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STATEMENT OF FRANK G. ZARB

ADMINISTRATOR

FEDERAL ENERGY ADMINISTRATION

BEFORE THE

FINANCE COMMITTEE

UNITED STATES SENATE

FEBRUARY 10, 1975

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY
TO DISCUSS THE ADMINISTRATION'S PROPOSALS FOR DEALING WITH
THE NATION'S ENERGY PROBLEMS.

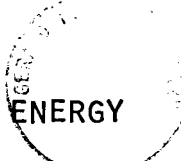
LAST WINTER'S OIL EMBARGO DEMONSTRATED THE DISTRESSING
VULNERABILITY OF THE UNITED STATES TO FOREIGN SUPPLY CUTOFFS.
THE EMBARGO WAS ONE RESULT OF YEARS OF ENERGY POLICY NEGLECT
WHICH LEFT THE ECONOMY AND ITS RELATIONSHIP WITH OTHER NATIONS
SUBJECT TO FOREIGN INFLUENCE, SUDDEN DISRUPTION AND DEVASTATING
PRICE INCREASES.

THE ENERGY SITUATION REQUIRES BROAD, DECISIVE AND PROMPT
GOVERNMENT ACTION TO PREVENT CONTINUED EROSION OF OUR ECONOMIC
VITALITY AND NATIONAL SECURITY.



THE SCOPE OF THE TASK SUGGESTS ITS WIDE-RANGING AND LONG-LASTING SIGNIFICANCE. THE LIVES OF THE AMERICAN PEOPLE -- INDEED, THOSE OF THE PEOPLE OF MUCH OF THE WORLD -- WILL BE SERIOUSLY AFFECTED BY WHAT WE DO, OR FAIL TO DO, IN THE DAYS AHEAD. AND THEY WILL NOT BE AFFECTED JUST FOR FIVE OR TEN YEARS, BUT FOR GENERATIONS TO COME.

OUR ECONOMIC SYSTEM IS STRONG AND RESILIENT. HOWEVER, THE IMPACT ON OTHER COUNTRIES MUCH MORE DEPENDENT ON OIL IMPORTS HAS BEEN CORRESPONDINGLY GREATER. THE UNITED STATES CAN BE PROFOUNDLY AFFECTED BY SEVERE ECONOMIC CRISIS ABROAD. WE MUST SHOW OUR LEADERSHIP AMONG THE INDUSTRIALIZED NATIONS AND DEMONSTRATE OUR WILLINGNESS TO TAKE THE HARD AND EXPENSIVE STEPS IN ENERGY CONSERVATION AND DEVELOPMENT OF NEW ENERGY



RESOURCES. THE PRESIDENT'S PROGRAM IS AN OUTSTANDING EXAMPLE TO OTHER COUNTRIES OF AMERICA'S DETERMINATION TO REVERSE THE TRENDS TOWARDS DEPENDENCY. REDUCING OUR VULNERABILITY TO SUPPLY INTERRUPTION AND PRICE MANIPULATION MUST BE GIVEN THE HIGHEST PRIORITY.

THE PRESIDENT HAS PRESCRIBED TOUGH ACTION TO CURE OUR ENERGY ILLS. HE HAS OUTLINED THREE, TIME-PHASED GOALS.

ONE: IN THE SHORT-TERM, A CUT IN OUR OIL IMPORTS OF

1 MILLION BARRELS PER DAY BY THE END OF THIS YEAR

AND OF 2 MILLION BARRELS PER DAY BY THE END OF 1977.

TWO: BY 1985, IMPORTS OF NO MORE THAN 3-5 MILLION

BARRELS PER DAY -- AND THE CAPABILITY OF

IMMEDIATELY REPLACING THAT AMOUNT FROM STORAGE AND

STANDBY MEASURES IN THE EVENT OF A-SUPPLY DISRUPTION.

THREE: ACCELERATED DEVELOPMENT OF ENERGY TECHNOLOGY AND RESOURCES SO THAT THE UNITED STATES CAN MEET A SIGNIFICANT SHARE OF THE ENERGY NEEDS OF THE FREE WORLD BY THE END OF THIS CENTURY.

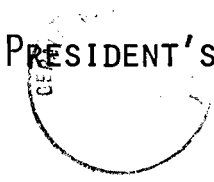
ACTIONS TO MEET THE SHORT-TERM GOAL

IN THE FIRST CRUCIAL YEARS, THERE ARE ONLY A LIMITED NUMBER OF ACTIONS THAT CAN INCREASE DOMESTIC SUPPLY. WE MUST DEVELOP AND INCREASE PRODUCTION FROM THE ELK HILLS, CALIFORNIA, NAVAL PETROLEUM RESERVE. THE PRESIDENT HAS SUBMITTED LEGISLATION FOR THIS PURPOSE.

THE ADMINISTRATION HAS ALSO SUBMITTED A SET OF COMPREHENSIVE AMENDMENTS TO THE ENERGY SUPPLY AND ENVIRONMENTAL COORDINATION ACT OF 1974 TO ULTIMATELY INCREASE THE NUMBER

OF OIL BURNING FACILITIES THAT CAN BE CONVERTED TO COAL IN THE
COMING YEARS.

THESE ARE THE ONLY SUPPLY ACTIONS THAT CAN HAVE MUCH
EFFECT DURING THE NEXT TWO TO THREE YEARS. THEREFORE, WE MUST
RELY HEAVILY ON ENERGY CONSERVATION AND IT IS CLEAR THAT
VOLUNTARY CONSERVATION IS NOT SUFFICIENT. WE CANNOT WAIT
MONTHS OR YEARS FOR LONG-TERM CONSERVATION MEASURES TO ACHIEVE
OUR NATIONAL GOALS. THEREFORE, AS YOU KNOW, THE PRESIDENT
HAS RAISED THE COST OF ALL IMPORTED PETROLEUM PRODUCTS BY
IMPOSING A \$3 PER BARREL IMPORT FEE AS A FIRST STEP TO REDUCING
DEMAND. THIS FEE BEGAN FEBRUARY 1 AND WILL BE APPLIED IN
THREE CONSECUTIVE MONTHLY \$1 INCREMENTS. THE REVENUES RAISED
THEREBY WILL BE RETURNED TO THE ECONOMY THROUGH THE PRESIDENT'S
RECOMMENDED TAX PROGRAM.



