY BY
THE HONORABLE FRANK G. ZARB, ADMINISTRATOR
FEDERAL ENERGY ADMINISTRATION, BEFORE THE

MIDWESTERN GOVERNORS' CONFERENCE
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WEDNESDAY, JULY 28, 1976, 9:00 A.M.

Thank you for inviting me to participate here this morning.

It is a particular pleasure to exchange views at the Midwest Governors' Conference, which has for so long provided leadership in solving the nation's energy problems.

We have come a long way since the Arab oil embargo in recognizing not just the importance -- but the necessity -- of cooperation between the States and the Federal government if the job of improving our energy self-sufficiency is to be done.

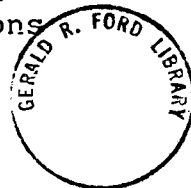
This conference and your Task Force on Energy Requirements and Environmental Protection -- under Bill Watt and previously under Sam Tuthill -- have done much to assure closer Federal/State cooperation in energy policy development.

Through high quality analysis such as that you did last year on the natural gas shortage and through a series of forward-looking resolutions on energy policy questions, you have focused on the need for a national, and not simply a federal, energy policy.

Solving energy problems is difficult, first because so many diverse interests and opinions must be reconciled in our democratic system, and secondly because energy policy affects every region, every governmental jurisdiction and every citizen.

The achievement of greater energy self-sufficiency necessarily involves decision-making processes which reach from the home, to the factory, to the county courthouse, to the White House. Under our system, there is simply no other way to get there.

The political system we cherish is based not on a concentration of power, but on the division of power. And the solutions to our energy problems must reflect those divisions in their formulation as well as their execution.



In the two years which have passed since the embargo, the nation has undergone an often frustrating process of self-education about the seriousness of our energy problems. Only with the passage of time has public debate and discussion begun to be transformed into positive legislative accomplishments -- a process which is far from completed.

It has been more than a year and a half since President Ford proposed a comprehensive energy program, many key parts of which have still not been acted upon.

Just as it has taken a long time to begin to legislate a national energy policy -- and only about half the legislative job is completed -- it will take an equally long and sometimes difficult time for the States and the Federal government to implement that policy.

It is clear from our experiences of the past two years that unless the Congress, the States and the President work together, the job of solving our energy problem will not be accomplished. It is equally clear that much effort will be required to achieve that cooperation. Everyone wants energy as long as the other guy assumes the very real risks of its development.

Reflecting on the past two years, I think we have made important progress in moving the focus of energy policy development out of the corridors of bureaucracy in Washington and into the States where energy must ultimately be produced and consumed.

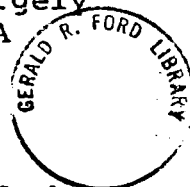
During the embargo and immediately after, our efforts at the federal level, as well as your own in the States, concentrated on the allocation of scarce resources. There was little time during this period to build the structure of consultation which would eventually be necessary once the crisis ended and the long process of policy development and implementation began.

Our efforts at consultation during this period were largely limited to the statutory responsibilities set out in the FEA Act and took the form of federal reimbursement for expenses incurred by States in running their set-aside programs.

In 1974, \$5 million federal dollars flowed back to the States under this program. In 1975, that amount doubled and the increased funds were made available to cover the costs of state energy management, conservation and resource development programs.

By 1975, the task of allocation had faded at the federal and state levels, reduced not by an increase of domestic energy supply, but by an ever-growing increase in imports.

With the passing of the earlier crisis-management atmosphere, it became apparent that the kind of long-range resource develop-



ment and conservation programs necessary to achieve greater self-sufficiency could only be created and conducted effectively in a new structure of consultation between Washington and the States.

As a result, in early 1975, the FEA and the National Governors' Conference, set up state and federal task forces to meet regularly -- at the request of either side -- to identify issues, discuss alternative viewpoints and promote consensus.

Both sides welcomed the opportunity for these exchanges. In a single month last year, some 34 FEA staff members met with 27 Governors' representatives from 20 States, addressing issues such as winterization, emergency contingency planning, utility rate regulation, facility siting, building standards, synthetic fuels commercialization and conservation.

The efforts of your task force subcommittee in setting up the Federal/State energy conservation program under the EPCA is a most recent example of how well these consultations can work.

In December, 1975, we took another important step in the direction of cooperation by setting up the Intergovernmental Coordinating Committee (ICC). This interagency committee pulls together representatives from all federal agencies with a role in energy policy development for the sole purpose of sitting down with States and working out the nuts and bolts of major federal energy proposals.

Since the creation of the ICC, federal and state officials have conferred on synthetic fuels legislation, coal development and state conservation programs. Of course, we will be adding other issues to the ICC agenda, and we are also exploring ways to expand participation to the cities and counties.

The ICC process was particularly helpful in working out impact assistance legislation for areas affected by energy development. Many of the state comments and suggestions made during our meetings on this legislation were incorporated into the final version which we submitted to Congress last February.



This cooperation represents a prime example of the growing federal sensitivity to the problems which States face in resource development. As you know, the legislation would provide loans or loan guarantees to States to cope with impacts of energy development projects on federal lands.

While major issues remain to be worked out on the question of land use and land use planning as it relates to energy development, we recognize that the use of federal lands must be undertaken in fullest cooperation with the States and with

provision for financial assistance to balance State needs with the national interest.

Of course, we must resolve other outstanding issues such as those concerning energy grants to the States and the sharing of energy data necessary for policy development and implementation, and a host of other areas.

And, unfortunately, the potential clearly exists for an endless stream of counter-productive disputes and time-consuming lawsuits as we move to implement national energy programs.

It is imperative that such disputes be avoided and that we take full advantage of the process of consultation which we have labored together over the past year to establish.

