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THE WHITE HOUSE
WASHINGTON

Not issued

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TV STATEMENT FOR THE PRESIDENT
ENERGY MESSAGE

Two years ago, in my first State of the Union Address, I told the Congress and the Nation that in order to provide for our economic security and world stability we had to sharply reduce our dependency on foreign oil. I said that there were no easy solutions and that the days of cheap energy were over. I presented a comprehensive solution to our energy problem and put a realistic price tag on it.

Although we have made some progress toward energy independence as a Nation, the sad fact is that today we are over twice as vulnerable to an oil embargo as we were in 1973. The current threat to our jobs and prosperity is intolerable.

Today I have sent yet another and my final energy message to the Congress. Once again, I have endeavored to be honest with the facts. I have not indulged in the fantasy that there are painless, cost-free solutions. There are none. Further government controls, reorganizing the federal bureaucracy, breaking up the oil companies, and other "painless" remedies proposed by some are understandable responses of people who find it difficult to face the inevitability

of higher energy prices. But if we do not face reality and take the difficult steps toward energy independence, our children will pay an extraordinary price for our timidity.

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OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE

OF

FRANK G. ZARB, ADMINISTRATOR,
FEDERAL ENERGY ADMINISTRATION

AND

LT. GEN. BRENT SCOWCROFT,
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS

THE BRIEFING ROOM

AT 11:10 A.M. EST

MR. NESSEN: As promised, the President is sending an energy message to Congress today, copies of which you have for the end of this briefing.

To give you a little bit of the background of this message and to answer your questions, we have Frank Zarb and Brent Scowcroft, since many of the aspects of the energy problem involve international relations and international economics for that matter.

Brent has been detained briefly for another meeting. He will be here shortly, by the time Frank finishes his opening ideas. I am going to let Frank give you his thoughts of what is behind this and then take on your questions, and Brent will join up.

MR. ZARB: Good morning.

It was about two years ago we started this way. It is a fitting way to end.

The President today will send to the Congress an energy message which I suppose could be summed up as a document calculating where we have come from, where we are, and where we still need to head as a nation in facing the energy problem. He still feels as he has felt for two years, that this is probably the most urgent problem this Nation will face over the next 10 to 15 years, bar none.

We have had some reinforcements here to that notion by virtue of the OPEC price rise, which is going to cost the American consumers about \$2 billion more in 1977.

The substance of the message generally speaks to, again, how we got into this problem and the great American sell-out of the '60s, which developed not only an American energy orgy but we actually retarded our own ability to develop American energy. It took 10 years to develop that sizable problem, and it is going to take the better part of 10 to 15 years to solve it. There are no easy, simple, politically acceptable, all-the-time solutions.

The message goes into the various areas of legislation that still need to be addressed. Half of the President's

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legislative initiatives in energy have been passed over the last two years, and half were not. Some of those which were not, obviously, are the ones more controversial and politically less easy to get accomplished.

He urges a continuation in the debate and the final solution to those key areas. He points out in the message that next week he will send to the Congress an energy reorganization plan. The President is required under law to submit his notions for energy reorganization and that will be available to the Congress and to the press during the course of next week.

I just want to point out again the six areas of energy that this Nation will continue to face. They are all going to continue to be controversial. They all are going to continue to appear to be complicated, although they really are not.

The continuation of our developing domestic oil and natural gas is essential. That means Alaska, the Outer Continental Shelf, tertiary recovery techniques which require higher investment to get oil out of wells which have been worked over for their easy gain. That is number one. It is going to take continued public policymaking in that area, since crude oil pricing will continue to be a major issue affecting it. It will for the next 30 or 40 months, anyway, be an area that must be monitored by the Government and appropriate actions taken.

Coal. We have said for two years that we need to double our coal production and consumption. There is no reason why we cannot. I underline consumption because doubling production doesn't get the job done, but doubling the domestic consumption of coal, particularly in power generation, is critical.

The nuclear power area has been very controversial. The seven moratorium votes taken around the country have all been defeated. We still need to increase our nuclear production from 9 percent of electric output to 25 percent of electric output.