I WANT TO EMPHASIZE THAT THESE INCREASED IMPORT FEES ARE ONLY TEMPORARY AND WILL BE ADJUSTED TO \$2 WHEN CONGRESS ENACTS THE PRESIDENT'S COMPREHENSIVE TAX LEGISLATION, ALREADY DESCRIBED BY SECRETARY SIMON, WHICH INCLUDES AN EXCISE TAX OF \$2 PER BARREL ON ALL CRUDE OIL AND PETROLEUM PRODUCTS.

TO EASE THE IMPACT ON REGIONS HEAVILY DEPENDENT ON IMPORTED PETROLEUM PRODUCTS, SUCH AS NEW ENGLAND AND THE NORTHEAST STATES, THE PRESIDENT'S PROGRAM PROVIDES FOR A MUCH LOWER FEE RATE ON PRODUCTS THAN ON CRUDE OIL.

IN ADDITION, A PROPOSED EXCISE TAX OF 37¢ PER THOUSAND CUBIC FEET ON ALL NATURAL GAS WOULD APPROXIMATE THE \$2 OIL EXCISE TAX AND WOULD, WITH DEREGULATION OF NATURAL GAS AS PROPOSED BY THE ADMINISTRATION, SERVE TO REVERSE THE TREND OF TWINDLING


NATURAL GAS RESERVES, UNEMPLOYMENT DUE TO CURTAILMENTS, AND PREVENT INDUSTRIAL SWITCHING FROM OIL TO ALREADY SCARCE NATURAL GAS.

FURTHER TAX CHANGES UNDER THE PROGRAM INCLUDE:

--A WINDFALL PROFITS TAX. THE PRESIDENT WILL TAKE STEPS TO ADMINISTRATIVELY DECONTROL THE PRICE OF OLD DOMESTIC CRUDE OIL ON APRIL 1. ACCORDINGLY, CONGRESSIONAL ENACTMENT OF THE WINDFALL PROFITS TAX BY THAT TIME IS URGENTLY REQUIRED TO PREVENT EXCESS PROFITS ACCRUING TO THE INDUSTRY. HOWEVER, CARE MUST BE TAKEN NOT TO INHIBIT THE NEEDED AMOUNT OF CAPITAL REQUIRED TO FIND AND DEVELOP NEW OIL AND OTHER ENERGY SOURCES.

--A PROGRAM OF INCOME TAX REDUCTIONS AND REBATE MEASURES

TO RETURN TO THE ECONOMY THE ROUGHLY \$30 BILLION



ESTIMATED TO BE RAISED THIS YEAR THROUGH THESE PROVISIONS.

MOST OF THIS MONEY IS TO BE RESTORED DIRECTLY TO

CONSUMERS, WITH SPECIAL MEASURES TO PROVIDE FUNDS FOR

THE POOR.

THE USE OF IMPORT FEES AND EXCISE TAXES TO FOSTER LARGE-SCALE ENERGY CONSERVATION HAS ATTRACTED MUCH ATTENTION AND CRITICISM.

I WOULD LIKE, THEREFORE, TO SPEND A FEW MOMENTS DISCUSSING ALTERNATIVES. FIRST, THERE IS THE ALTERNATIVE OF DOING NOTHING. NO ACTION ONLY POSTPONES THE TOUGH DECISIONS WE HAVE TO MAKE. WITHOUT CONSERVATION, OUR TAB FOR IMPORTED OIL, WHICH WAS \$3 BILLION IN 1970, AND \$24 BILLION LAST YEAR (1974), WOULD REACH

\$32 BILLION IN 1977. A BRIEF RESPITE OF A YEAR OR SO WILL ONLY INCREASE THE VULNERABILITY OF THE WORLD TO A CRIPPLING EMBARGO BY THE PRODUCERS.

THE ARAB EMBARGO OF 1973 RESULTED IN A SIGNIFICANT DROP IN OUR GROSS NATIONAL PRODUCT AND THE UNEMPLOYMENT OF PERHAPS ONE-HALF MILLION MEMBERS OF OUR LABOR FORCE. YET TODAY, EVEN MORE OF OUR IMPORTS ARE COMING FROM AFRICA AND THE MIDDLE EAST THAN DID A YEAR AGO. NOW OVER HALF OF OUR PETROLEUM IMPORTS COME FROM SOURCES OUTSIDE OF THE WESTERN HEMISPHERE. AND, UNLESS WE DO SOMETHING, THIS DEPENDENCE ON AFRICAN AND MIDDLE EASTERN SOURCES WILL CONTINUE TO GROW. BY 1977 IMPORTS WILL REACH 8 MILLION BARRELS PER DAY, AS COMPARED WITH 6 DURING THE LAST

EMBARGO. BECAUSE ALL OF THE INCREASE WILL COME FROM INSECURE SOURCES, WE MAY WELL BE JUST AS VULNERABLE AS WE WERE LAST WINTER. THIS IS SIMPLY UNACCEPTABLE.

EVERY MONTH WE HESITATE WILL MAKE IT THAT MUCH HARDER TO ACHIEVE OUR 1985 GOALS. THOSE WHO SAY ACTION IS TOO EXPENSIVE SHOULD REFLECT ON THE FUTURE COST TO THE NATION IF WE DO NOT ACT EXPEDITIOUSLY.