Certainly we will not always agree, but I am convinced that, even through our worst disagreements, the process of consultation must continue: it offers the only reasonable hope that energy self-sufficiency can grow from a national goal into an operating reality for the American people.

The complexity of energy policy requires a degree of intergovernmental cooperation unprecedented in our history, except perhaps in times of war, when regional interests and governmental jurisdictions have been subordinated to a national war effort.

In one sense, we do have a war on our hands. For the oil weapon, which hangs over us like a sword of Damocles, can be as devastating to our way of life as bullets and bombs. And we are living each day with nations which have demonstrated their willingness to use that weapon.

America today is more vulnerable to foreign energy actions than we have been at any time in our past.

At the time of the oil embargo, we imported 36 percent of our petroleum. That figure has now climbed to 40 percent, with more imports coming today from nations which participated in the embargo.

Not too long ago the American people read newspaper stories which reported that, for the first time in the Nation's history, oil imports actually exceeded domestic oil production. More recent figures show we have already broken this freshly established record of oil supply vulnerability. And the trend of declining domestic production is not expected to be reversed until late 1977.

While we have debated energy policy here at home, our dollars have continued to flow abroad and with them the American jobs they could have paid for. In 1970, the United States



spent \$3 billion for imported oil -- \$15 per person. Last year, we spent \$27 billion, or \$125 per person. This year the figure is soaring to \$35 billion -- more than \$160 for every man, woman and child in the Nation.

On a recent trip to the Middle East, an OPEC oil minister told me that, when OPEC meets this coming December, the United States might well be hit with another oil price increase -- 10 percent or more. Such an increase would pick another two cents per gallon out of the pockets of American motorists and cause increases in other fuel bills as well.

Here in the Midwest and throughout the Nation, the challenge of establishing a stable price structure for the economy is enormously complicated by the albatros of energy vulnerability.

Although the outlook for import vulnerability is not promising in the short-run, I am convinced that an embargo-proof economy with stable energy prices can be achieved in this first decade beyond our bicentennial. To do it, five essential goals must be reached:

First, we must reduce the rate of our energy growth from 3.5 to 2.5 percent per year. That means increased emphasis on conservation -- not by federal edict, but through cooperative efforts such as the Federal/State Conservation Program now under development, and through local and regional efforts such as the pilot program in agricultural conservation recently undertaken by Kansas and Nebraska.

Second, we must maximize our efforts to find and produce more American oil and natural gas. That means going forward with an orderly reduction and removal of federal price controls -- something Midwest Governors have long supported -- in order to bring on new supplies from the outer continental shelves, from the north slope of Alaska, and from secondary and tertiary recovery in older fields.

It also means making sure that adequate transportation facilities are in place to carry new supplies to our homes and factories.

Third, we must double our domestic coal production so that coal can do its part of the job. That means developing technology and law which will allow us to mine it, move it and burn it. The efforts of the special coal task forces of the National Governors' Conference, most of which are chaired by Midwestern Governors, must be instrumental if we are to succeed in this effort.

Fourth, we must continue the orderly and safe expansion of nuclear power to the point where it represents 26 percent of our electricity, instead of the current 9 percent. This



will require the closest level of intergovernmental consultation -- which is why we welcomed the opportunity to sit down earlier this year with three representatives of your energy task force and two state utility commissioners to discuss the problems and potential of nuclear development in the Midwest.

Fifth, and finally, we must fully develop the strategic oil storage program which President Ford called for in his comprehensive energy message two years ago and which the Congress has recently enacted. With a storage reserve equal to three million barrels per day for a year, the Nation would be in a position to ride out any supply interruption without the kind of economic damage we suffered as a result of the 1973-74 embargo. This cushion would raise the economic cost of an embargo to embargoing nations, making the embargo a less effective, and therefore, less inviting foreign policy weapon.

If the States and the Federal government can cooperate to accomplish these five goals, our best analysis shows that oil imports by 1985 can be brought down to the range of six million barrels per day, slightly below today's level. And the Nation can once again enjoy a degree of energy self-sufficiency which will free us from the fear of devastating supply interruptions.

On the other hand, if we fail to meet these goals, imports are certain to rise dramatically -- to as much as 14 million barrels per day in 1985. At \$11 per barrel, this level of dependence represents an annual import bill of more than \$56 billion. It also represents a loss in capital investment here at home that could otherwise create over 2 million jobs per year -- real, not make-work jobs. And of course, it represents a degree of dependence which would leave our farms and factories the helpless hostages of foreign energy prices and supplies.

What is the energy policy we need to accomplish these five goals? Simply put, it is a plan to reduce energy consumption and increase domestic production to attain an acceptable level of self-sufficiency. This plan must comprise a set of thoughtful, balanced and realistic measures to increase conservation and production -- measures which must be legislated and implemented.

The difficulty, of course, is that measures to solve problems don't get legislated unless the people demand them. And our experience has been that the people don't demand measures to solve problems which they do not see and cannot understand. This has been a central dilemma in achieving a comprehensive energy program, and it will continue to be a problem as memories of the past embargo fade.

To deal with this problem the Federal government must turn to the States. As Governors you are close to the people closer than we can be in Washington. We cannot speak from



Washington and be heard with the same clarity and effectiveness as you can. I ask you today to continue your efforts to take the energy message to the people.

Public understanding of the energy problem is the root from which a truly national energy policy must grow. That's why as public officials we can't afford to throw up our hands in despair at the setbacks and delays. That's why we must continue to talk with each other and with the people about the reality of our energy problems and the possibilities for solving them.

With your help, I'm confident that we can continue to compile a record of cooperation which will advance us toward our common goal and that, a decade from now, no supply interruption will again threaten the welfare of the Midwest or the Nation.

Thank you.

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