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

AMERICAN AGRICULTURAL EDITORS ASSOCIATION  
MOUNT VERNON ROOM  
SHERATON-CARLTON HOTEL  
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It's a pleasure for me to join you today. Thank you for inviting me.

Since most of you are newsmen, I'm sure you all have a great many questions, and since I want to answer as many of them as possible, my opening remarks will be brief.

But I do want to spend a few moments on some of the Administration's proposals that could have an immediate impact on Americans generally and on those for whom you write specifically -- America's farming community.

For a variety of economic and political reasons, we are faced with the unambiguous imperative: to reduce our dependence on foreign sources of crude oil, and thus our vulnerability to more oil embargoes.

There are any number of measures included in the President's proposals that would, taken together, accomplish our goals. In terms of supply, for example, we can increase the amount of energy we produce from our own resources. And we can do this by producing the oil and gas deposits on the Outer Continental Shelf, by developing the Naval petroleum reserves, by using our rich coal deposits to a greater extent than we have in the recent past, and by increasing our capacity to generate electricity from nuclear fission, among others.



But since the development of domestic energy supply takes time, the best and most effective means we have to minimize our vulnerability to supply cutoffs from overseas is a program that will reduce the amount of energy we consume, and foster the most efficient use of available supply. In short, a comprehensive and continuing program of energy conservation.

Now there are several different ways this can be accomplished. We could simply put a cap on our imports and institute a federally administered allocation program. Then again rationing could be imposed, or we could take a series of steps, such as closing service stations or establishing no-driving days.

These kinds of measures boil down simply to making petroleum products unavailable to the public, and substituting government decision-making for the operation of the marketplace -- a mechanism which allocates supplies far more precisely, with greater equity, and more efficiency than any federal agency.

The Administration program reflects our faith in a free society and our desire to get the government out of the regulation and control business to the greatest possible degree. And many members of Congress seem to be coming around to this free market approach.

At the outset, following the President's State of the Union address, we heard a chorus of calls for gasoline rationing as the simple, painless alternative. But, after a few weeks of scrutiny, the faults of rationing began to become obvious. Not the least of those faults is the unfairness that a rationing program would impose on rural Americans.

So, today, rationing is a past issue. That fact correctly suggests that many members of Congress have moved closer to the Administration in our conviction that the free American system must be utilized to solve our energy problems. Of course, a lot of differences remain. But, as you well know, the process of negotiation and compromise has been well underway, and, hopefully, with Congress reconvening this week, we can move forward rapidly toward a cohesive and viable national energy policy.



Now, before getting to the questions and answers, I would like to spend just a couple of minutes more on agriculture.

Farming occupies a unique position in the American economy. For one thing, it is our chief export industry and, for another, it is extremely susceptible to cost-price squeeze. Moreover, agriculture would seem to be disproportionately affected by the increased fuel costs.

Of all segments of the food industry, including food processors and retailers, the farmer is clearly the most directly affected by increased production costs due to the President's energy program.

Direct and indirect energy costs to farmers amount to about 10 percent of his cost of production. That figure could rise to 12.5 percent because of the energy tax proposals.

Now it is highly unlikely that those cost increases could be passed along by the farmer given the present and projected market. In addition, the great majority of farmers cannot benefit from the lower corporate income tax rates.

In these circumstances, the gasoline and diesel fuel costs of operating a 100 acre farm, for example, would increase by about \$2.40 an acre. Farms over 500 acres would experience an increase of only \$1.18 per acre. The disparity between small and large farms will probably be even larger than indicated since our estimates don't consider economies of scale, variations in yield, or volume discounts on fuel purchased by the operators of larger farms.

Clearly, it is the small farmer who would bear a heavier burden than the larger operator, especially since most small farmers cannot take advantage of the President's proposals to increase the investment tax credit.

It is equally clear that the higher energy costs should be returned to the operators of small and medium size farms. For all these reasons, we are considering rebates for all extra energy costs.



Finally, I want to talk about a situation that is extremely important to farmers and consumers; to farmers because it affects their ability to produce, and to consumers because farm production affects farm prices. I'm talking about the availability of fertilizer.

As you may know natural gas represents 95 percent of the total hydrocarbon feedstocks used to produce fertilizer. With the shortage of natural gas -- a shortage that increases each year -- fertilizer producers have experienced decreases in production. Last year the loss in nitrogen fertilizer production amounted to 2 percent, and this year it could go as high as 4 percent.

As you probably know, the shortage of natural gas which causes these losses in fertilizer production is the direct result of federal price regulations on gas.

For the long term, the only measure that will remedy this situation and others like it, is the complete deregulation of the price of all new natural gas. The President has called for deregulation and we will continue to press Congress for it.

In conclusion, let me reaffirm the President's commitment to a prosperous and stable agricultural community. For my part, let me assure you that the Federal Energy Administration will make every effort as it did during the embargo, to see that the nation's farmers have all the energy they need to produce food for this nation and the world.

You hear a lot of talk in energy policy about compromises and trade-offs, but there is one thing that can't be traded off, and that's eating.

Thank you.