THERE ARE THOSE WHO BELIEVE THAT RAISING PRICES OF ENERGY AT HOME WILL NOT HELP US CUT BACK ON CONSUMPTION. THEY ARE WRONG. WHILE A COMPARISON OF OUR PRESENT CONSUMPTION WITH THAT OF LAST YEAR'S SHOWS THAT WE ARE ACTUALLY USING SLIGHTLY MORE NOW, MORE IMPORTANTLY, WE ARE USING MUCH LESS THAN WE WOULD IF PRICES HAD NOT RISEN 400 PERCENT IN THE LAST YEAR. THIS IS A



CLEAR DEMONSTRATION OF PRICE ELASTICITY OF DEMAND, OR CONSUMPTION OF CERTAIN ITEMS DECREASING AS THEIR PRICES RISE RELATIVE TO OTHER PRICES. PRESENT CONSUMPTION WOULD HAVE BEEN AT LEAST 1 MILLION BARRELS A DAY MORE IF PRICES HAD NOT RISEN SO SHARPLY. FURTHERMORE, ALTHOUGH THE CARTEL HAS CUT BACK ON PRODUCTION BY ABOUT 9 MILLION BARRELS A DAY, THERE IS STILL A SURPLUS OF OIL ON THE WORLD MARKET. THERE IS CONCRETE EVIDENCE ALL AROUND US THAT PRICE IS INDEED EFFECTIVE IN REDUCING DEMAND.

THE OTHER ALTERNATIVE TO INACTION IS THE GREATER USE OF GOVERNMENT CONTROLS -- WHETHER IMPORT QUOTAS, ALLOCATION SYSTEMS OR RATIONING, OR ON ANOTHER LEVEL, SUNDAY CLOSINGS OF GASOLINE STATIONS, NO DRIVING DAYS, ETC. WE LOOKED AT ALL OF THOSE



LAST YEAR DURING THE EMBARGO. WE CHOSE SOME AND REJECTED, OTHERS. AND OUR REASONING WAS GOOD FOR A SHORT-TERM CRISIS. WE NOW FACE A LONGER-TERM ONE. EACH OF THESE ALTERNATIVES WOULD INVOLVE SOME FORM OF SELF-IMPOSED SHORTAGES AS WELL AS BUILT-IN INEFFICIENCIES, BURGEONING BUREAUCRACIES AND REGULATORY PROLIFERATION AND DISRUPTIONS IN THE LIVES OF ALL AMERICAN CITIZENS. AND REMEMBER, TO BE EFFECTIVE CONTROLS MUST BE IN PLACE FOR A LONG-TERM OF UP TO TEN YEARS. I DOUBT THAT THE AMERICAN PEOPLE WOULD BE WILLING TO PUT UP WITH SUCH ALTERNATIVES NOR SHOULD WE SUBJECT THEM TO THIS LONG LASTING PERVASIVE CONTROL OVER ALMOST EVERY ASPECT OF THEIR LIVES. FURTHERMORE, MOST OF THE CONTROLS WOULD INVOLVE HIGHER COSTS TO EVERYONE. GASOLINE TAXES, FOR EXAMPLE, WOULD HAVE TO BE INCREASED ABOUT 40¢ PER



GALLON TO SAVE 1 MILLION BARRELS OF OIL PER DAY. INSTEAD, THE
CRUDE OIL PRICE INCREASE, DISTRIBUTED ACROSS ALL OF THE PRODUCTS
FROM A BARREL OF OIL, WILL RAISE THE PRICE OF GASOLINE ABOUT
10¢ TO 15¢ PER GALLON. THIS SEEMS A MORE EFFECTIVE AND MORE
EQUITABLE SOLUTION.

I THINK IT'S UNNECESSARY FOR ME TO DWELL ON THIS AT ANY
GREATER LENGTH. SUFFICE IT TO SAY, WE SHOULD ALLOW THE FREE
MARKET TO WORK TO THE MAXIMUM EXTENT POSSIBLE. THIS IS WHAT THE
ENERGY CONSERVATION TAXES AND FEES WOULD DO. AND THE REBATES
WOULD ASSURE NO SIGNIFICANT LOSS OF CONSUMER PURCHASING POWER
OR ECONOMIC IMPACT.

MID-RANGE (1975-1985)

THE SECOND OF THE GOALS ADDRESSED IN OUR ENERGY PROGRAM
IS THE ELIMINATION, BY 1985, OF OUR NATION'S VULNERABILITY TO

ECONOMIC DISRUPTION BY FOREIGN SUPPLIERS. IN OTHER WORDS, BY THEN

~~OUR~~ PETROLEUM IMPORTS SHOULD AMOUNT TO ONLY 3-5 MILLION BARRELS

~~PER DAY OF~~ OUR CONSUMPTION, AND WE SHOULD BE ABLE TO IMPLEMENT

STANDBY EMERGENCY MEASURES AND DRAW FROM STORAGE ENOUGH TO

~~OFFSET A~~ COMPLETE CUTOFF OF THESE REMAINING IMPORTS.

TO ATTAIN SUCH A GOAL, WE MUST START IMMEDIATELY TO REMOVE

CONSTRAINTS AND PROVIDE NEW INCENTIVES FOR DOMESTIC PRODUCTION

AND CONSERVATION BECAUSE MOST OF THE MEASURES WILL TAKE 5-10

YEARS TO REACH FRUITION AFTER THE NECESSARY LAWS ARE ENACTED.

~~AND~~ ALL OF THESE THINGS MUST BE ACCOMPLISHED THROUGH A SINGLE


PROGRAM THAT HAS THE BALANCE TO BRING ABOUT THE REQUIRED REDUC-

TION IN OUR ENERGY USE, THE NECESSARY INCREASE IN OUR DOMESTIC



PRODUCTION, AND -- EQUALLY IMPORTANT AMONG OUR NATIONAL GOALS --
THE CONTINUED ECONOMIC WELL-BEING, ENVIRONMENTAL QUALITY, NATIONAL
SECURITY, AND SOCIAL WELFARE THAT THE AMERICAN PEOPLE DEMAND AND
DESERVE. THERE IS NO PIECEMEAL PROGRAM WHICH CAN PROVIDE THE
BALANCE THAT IS REQUIRED. HARD DECISIONS MUST BE MADE FROM THE
VERY OUTSET WITHIN THE FRAMEWORK OF OUR OVERALL STRUCTURE.