Oil and gas, coal, nuclear, and last but certainly not least, conservation. We can reduce our rate of growth in energy consumption from its current 3-1/2 percent to something closer to a 2-1/2 percent rate. There are no easy conservation measures. Whatever you do in this area, you are making it less easy for people to use energy the way they have become used to using energy. Conservation needs to be continued to be emphasized.

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Controversy in all of these areas, whether it is price or mandatory conservation measures, will continue to be high, but the Nation must face these measures and face them quickly because the decisions taken today won't have any good productivity until eight to ten years from the date after which they are enacted.

Finally we need to complete the strategic stockpile. We are now on a course where we will meet our target of 150 million barrels by 1978 and 500 million barrels by the early 1980's and perhaps that might even be expedited. But a cushion to prevent another disruption of oil supplies is absolutely essential. That program needs to continue to be funded and expedited wherever it might be.

The sixth area of advancing technologies, the so-called soft technologies, solar, the use of changing tides and those areas need to have continued high interest by the government and all steps necessary to insure the development of the private sector must be taken.

The steps taken in 1977-1978 will have a payoff in the 1990's and delays that are engendered during this early period will only stretch out the time at which the Nation will have easy access to these advancing technologies.

The message generally covers these areas. I know you want to know whether there is anything new. I can't find anything that hasn't been debated six ways over in the last two years in the message. The only new element will be the reorganization plan which as I said will be available next week.

Given that, I thought it appropriate that we have a last session together and answer any questions which you may want to ask.

Q Are you still going to propose decontrol of gasoline prices?

MR. ZARB: The President's statement that he considered very likely that he will submit gasoline decontrol before he leaves office still stands.

Q When?

MR. ZARB: I don't have the specific date.

Q Time is running short.

MR. ZARB: Time is not really running short. Let's talk about that for a moment. Since you want to get into gasoline, let's talk about it more than just a little bit.

The law provides that once the measure is submitted with the appropriate backup, the Congress has 15 days to measure the impacts of decontrol and to vote a measure of disapproval. That is a one-house simple majority; either house. That 15 days begins to run the day it is submitted.

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If it is submitted next week, it begins running 15 days from that day forward. The only change as compared to having it go up on the third which most people had assumed it was going to go is the entire 15-day clock does not run within this particular Administration.

Nevertheless, the Congress has the same access to material and information and testimony in either case.

Q What I meant was he only has 13 days left to submit something.

MR. ZARB: You are right; between now and 13 days to send it up. Before he leaves office, it is highly likely he is going to send it.

Q Will he or won't he?

MR. ZARB: I gave you the best answer that I have. My judgment is that it is presently his intention to do it or else he won't use the words "highly likely".

Q Did you ask him about it this morning?

MR. ZARB: We did not meet this morning. The original notion of going up on the third had one major disadvantage. That was one of the options examined. There was never a firm decision made except outside the Administration that people thought we were going to do that. The most meaningful consideration was the Congress was just getting barely organized, some Members not having office space. There would be a counter-reaction simply to that discourteous timing. That was one of the very compelling reasons to hold off sending it.

Q What are you waiting on now?

MR. ZARB: I don't have one. If I had, I would give it to you.

Q It has been reported that he submitted it at a time when it could lap over into the Carter Administration so that Administration would share in the burden of the decontrol?

MR. ZARB: I don't think that is really a correct conclusion because it would seem to me ---

Q The question is has he been urged; not the conclusion?

MR. ZARB: Obviously that is one of the considerations in some of the discussion that has been held. The new Administration could withdraw the measure on its watch. One thing, I would like to make these points clear. The measure in its current form is designed to become effective March 1. The Administration would have to take some overt steps to have it become effective.

In the event between now and March 1, assuming it went up over the new term, that Administration elected not to have it go into effect, it just need not take the necessary steps to have it go into effect.

Point two, there is a trigger mechanism which provides generally as follows: If gasoline prices increase more than two cents above where they would go with controls in place, the Administration is compelled to take steps, including reimposing of controls, to get those prices back down below the two-cent level.

Q Two cents?

MR. ZARB: Two cents.