THE PRESIDENT HAS REAFFIRMED THE INTENT OF THIS ADMINISTRATION
TO MOVE AHEAD WITH EXPLORATION, LEASING AND PRODUCTION IN THOSE
FRONTIER AREAS OF THE OUTER CONTINENTAL SHELF WHERE THE ENVIRON-
MENTAL RISKS ARE JUDGED TO BE ACCEPTABLE. HE HAS ALSO ASKED THE
CONGRESS TO AUTHORIZE OIL PRODUCTION FROM THE LARGEST OF THE
NATION'S NAVAL PETROLEUM RESERVES, NPR-4 IN ALASKA, TO PROVIDE
PETROLEUM FOR THE DOMESTIC ECONOMY, WITH 20% EARMARKED FOR



MILITARY NEEDS AND STRATEGIC STORAGE. ACCORDING TO OUR ESTIMATES NPR-4 COULD PRODUCE 2-3 MILLION BARRELS OF OIL PER DAY AND COMMENSURATELY LARGE QUANTITIES OF GAS BY 1985.

BUT, IN ADDITION TO FINDING MORE OIL AND GAS, WE MUST TAKE ADVANTAGE OF OUR MOST ABUNDANT ENERGY RESOURCE, COAL. THE PRESIDENT VETOED THE SURFACE MINING LEGISLATION PASSED BY THE LAST CONGRESS, BUT IT REMAINS A VALUABLE PIECE OF WORK. THE PRESIDENT HAS SUBMITTED A BILL WHICH BUILDS UPON S. 425 IN SUCH A WAY AS TO MAKE IT ACCEPTABLE TO THE ADMINISTRATION. I AND OTHERS IN THE ADMINISTRATION ARE PREPARED TO WORK WITH THE CONGRESS TO ARRIVE AT A SOUND SURFACE MINING LAW.

THE CONGRESS MUST ALSO ACT ON THE ADMINISTRATION'S AMENDMENTS TO GRANT THE ENVIRONMENTAL PROTECTION AGENCY AUTHORITY



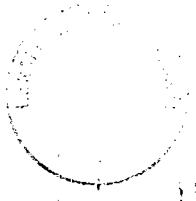
TO SUSPEND EMISSION LIMITATIONS FOR POWERPLANTS UNTIL LOW SULFUR COAL CAN BE OBTAINED OR STACK GAS SCRUBBERS CAN BE INSTALLED.

THE NATION WOULD THUS BE PERMITTED TO REAP THE ENORMOUS BENEFIT OF INCREASED USE OF DOMESTIC COAL UNDER APPROPRIATE ENVIRONMENTAL SAFEGUARDS.

THE CONGRESS SHOULD ALSO AMEND THE CLEAN AIR ACT TO DEAL WITH THE ISSUE OF "SIGNIFICANT DETERIORATION" OF AIR QUALITY.

IN THIS CASE, AS IN THAT OF THE STRIP MINING LEGISLATION, WE WANT CONGRESS, RATHER THAN THE COURTS, TO MAKE THE ESSENTIALLY LEGISLATIVE DECISIONS THAT ARE REQUIRED.


TO ASSURE RAPID COAL PRODUCTION FROM EXISTING LEASES AND TO MAKE NEW, LOW SULFUR SUPPLIES AVAILABLE, THE PRESIDENT HAS DIRECTED THE INTERIOR DEPARTMENT TO ADOPT LEGAL DILIGENCE



REQUIREMENTS FOR EXISTING FEDERAL COAL LEASES AND TO DESIGN A NEW PROGRAM FOR ACCELERATED LEASING OF FEDERAL COAL LANDS.

OF COURSE THE MARKET FOR COAL, AS WELL AS THE AVAILABILITY OF ALL ELECTRIC POWER, DEPENDS UPON THE HEALTH OF THE ELECTRIC UTILITIES INDUSTRY, AND WE MUST ADDRESS ITS PROBLEMS. IN RECENT MONTHS, UTILITIES HAVE CANCELLED OR POSTPONED MORE THAN 60 PERCENT OF PLANNED NUCLEAR EXPANSION AND 30 PERCENT OF PLANNED ADDITIONS TO NON-NUCLEAR CAPACITY. THE DELAYS AND DIFFICULTIES THIS INDUSTRY IS CURRENTLY EXPERIENCING COULD WELL LEAD TO HIGHER OIL IMPORT NEEDS AND INADEQUATE SUPPLIES OF ELECTRICITY 5 TO 10 YEARS FROM NOW.

THE PRESIDENT HAS, THEREFORE, PROPOSED LEGISLATION TO ASSIST THE ELECTRIC UTILITIES THROUGH HIGHER INVESTMENT TAX



CREDITS; MANDATED REFORMS IN STATE UTILITY COMMISSION PRACTICES;
AND OTHER MEASURES. AND TO REJUVENATE OUR DRIVE TOWARD MORE
EFFECTIVE USE OF THE POTENTIALS OF NUCLEAR POWER WE HAVE
MARKEDLY INCREASED OUR BUDGET REQUEST FOR NUCLEAR WASTE DISPOSAL
AND FOR CONTINUED IMPROVEMENTS IN SAFEGUARDS.