Finally, there are a series of measures designed to protect the independent marketer with respect to his supply conditions. He is going to be guaranteed supply for a year after this measure has taken place and controls go on the shelf for use by the President whenever he elects to use them. Gasoline controls were put in place during the embargo. They were designed to accommodate the embargo.

They have allocation controls associated with them. If you were an independent, non-brand dealer right now, you would be buying from a wholesaler that was pretty much dictated by the United States Government because we have a seller of record assigned to you.

That general condition has lessened competition within that sector and given lots of paperwork for particularly the small businessman.

When the President signed the energy bill December 1975, I had a number of Members request that we move quickly to accommodate the concerns of Congress. One of the concerns of Congress in that bill were that we analyze the effects of decontrolling product prices and keep crude pricing out of this because there is no relation to crude pricing there. That still stays under controls.

We analyze product prices and as quickly as possible eliminate those that are no longer essential. We have eliminated half of the refined barrel. Everything up through distillates are now out of controls; at that level, the retail-wholesale level.

All that is left is gasoline, jet fuel and propane. Propane is not on schedule to be eliminated because there is still a shortage of natural gas and in view of that you have got to keep price controls in place.

Q Mr. Zarb, is the President required to send up an energy message? Why is he doing this now since you say there is nothing new in it and there won't be anything new until next week when you talk about reorganization?

MR. ZARB: The President in the two years has spent a considerable amount of time and attention on the energy question. About half of his State of the Union Message was devoted to energy. It gave rise to an enormous debate. That debate has improved the quality of understanding and brought this Nation a lot closer to coming to grips with actual issues than if we hadn't had that debate.

He has spent a lot of his Administration on trying to

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force attention to the energy problem and the various methods of solution. In view of that it seemed entirely fitting to leave the Nation with his summary of where we have come, where we are and generally, the direction in which we should be heading.

Q Frank, how are you coordinating your program with other nations?

MR. ZARB: Outside of the formal bodies which you are aware of, the IEA and other international energy bodies which have grown over the last several years, there have been countless informal contacts.

I met with any number of officials from both the consuming and producing nations during the last two years to better understand each others approach to these questions.

I would say, incidentally, that you recall the IEA ranks its members with respect to its conservation effects. I would say probably the next ranking will show the United States in a substantially improved position over its last ranking, that in view of the legislation that was passed during 1976 that will have an impact on energy conversion, the plan's labeling question, the measure that was passed in September or October.

Q Can I pin you down on gasoline prices? We were told earlier this week that the decision had been made, the President would in fact send up a proposal for decontrol. You said, I think, that as far as you know, that the best way you could summarize it is to say it is still highly likely as he said. Is there still some question about this or is he in fact going to do it?

MR. ZARB: Since you use the words "highly likely", I assume from those words it was his plan to have it up before he left office.

Q You have talked to him about this.

MR. ZARB: I haven't had any different signal.

Q Highly likely still leaves open the possibility that in fact he still might not do it.

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MR. ZARB: I suspect in the strictest technical interpretation of that language you could come to that conclusion.

Q What is the problem? Is it because the Republicans on the Hill, some are saying this is a crazy thing to do in the dying days of the Administration? Why can't he make up his mind? Why can't we get a date it is going up there, if it is?

MR. ZARB: I expect that has a bearing on his thinking, although it seems to me he feels and has felt right along that any tough measure in the energy area has always had its political problems right at the beginning. I can't remember one measure that we have taken in the last two years, including those that ultimately were successful, that didn't have a political dimension right at the outset.

There are other people who concern themselves and consider the various political questions. I can only answer your substantive questions by saying to you the protective mechanisms placed into the measure would protect against any of the horror stories which I have read about in the last couple of weeks. It would provide the new administration with a good month-plus to analyze any data they wanted to and unless they took over its steps, controls would stay in place as they currently are.

I would point out this: The work done on gasoline decontrol took the better part of six months. The law said we had to take each of those products, had to do a complete analysis, including environmental impact statements, and we had to place them before the Congress after that analysis was completed. We went through residual oil, we went through the distillates, the naphthas, we went through all the distillates in four measures that were successful last year. In each case we had the same kind of question and early debate.

I don't think it has an overwhelming impact on the President, but I expect he wants to hear the views of all those who have spoken out in the last several days. Obviously, that is part of the delay.

Q Have Republican leaders of Congress asked him not to do this?

MR. ZARB: I saw a wire story this morning that quoted Bob Michel and John Anderson indicating they disagreed with the timing of having it occur at this particular moment. Subsequently, I haven't seen anyone who really argues the substance of this measure, inasmuch as you can't go much longer with only half of the refined barrel decontrolled and the other half controlled. It will just ultimately present distortions into the refining system that will become intolerable.

This issue is going to have to be faced. The Congress has a 15-day shot at disapproving it. Of course, it has available to it now all of the economic and environmental analysis that has been done by my staff. If that gets cold, that work, it is entirely likely that a good part of it will have to be re-done before such a measure is resubmitted. That is something that has to be considered.

Q This stuff could be turned over to the Carter people, and what have you. Why does the President want to put in his measure when, as you say, regardless of what Congress does, it is going to take a new administration to actually implement it?

MR. ZARB: Inasmuch as the work has been done on his watch, all of the analytical work has been done, it wouldn't seem to me inappropriate that it go up with his signature on it. As you look back and take a look at the entire sequence of events here, gasoline was supposed to go to the Congress around September or October. The only reason we were in a position of having it lay over was primarily the EPA lead factors, which set us back some six weeks. By the time we were ready, the Congress went out of session in October. We had to wait until they returned.

I understand the timing can be debated, leave it for the new administrator, let him have the entire body of knowledge and let him make his own judgment as to whether it goes up or not. On the other hand, if the effective date is not going to be until March 1, it will give anybody who wants to ample opportunity to look at all of the work that has been done on the subject and reach his or her own conclusions.

Q In such a way that it does not have to be implemented by the Executive?

MR. ZARB: Yes, sir.

Q What sort of positive steps would the administration have to take?

MR. ZARB: They would have to put a rule-making in place, send the measure to the Federal Register saying, in effect, the following regulations no longer apply.

Q Can you give us the estimate of the odds that this will go up before the President leaves office?

MR. ZARB: I would really like to. I would be guessing. I know if I answered your question you would stop asking questions about that particular measure. But if I had a feeling, I would give it to you. It is not right for me to guess.

Q There seems to be a great deal more doubt than when the President originally said it.

MR. ZARB: The doubt has arisen by virtue of these questions and my answers. When he made the statement that it is highly likely to go up in his Administration, it was my assumption it was highly likely it was going to go. I haven't changed my view.

Q There is a message of some 15 pages long and it is not here.

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MR. ZARB: The question as to why it was not in the energy message, if the energy message does indeed talk about eliminating counter-productive controls but the message itself is not designed to impact a specific measure, we don't talk about the specific technical aspects of decontrolling natural gas, but we do say that natural gas controls must be eliminated on the new side of the formula if we are going to alleviate that particular question. The character of the message is not designed to be that specific.

Q The message does appear rather glaring in the fact it mentions natural gas control, crude controls, it ignores product controls.

MR. ZARB: If it does, it seems to me I recall language in the message that spoke to the general issue of controls in petroleum products, it was only because we have half of the products controlled and it would appear that the debate on almost all the rest are controls, but gasoline will be out of 90 percent of product controls and was going to travel on a different circuit.

There was no intent to back away from the need to do this. But substantively it is hard to make a case to retain these controls for any length of time.

Q Can I try General Scowcroft?

MR. ZARB: I didn't see the gentleman.

Q It says at the same time we must continue our efforts to strengthen relations between oil importing and exporting nations, recognizing that cooperation is important to the future well-being of both. Since it was mentioned at the beginning of this briefing that the international implications of the energy problem are why you are here, could you tell us how much you believe the continued heavy supply of arms to oil exporting countries is going to be required to continue an assured supply of petroleum?

GEN. SCOWCROFT: I think your implied link between the two is not really justified. We don't supply arms to any country.

Q I am asking if it is required.