AS WE TAKE THESE ACTIONS TO INCREASE OUR ENERGY SUPPLIES,
WE MUST BE AWARE OF SOME POTENTIAL PROBLEMS. BEFORE WE ACHIEVE
OUR GOALS OF ENERGY SUFFICIENCY, ACTIONS OF OIL PRODUCING NATIONS,
OR ECONOMIC CONDITIONS, COULD RESULT IN LOWER -- BUT UNSTABLE --
PRICE LEVELS THAT COULD WEAKEN OUR CONTINUED COMMITMENT TO
GREATER SELF-SUFFICIENCY. THE FEDERAL GOVERNMENT MUST TAKE
ACTIONS TO ENCOURAGE AND PROTECT DOMESTIC ENERGY INVESTMENT IN
THE FACE OF SIGNIFICANT WORLD PRICE UNCERTAINTY. TO FOSTER SUCH

INVESTMENT, THE PRESIDENT HAS REQUESTED LEGISLATION TO AUTHORIZE AND REQUIRE THE USE OF TARIFFS, IMPORT QUOTAS OR OTHER MEASURES TO MAINTAIN ENERGY PRICES AT LEVELS THAT WILL ACHIEVE FULL NATIONAL CAPABILITY FOR SELF-SUFFICIENCY AND PROTECT OUR ENERGY INDUSTRY AND JOBS.

ALL OF THE ACTIONS I HAVE MENTIONED WOULD HAVE THE EFFECT OF INCREASING OUR AVAILABLE DOMESTIC SUPPLIES OF ENERGY. OIL PRODUCTION COULD REACH 13 OR 14 MILLION BARRELS PER DAY VERSUS APPROXIMATELY 9 MILLION TODAY, COAL PRODUCTION COULD DOUBLE AND ~~NUCLEAR~~ NUCLEAR GENERATION COULD INCREASE FROM A 4 TO 30% SHARE OF OUR ELECTRIC GENERATION CAPACITY BY 1985.

BUT, AS IN THE SHORT-TERM, SUPPLY ACTIONS ARE NOT ENOUGH. WE MUST DRAMATICALLY CUT OUR HISTORICAL DEMAND GROWTH. WE HAVE

SIGNED AGREEMENTS FROM MAJOR DOMESTIC AUTOMAKERS TO IMPROVE GASOLINE MILEAGE BY 40% ON AVERAGE BY 1980, AS COMPARED TO 1974 MODEL CARS, PROVIDED THAT THE CLEAN AIR ACT AUTOMOBILE EMISSION REQUIREMENTS ARE MODIFIED FOR FIVE YEARS.

THE ENERGY RESOURCES COUNCIL IS DEVELOPING ENERGY EFFICIENCY STANDARDS FOR MAJOR APPLIANCES AND WILL SEEK AGREEMENTS FROM MANUFACTURERS TO ACHIEVE AN AVERAGE 20% IMPROVEMENT IN EFFICIENCY BY 1980. AT THE SAME TIME, DRAFT LEGISLATION HAS BEEN SUBMITTED THAT WOULD REQUIRE LABELS ON AUTOMOBILES AND MAJOR APPLIANCES DISCLOSING ENERGY USE AND EFFICIENCY. TO MOVE QUICKLY WHERE THE PROBLEM HURTS MOST, THE FEDERAL GOVERNMENT WILL PROVIDE MONEY TO THE STATES FOR THE PURCHASE OF INSULATION AND OTHER ENERGY CONSERVING DEVICES IN HOMES OWNED OR OCCUPIED BY

LOW-INCOME CITIZENS, WHO MIGHT OTHERWISE NOT BE ABLE TO HAVE SUCH IMPROVEMENTS MADE IN THEIR HOMES. THE PRESIDENT'S PROGRAM ALSO SETS FORTH PROPOSALS TO MANDATE THERMAL EFFICIENCY STANDARDS FOR ALL NEW BUILDINGS IN THE UNITED STATES. SINCE ENERGY SAVINGS ARE EVEN GREATER FOR EXISTING HOMES IT ALSO INCLUDES A PROPOSAL TO INSTITUTE A 15% TAX CREDIT FOR INSULATION INVESTMENTS UP TO \$1,000.

THESE NUMEROUS PROPOSALS AND ACTIONS TAKEN TOGETHER, CAN REDUCE OUR DEPENDENCE ON FOREIGN ENERGY SUPPLIES TO 3 TO 5 MILLION BARRELS OF OIL PER DAY. WHILE THIS DOES NOT SEEM MUCH LESS THAN CURRENT CONSUMPTION, IT IS DOWN SUBSTANTIALLY FROM THE 12-13 MILLION WHICH WE WOULD HAVE TO IMPORT IF WE DID NOT ACT. TO ENSURE THAT WE COULD MEET ANY SUPPLY DISRUPTION OF THE REMAINING IMPORTS WE MUST

ESTABLISH LEGAL AUTHORITY FOR EMERGENCY MEASURES THAT CAN BE READILY IMPLEMENTED TO GUARANTEE THE EQUAL SHARING OF SHORTAGES AND THE EQUITABLE ALLOCATION OF SUPPLIES AT HOME, AND TO MEET OUR OBLIGATIONS UNDER THE INTERNATIONAL ENERGY AGREEMENT ABROAD. WE MUST ALSO BEGIN AS SOON AS POSSIBLE TO DEVELOP A STRATEGIC STORAGE CAPACITY OF 1 BILLION BARRELS OF OIL FOR DOMESTIC USE AND 300 MILLION BARRELS FOR MILITARY USE. ONLY BY TAKING SUCH PRECAUTIONS CAN WE ACT RESPONSIBLY BOTH AT HOME AND IN THE INTERNATIONAL COMMUNITY IN A TIME OF FUTURE SUPPLY INTERRUPTIONS.


ACTION TO MEET THE LONG-TERM (POST 1985) GOAL

FOR THE LONGER TERM, OUR GOAL IS TO SUSTAIN A POSITION OF ENERGY INDEPENDENCE, AND TO ENHANCE IT SO THAT THE UNITED STATES WILL AGAIN BE CAPABLE OF SUPPLYING A SIGNIFICANT SHARE OF THE FREE WORLD'S ENERGY NEEDS.