GEN. SCOWCROFT: I don't think there is any necessary link between the two.

Q You don't think that Saudia Arabia increased its price by less than certain other countries in order to preserve an arms supply relationship?

GEN. SCOWCROFT: No.

Q Why did they?

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GEN. SCOWCROFT: If that were a valid conclusion to come to, then you can ask why didn't Iran strongly support Saudia Arabia?

Q That was my next question.

GEN. SCOWCROFT: I cite that just to say there is no -- I think it is not really valid to make a connection between the two very separate kinds of issues.

Q How can they be that separate? I can see where it is easy to say that they are separate, but I don't think they are and I don't think anyone else does.

GEN. SCOWCROFT: Because we don't determine our arms relationships, what we think their requirements are, on the basis of what they do on oil prices and I don't think they do likewise make their decisions on oil prices.

Q General Scowcroft, are you suggesting that if the United States cut off its supply of arms to the oil-producing countries in the Middle East it would have no impact whatsoever on our relationship of assuring a continuing supply of oil?

GEN. SCOWCROFT: No. I am not saying that at all. Of course, it would. Just as if we shut off trade with them it would have an impact on their behavior. What I am saying is there is no organic relationship between the two; that is all.

Q Frank, without wanting to beat this gasoline price to death ---

MR. ZARB: You are going to do it anyway. (Laughter)

Q I have been under the impression since early this week from Ron Nessen that in fact a decision was made. As I read you, you have declined to go that far. Is it incorrect to report that the President has decided to propose decontrol of gasoline prices?

Q Or should we report that he is wavering?

Q Or that he has not made a final decision?

MR. ZARB: I think it is safe to conclude that the President decided that decontrol of gasoline prices was warranted and should be done at this time. I hesitate to close all doors not because I anticipate him not sending it up but because the last word I had was the same general language you had, that "it is entirely likely that that is what I am going to do."

Q He is not reconsidering ---

MR. ZARB: He has not reconsidered the position he had in Vail. Of that I am absolutely certain.

Q You are saying you would be shocked if he doesn't send up this decontrol? (Laughter)

Q Or surprised?

MR. ZARB: Do you want to use the word shocked?

Q How about surprised?

MR. ZARB: I guess you could use the word surprised.

Q Would you comment on reports that the President's budget made large cuts in the FEA conservation funding as authorized under ECPA?

MR. ZARB: I am going to beg off on that one because the President's budget will be made public next week by the Budget Director. I have been invited to be present so you can ask me those questions at that time.

I don't feel free to talk about the President's budget decisions at this moment. I can say in the last two years there has not only been legislation but a substantial increase in funding in many conservation-related areas. If you will, let us wait until the budget briefing which I gather will occur within the next seven or eight days. I will be available to answer your questions at that time.

Q Can you comment on the Library of Congress report that Members of Congress have been circulating which seems to suggest that decontrol would increase gasoline prices substantially, five to eight cents or something like that?

MR. ZARB: Did everybody hear the question?

I will depend on you to yell up, if you haven't heard the question. I will repeat it. We have had our analyst take a look at the Library of Congress report. Their report indicated that there are lots of "ifs" and assumptions in it so that those conclusions were reached after certain assumptions and "what ifs" were calculated.

Our people don't agree with a number of those "what ifs". In any case, I told you this morning the measure has a trigger mechanism which says if prices go up two cents above what they would with controls in place, the Administration is required to take action including the reimposition of controls. That seems to me to moot the issue of the five to six-cent question.

I would say this to you: In the last two years we have not bumped up against the legal maximums. That is to say, the legal maximums of gasoline prices have been higher than those prices actually charged, which would indicate that the elimination of those artificial measures should not have an immediate effect on price unless some things occur. The Library of Congress report cites refining disruptions or shortages because of demand for leaded gas or other products; our estimates are incorrect and demand is going to be higher than we anticipated. Our analyst, who has access to as many models as anybody else, has come to the conclusion that those conclusions are not correct.

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Q Since this agency was formed, the philosophy has been the American people have been getting their energy too cheaply, and the only way you can get conservation is to charge high prices for it. We have 70 cents for gasoline now. In your view, how much higher would the price of gasoline have to be before you get the sort of conservation that you want, \$1.50, \$2.00?

MR. ZARB: There is a good lead and a good headline, I expect. Bear with me for a minute. Let me talk a little about pricing and energy.

Gasoline taxes have been discussed on and off for the last two years. I expect next year when I am a private citizen I am going to be reading about you questioning some administration official, suggesting once again that that be considered. Every time you add to the price you do have an elasticity factor which reduces consumption. The gasoline price in itself has always had the liability of being generally unfair because it affected only part of the crude barrel, about 45 percent of the refined barrel. It didn't affect the other products.

Generally speaking, it was geographically unfair. There are people who have to drive to work long distances in some parts of the country, where in other parts of the country you can get on mass transit rather easily. There was an imbalance.

Having said that, I have always believed and continue to believe that this Nation is going to have to understand that over a period of time -- it doesn't have to be done instantaneously -- we are going to have to price our energy products at their real replacement value. If you use a barrel of oil and you have to spend X to replace that barrel of oil, the barrel you use should be priced at that level. First the people should understand that is going to be the outcome, to begin to make long-term decisions that make sense. They buy cars differently when they know the curve is going to be going that way over the next three to four years.

Industry managers buy equipment differently. Everybody changes their habits, recognizing the differences in energy. More important, let's take the darling of us all, solar. We all like that technology. If you were a solar company now and there are a number of them growing up these days, you wouldn't have the slightest idea whether you are going to be competing against an artificially subsidized price of oil in 1980 or whether you are going to be competing against the realistic prices in 1980. If you knew which one it was going to be, you would make different investments today because the cross-over point and economic justification of some of these technologies is somewhat higher than the suppressed price of oil and gas.

The notion of moving toward this method of pricing at its real value is essential and critical to any energy plan. The secret to getting it accomplished is going to be the proper mix of both this decontrol and taxes, because our Nation is not going to sit still and allow prices to be driven up by OPEC and then have all those revenues go into the industry.

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A correct mix of decontrol associated with taxes to insure that the pricing is correct over a period of time, and that there are no windfall profits, is going to be the final formula which will settle a lot of other subsidiary questions which are awfully critical.

I want to make one other point because I think it is terribly important. For those who believe that the non-pricing questions are easier to do because they are not controversial, I would point to a few experiences of the last two years.

We proposed a building standards bill in 1975. For those of you who don't recall, we said that three years after enactment every new structure in this country would have to accommodate these narrow ranges of thermal efficiencies. If it didn't, the builder would not be able to get a mortgage at any bank which is federally related, which is virtually every bank in the country. That bill took two years to get passed, and when it was, the sanctions were finally taken out.

To those that would conclude that pricing is the only controversial area in the energy area, I would point out every one of these measures has special-interest groups which are going to be affected. They are all going to be terribly difficult. That means it is going to take a certain measure of courage to insure they are followed through.

Q Can you give us any idea how far we are now from our replacement values?

MR. ZARB: Our current average price of crude oil is a smidgen above \$8 domestically. We use up one of these barrels, given today's rate of declining production, and we have to pay close to \$13 to replace it, because we can only replace it in the international market.

Our decline rate of domestic crude has slowed considerably, which tends to indicate a rather positive effect of some of the measures that have already been taken. That means that our own domestic crude production, which was declining very fast, that line has smoothed out considerably and is declining much more slowly, which suggests that the activity out there is beginning to pay off. Our rotary rigs -- in this country -- those are the rigs that go out and explore for oil and gas -- are at their highest rate of utilization in 15 years.

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Q Can you put this price into better perspective? You said two percent above what it would have cost ---

MR. ZARB: Two cents.

Q --- with controls. What is that figure that would trigger the reimposition of controls?

MR. ZARB: I guess I will have to get that for you. I am sorry. I don't have it, Ray. Scott Bush will get it for you after this session.

Q I am still baffled about what you are sending to Congress doesn't contain anything new. Secondly, you say the people simply don't understand there is an energy crisis. Isn't that the Ford Administration's fault? Isn't that a reflection on this Administration, that somehow you have not been able to tell the American people that there is a problem?