THIS MEANS THAT, AS A NATION, WE MUST REAFFIRM OUR COMMITMENT TO A STRONG ENERGY RESEARCH AND DEVELOPMENT PROGRAM, AIMED NOT ONLY AT DEVELOPING THE CAPABILITY TO TAP ALL OUR MAJOR DOMESTIC ENERGY RESOURCES BUT ALSO AT IMPROVING THE EFFICIENCY OF ENERGY UTILIZATION IN ALL SECTORS OF OUR ECONOMY.

LAST YEAR, THE UNITED STATES COMMITTED ITSELF TO A FIVE-YEAR, \$10 BILLION ENERGY-R&D EFFORT. OUR 1975 ENERGY R&D BUDGET WAS TWICE THAT OF 1974 AND THREE TIMES THAT OF 1973. IN 1976, THIS ACCELERATED EFFORT MUST CONTINUE, AND THE PRESIDENT HAS PLEDGED TO SEEK WHATEVER FUNDS ARE NEEDED FOR FUTURE R&D ACTIVITIES.

NOW THAT WE HAVE A ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION, A FEDERAL ENERGY ADMINISTRATION AND AN ENERGY RESOURCES COUNCIL, WE HAVE, FOR THE FIRST TIME, BOTH THE UNIFIED



FEDERAL ORGANIZATION AND THE FINANCIAL COMMITMENT TO GET THE
JOB DONE.

BUT ENERGY R&D FUNDS AND ORGANIZATION ARE NOT ENOUGH; WE
ALSO NEED NEW INCENTIVES TO ASSURE THAT EMERGING TECHNOLOGIES
ARE NOT ONLY DEVELOPED IN THE LABORATORY, BUT BROUGHT INTO USE
IN THE MARKETPLACE. THEREFORE, THE PRESIDENT HAS ANNOUNCED A
NATIONAL SYNTHETIC FUELS PROGRAM WHICH WILL ASSURE THE EQUIVA-
LENT OF AT LEAST ONE MILLION BARRELS PER DAY IN SYNTHETIC FUELS
CAPACITY BY 1985. IT WILL ENTAIL A PROGRAM OF FEDERAL INCENTIVES
DESIGNED TO REDUCE PRICES UNCERTAINTY, RAISE CAPITAL AND OVER-
COME UNNECESSARY DELAYS IN BRINGING EXISTING OR NEARLY DEVELOPED
TECHNOLOGIES INTO COMMERCIAL USE. THE PROGRAM WILL RESULT IN
THE COMMERCIAL APPLICATION OF TECHNOLOGIES OF SEVERAL TYPES AND

THE CONSTRUCTION OF MAJOR NEW PLANTS, USING BOTH OIL SHALE AND
COAL RESOURCES.

CONCLUSION

THE PROGRAM THE PRESIDENT PUT FORWARD IS A COMPREHENSIVE
ONE. IT WILL REACH THE GOALS THE PRESIDENT SET FORTH AND WHICH
I THINK THE AMERICAN PEOPLE WANT. I HAVE HEARD MUCH TALK AND
CRITICISM IN RECENT WEEKS ON ELEMENTS OF IT, BUT I HAVE SEEN NO
CONSTRUCTIVE ALTERNATIVE. WE ALL WANT AN EASIER WAY TO REACH
OUR GOALS. THIS PROGRAM DOES REQUIRE SACRIFICE BY ALL, BUT IT
IS ALSO EQUITABLE. FINALLY, ITS IMPACTS ARE FAR OUTWEIGHED BY
THE IMPORTANT BENEFITS IT WILL ACHIEVE.

THANK YOU.



STATEMENT BY THE
HONORABLE FRANK G. ZARB, ADMINISTRATOR
BEFORE THE
FINANCE COMMITTEE, UNITED STATE SENATE
FEBRUARY 10, 1975

I appreciate the opportunity to appear before you today to discuss the Administration's proposals for dealing with the Nation's Energy Problems.

Last winter's oil embargo demonstrated the distressing vulnerability of the United States to foreign supply cutoffs. The embargo was one result of years of energy policy neglect which left the economy and its relationship with other nations subject to foreign influence, sudden disruption and devastating price increases.

The energy situation requires broad, decisive and prompt government action to prevent continued erosion of our economic vitality and national security.

The scope of the task suggests its wide-ranging and long-lasting significance. The lives of the American people -- indeed, those of the people of much of the world -- will be seriously affected by what we do, or fail to do, in the days ahead. And they will not be affected just for five or ten years, but for generations to come.

Our economic system is strong and resilient. However, the impact on other countries much more dependent on oil imports has been correspondingly greater. The United States can be profoundly affected by severe economic crisis abroad. We must show our leadership among the industrialized nations and demonstrate our willingness to take the hard and expensive steps in energy conservation and development of new energy resources. The President's program is an outstanding example to other countries of America's determination to reverse the trends towards dependency. Reducing our vulnerability to supply interruption and price manipulation must be given the highest priority.

The President has prescribed tough action to cure our energy ills. He has outlined three, time-phased goals.

- One: In the short-term, a cut in our oil imports of 1 million barrels per day by the end of this year and of 2 million barrels per day by the end of 1977.
- Two: By 1985, imports of no more than 3-5 million barrels per day -- and the capability of immediately replacing that amount from storage and standby measures in the event of a supply disruption.

Three: Accelerated development of energy technology and resources so that the United States can meet a significant share of the energy needs of the free world by the end of this century.

ACTIONS TO MEET THE SHORT TERM GOAL

In the first crucial years, there are only a limited number of actions that can increase domestic supply. We must develop and increase production from the Elk Hills, California, Naval Petroleum Reserve. The President has submitted legislation for this purpose.

The Administration has also submitted a set of comprehensive amendments to the Energy Supply and Environmental Coordination Act of 1974 to ultimately increase the number of oil burning facilities that can be converted to coal in the coming years.