MR. ZARB: It may be, Roberta. I guess I thought about that question a half dozen times, what could we be doing that we weren't doing? It really gets down to what permanent changes are made in the total infrastructure. If we suppress the price of natural gas to 52 cents per unit, all of the cajoling and education and press releases are not going to make a difference in terms of long-term habits and change, within the infrastructure of the Nation.

The substantive legislation does more in terms of this kind of understanding than almost anything else. I would back off a little by saying my evidence indicates that the American people are more and more concerned with the energy crisis and doing more and more on their own to make a difference. It is possible.

The question as to why many of us have spent the last two years of our lives, first putting together a comprehensive package and then, secondly, spending over 200 appearances on the Hill trying to explain it and getting half of it passed, it seems to me to be in order to lay out the scorecard of where we came from, where we are and where we think we are headed.

Q Frank, is this your decision to see that the President submit it to Congress?

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MR. ZARB: No, it was the President's decision. Obviously, I worked on a good deal of the substantive information as did many others here at the White House and in other agencies.

Q Can I say again, repeating what Dick said a while ago, at the risk of belaboring this whole point, why is it now? What is the reason the gasoline decontrol thing isn't in here?

MR. ZARB: Why it is not in here? There are really no specific measures. We don't talk about jet fuel decontrol. We don't talk specifically about measures to eliminate crude oil controls.

We don't talk about specific legislation in coal, nuclear. We don't specifically talk about given measures in divestitures. We tried to avoid that.

We considered it to be a document that can be left behind and be studied by whomever, giving our reflections on what progress has been made in the general areas as still needed to get into.

Karen, I stayed close to the development of this. I don't remember it ever being in there, nor anyone leaving it out because they wanted to create some kind of a signal.

Q What is the President thinking about that keeps him -- you say there is no substantive reason for not doing it and you would be surprised if it is not done, and he has decided it is the right thing to do; so, what is it that is holding him up?

MR. ZARB: I thought the most compelling reason was the fact that Congress not being organized, their committee structures not being organized; to send it up and have the clock start running in the middle of what is generally a disorganized period, it wouldn't be correct or courteous, if you will, and secondly, a number of the members might instinctively vote against such a measure if they felt it was timed at such an ill-conceived point.

He is now looking at the comments of a number of leaders and some of his White House staff. As far as I know, he is only focusing on the timing issue.

Q Do you expect decontrol to come out of this next congress?

MR. ZARB: This is my own judgment, this Congress will eliminate controls on refined products, except propane, because it substantively appears to be the soundest course of action for the country.

I am not going to predict whether they would pass this particular measure or not. It is still very, very hard to read. I would just like to say to you, insofar as the energy area is concerned, we have had, I think, terribly good, fair and balanced reporting. I say to you and I really mean it or I wouldn't say it, I thank you, those of you who particularly have been close to it.

I urge you to keep the issue alive so that the old political scheme of hiding from tough measures because it is politically not acceptable will no longer prevail.

Thank you.

END

(AT 11:45 A.M. EST)

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

Three years have now passed since the Arab oil embargo demonstrated that the Nation had become overly dependent on other countries for our energy supplies. We have made progress in dealing with our energy problems but much more must be done if we are to achieve our objective of assuring an adequate and secure supply of energy at reasonable prices.

Action by the Congress is vitally important in the coming year on a number of matters affecting energy supply and demand. The outcome of that action will affect the Nation's security, economic strength and role in world affairs. Decisions made during this critical period will affect the health, welfare, quality of life and freedom of choice of our people for years to come.

A new Congress and change in Administration provide an appropriate occasion to review our energy situation, to summarize and share the knowledge that has been gained from analysis and debate over the past two years, and to outline the remaining need for action.

I am pleased that we have made a good start towards a comprehensive national energy policy; that we have taken major steps forward on programs to conserve energy, increase domestic energy production, develop strategic petroleum reserves, and develop new technology; and that our imports are less today than they would have been had we not begun taking the steps I outlined in my State of the Union address two years ago.