These are the only supply actions that can have much effect during the next two to three years. Therefore, we must rely heavily on energy conservation and it is clear that voluntary conservation is not sufficient. We cannot wait months or years for long-term conservation measures to achieve our national goals. Therefore, as you know, the President has raised the cost of all imported petroleum products by imposing a \$3 per barrel import fee as a first step to reducing demand. This fee began February 1 and will be applied in three consecutive monthly \$1 increments. The revenues raised thereby will be returned to the economy through the President's recommended tax program.

I want to emphasize that these increased import fees are only temporary and will be adjusted to \$2 when Congress enacts the President's comprehensive tax legislation, already described by Secretary Simon, which includes an excise tax of \$2 per barrel on all crude oil and petroleum products.

To ease the impact on regions heavily dependent on imported petroleum products, such as New England and the Northeast States, the President's program provides for a much lower fee rate on products than on crude oil.

In addition, a proposed excise tax of 37¢ per thousand cubic feet on all natural gas would approximate the \$2 oil excise tax and would, with deregulation of natural gas as proposed by the Administrator, serve to reverse the trend of dwindling natural gas reserves. Unemployment due to curtailments, and prevent industrial switching from oil to already scarce natural gas.

Further tax changes under the program include:

--A windfall profits tax. The President will take steps to administratively decontrol the price of old domestic crude oil on April 1. Accordingly, Congressional enactment of the windfall profits tax by that time is urgently required to prevent excess profits accruing to the industry. However, care must be taken not to inhibit the needed amount of capital required to find and develop new oil and other energy sources.

--A program of income tax reductions and rebate measures to return to the economy the roughly \$30 billion estimated to be raised this year through these provisions. Most of this money is to be restored directly to consumers, with special measures to provide funds for the poor.

The use of import fees and excise taxes to foster large-scale energy conservation has attracted much attention and criticism.

I would like, therefore, to spend a few moments discussing alternatives. First, there is the alternative of doing nothing. No action only postpones the tough decisions we have to make. Without conservation, our tab for imported oil, which was \$3 billion in 1970, and \$24 billion last year (1974), would reach \$32 billion in 1977. A brief respite of a year or so will only increase the vulnerability of the world to a crippling embargo by the producers.

The Arab Embargo of 1973 resulted in a significant drop in our Gross National Product and the unemployment of perhaps one-half million members of our labor force. Yet today, even more of our imports are coming from Africa and the Middle East than did a year ago. Now over half of our petroleum imports come from sources outside of the Western Hemisphere. And, unless we do something, this dependence on African and Middle Eastern sources will continue to grow. By 1977 imports will reach 8 million barrels per day, as compared with 6 during the last embargo. Because all of the increase will come from insecure sources, we may well be just as vulnerable as we were last winter. This is simply unacceptable.

Every month we hesitate will make it that much harder to achieve our 1985 goals. Those who say action is too expensive should reflect on the future cost to the nation if we do not act expeditiously.

There are those who believe that raising prices of energy at home will not help us cut back on consumption. They are wrong. While a comparison of our present consumption with that of last year's shows that we are actually using slightly more now, more importantly, we are using much less than we would if

prices had not risen 400 percent in the last year. This is a clear demonstration of price elasticity of demand, or consumption of certain items decreasing as their prices rise relative to other prices. Present consumption would have been at least 1 million barrels a day more if prices had not risen so sharply. Furthermore, although the cartel has cut back on production by about 9 million barrels a day, there is still a surplus of oil on the world market. There is concrete evidence all around us that price is indeed effective in reducing demand.

The other alternative to inaction is the greater use of government controls -- whether import quotas, allocation systems or rationing, or on another level, Sunday closings of gasoline stations, no driving days, etc. We looked at all of those last year during the embargo. We chose some and rejected others. And our reasoning was good for a short-term crisis. We now face a longer-term one. Each of these alternatives would involve some form of self-imposed shortages as well as built-in inefficiencies, burgeoning bureaucracies and regulatory proliferation and disruptions in the lives of all American citizens. And remember to be effective controls must be in place for a long-term of up to ten years. I doubt that the American people would be willing to put up with such alternatives nor should we subject them to this long lasting pervasive control over almost every aspect of their lives. Furthermore, most of the controls would involve higher costs to everyone. Gasoline taxes, for example, would have to be increased about 40¢ per gallon to save 1 million barrels of oil per day. Instead, the crude oil price increase, distributed across all of the products from a barrel of oil, will raise the price of gasoline about 10¢ to 15¢ per gallon. This seems a more effective and more equitable solution.

I think it's unnecessary for me to dwell on this at any greater length. Suffice it to say, we should allow the free market to work to the maximum extent possible. This is what the energy conservation taxes and fees would do. And the rebates would assure no significant loss of consumer purchasing power or economic impact.

MID-RANGE (1975-1985)

The second of the goals addressed in our energy program is the elimination, by 1985, of our Nation's vulnerability to economic disruption by foreign suppliers. In other words, by then our petroleum imports should amount to only 3-5 million barrels per day of our consumption, and we should be able to implement standby emergency measures and draw from storage enough to offset a complete cutoff of these remaining imports.

To attain such a goal, we must start immediately to remove constraints and provide new incentives for domestic production and conservation because most of the measures will take 5-10 years to reach fruition after the necessary laws are enacted. And all of these things must be accomplished through a single program that has the balance to bring about the required reduction in our energy use, the necessary increase in our domestic production, and -- equally important among our national goals -- the continued economic well-being, environmental quality, national security, and social welfare that the American people demand and deserve. There is no piecemeal program which can provide the balance that is required. Hard decision must be made from the very outset within the framework of our overall structure.

The President has reaffirmed the intent of this Administration to move ahead with exploration, leasing and production in those frontier areas of the Outer Continental Shelf where the environmental risks are judged to be acceptable. He has also asked the Congress to authorize oil production from the largest of the Nation's Naval Petroleum Reserves, NPR-4 in Alaska, to provide petroleum for the domestic economy, with 20% earmarked for military needs and strategic storage. According to our estimates NPR-4 could produce 2-3 million barrels of oil per day and commensurately large quantities of gas by 1985.

But, in addition to finding more oil and gas, we must take advantage of our most abundant energy resource, coal. The President vetoed the surface mining legislation passed by the last Congress, but it remains a valuable piece of work. The President has submitted a bill which builds upon S. 425 in such a way as to make it acceptable to the Administration. I and others in the Administration are prepared to work with the Congress to arrive at a sound surface mining law.

The Congress must also act on the Administration's amendments to grant the Environmental Protection Agency authority to suspend emission limitations for powerplants until low sulfur coal can be obtained or stack gas scrubbers can be installed. The Nation would thus be permitted to reap the enormous benefit of increased use of domestic coal under appropriate environmental safeguards.

The Congress should also amend the Clean Air Act to deal with the issue of "Significant Deterioration" of air quality. In this case, as in that of the strip mining legislation, we want Congress, rather than the Courts, to make the essentially legislative decisions that are required.

To assure rapid coal production from existing leases and to make new, low sulfur supplies available, the President has directed the Interior Department to adopt legal diligence requirements for existing Federal coal leases and to design a new program for accelerated leasing of Federal coal lands.

Of course the market for coal, as well as the availability of all electric power, depends upon the health of the electric utilities industry, and we must address its problems. In recent months, utilities have cancelled or postponed more than 60 percent of planned nuclear expansion and 30 percent of planned additions to non-nuclear capacity. The delays and difficulties this industry is currently experiencing could well lead to higher oil import needs and inadequate supplies of electricity 5 to 10 years from now.

The President has, therefore, proposed legislation to assist the electric utilities through higher investment tax credits; mandated reforms in State Utility Commission practices; and other measures. And to rejuvenate our drive toward more effective use of the potentials of nuclear power we have markedly increased our budget request for nuclear waste disposal and for continued improvements in safeguards.

As we take these actions to increase our energy supplies, we must be aware of some potential problems. Before we achieve our goals of energy sufficiency, actions of oil producing nations, or economic conditions, could result in lower -- but unstable -- price levels that could weaken our continued commitment to greater self-sufficiency. The Federal Government must take actions to encourage and protect domestic energy investment in the face of significant world price uncertainty. To foster such investment, the President has requested legislation to authorize and require the use of tariffs, import quotas or other measures to maintain energy prices at levels that will achieve full national capability for self-sufficiency and protect our energy industry and jobs.

All of the actions I have mentioned would have the effect of increasing our available domestic supplies of energy. Oil production could reach 13 or 14 million barrels per day versus approximately 9 million today, coal production could double and nuclear generation capacity by 1985.

But, as in the short-term, supply actions are not enough. We must dramatically cut our historical demand growth. We have signed agreements from major domestic automakers to improve gasoline mileage by 40% on average by 1980, as compared to 1974 model cars, provided that the Clean Air Act automobile emission requirements are modified for five years.

The Energy Resources Council is developing energy efficiency standards for major appliances and will seek agreements from manufacturers to achieve an average 20% improvement in efficiency by 1980. At the same time, draft legislation has been submitted

that would require labels on automobiles and major appliances disclosing energy use and efficiency. To move quickly where the problem hurts most, the Federal Government will provide money to the State for the purchase of insulation and other energy conserving devices in homes owned or occupied by low-income citizens, who might otherwise not be able to have such improvements made in their homes. The President's program also sets forth proposals to mandate thermal efficiency standards for all new buildings in the United States. Since energy savings are even greater for existing homes it also includes a proposal to institute a 15% tax credit for insulation investments up to \$1,000.

These numerous proposals and actions taken together, can reduce our dependence on foreign energy supplies to 3 to 5 million barrels of oil per day. While this does not seem much less than current consumption, it is down substantially from the 12-13 million which we would have to import if we did not act. To ensure that we could meet any supply disruption of the remaining imports we must establish legal authority for emergency measures that can be readily implemented to guarantee the equal sharing of shortages and the equitable allocation of supplies at home, and to meet our obligations under the International Energy Agreement abroad. We must also begin as soon as possible to develop a strategic storage capacity of 1 billion barrels of oil for domestic use and 300 million barrels for military use. Only by taking such precautions can we act responsibly both at home and in the international community in a time of future supply interruptions.

ACTION TO MEET THE LONG-TERM (POST 1985) GOAL

For the longer term, our goal is to substain a position of energy independence, and to enhance it so that the United States will again be capable of supplying a significant share of the Free World's energy needs.

This means that, as a Nation, we must reaffirm our commitment to a strong energy research and development program, aimed not only at developing the capability to tap all our major domestic energy resources but also at improving the efficiency of energy utilization in all sectors of our economy.

Last year, the United States committed itself to a five-year, \$10 billion energy-R&D effort. Our 1975 Energy R&D Budget was twice that of 1974 and three times that of 1973. In 1976, this accelerated effort must continue, and the President has pledged to seek whatever funds are needed for future R&D activities.

Now that we have a Energy Research and Development Administration, a Federal Energy Administration and an Energy Resources Council, we have, for the first time, both the unified Federal organization and the fiancial commitment to get the job done.

But Energy R&D Funds and organization are not enough; we also need new incentives to assure that emerging technologies are not only developed in the laboratory, but brought into use in the marketplace. Therefore, the President has announced a National Synthetic Fuels Program which will assure the equivalent of at least one million barrels per day in synthetic fuels capacity by 1985. It will entail a program of Federal incentives designed to reduce price uncertainty, raise capital and overcome unnecessary delays in bringing existing or nearly developed technologies into commercial use. The program will result in the commercial application of technologies of several types and the construction of major new plants, using both oil shale and coal resources.

CONCLUSION

The program the President put forward is a comprehensive one. It will reach the goals the President set forth and which I think the American people want. I have heard much talk and criticism in recent weeks on elements of it, but I have seen no constructive alternative. We all want an easier way to reach our goals. This program does require sacrifice by all, but it is also equitable. Finally, its impacts are far outweighed by the important benefits it will achieve.

Thank you.