But our imports are higher today than they were three years ago, and we have not yet as a Nation faced up to many of the hard decisions and choices that are necessary before we can achieve our energy objectives.

The lack of better progress is regrettable but I believe the reasons for it are quite clear:

- First, the real nature of the Nation's energy problem and the implications of leaving it unresolved are not fully understood or appreciated by many people.
- Second, many of those who recognize the problem and the implications of not solving it have looked for easy solutions. This has led often to proposals which:
 - promise far more than can be delivered; or
 - expand significantly the role of the Federal Government.

We are now beginning to recognize more clearly the dangers of a greatly expanded Federal role in energy. We

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also now realize that other "easy" answers are turning out to be impractical, ineffective, or oversold.

FUNDAMENTAL ISSUES AND CHOICES

The decisions which must be made are difficult and the implications of the choices are far reaching. Thus, the Congress and the public should have the best possible understanding of the fundamental issues and choices that are involved in my proposals and in the proposals that will be forthcoming from the new Administration and Congress. There are five matters that deserve special attention:

- The high cost to the Nation of delay in solving our energy problem.
- The illusions and false hopes that are involved in some of the "easy" answers that have been proposed.
- The dangers of expanding the Federal role in energy.
- The need to recognize the interdependence of the U.S. and other consumer nations in energy matters.
- The necessity of facing up to the hard choices that must be made in order to achieve a balance among our Nation's security, energy, economic, consumer price, and environmental objectives.

HIGH COST OF DELAY IN SOLVING OUR ENERGY PROBLEM

A better understanding of our energy problem and the high cost of delay in solving it should help restore the sense of urgency that was lost when the embargo ended, the gasoline lines disappeared, and an adequate supply of most forms of energy became available -- though at higher prices.

Our Energy Problem

The principal energy problem now facing the United States is our excessive and growing dependence on imported oil from a relatively few foreign nations that own the majority of world oil reserves and have the ability to control world oil prices and production. We are also faced with a problem of shortages of natural gas in some areas. This problem will become more serious this winter if unusually cold weather continues and will grow each year as production and interstate sales decline -- resulting in job losses and economic dislocation.

Our situation is the result of several factors. For example, our economy and style of life -- neither of which can be altered quickly -- have been built upon cheap and abundant energy. Low prices, resulting from government regulations and policies, and heightened environmental concerns encouraged excessive reliance on oil and natural gas, rather than coal which we have in plentiful supply. This led to wasteful and inefficient uses of oil and gas.

Our domestic production of oil and natural gas peaked in the early 1970's and has been declining steadily as cheap, easily developed reserves have dwindled. In the early 1980's, oil and natural gas from Alaska and the Outer Continental Shelf -- our last frontiers -- will help offset the decline

in production from on-shore areas. But, overall, domestic oil and gas production will again decline precipitously unless higher prices are available to cover the costs of developing resources which are not now economically feasible to produce.

Meanwhile, our energy demands are increasing to meet the needs of a growing economy. We are not expanding the use of coal and nuclear energy fast enough as substitutes for oil and gas, where this is possible, or to meet growing energy requirements. Instead we have turned to imports, and imports will continue to grow as we face declining production and depletion of oil and gas reserves.

The Costs of Dependence

The real price paid for our growing dependence on imported oil is our vulnerability to significant economic and social disruption from the interruption of oil imports. Apart from the inconvenience experienced by millions of people, the 1973-74 embargo and the resulting higher prices caused a loss of about 500,000 jobs and approximately \$20 billion in our Gross National Product. The sudden four-fold increase in OPEC oil prices contributed significantly to inflation. Since 1974 our dependence on imports, particularly from Arab nations, has grown by a million barrels per day, so that an interruption of supply today would be even more disruptive of our economy than the 1973-74 embargo.

Another cost of energy dependence is the outflow of U.S. dollars to pay for imported oil, totalling about \$34 billion in 1976 or \$160 for each American, eleven times that in 1972.

Still another cost is the limitation on our freedom of action in international affairs due to our vulnerability to the threat of another interruption.

Realistic Energy Goals

In my first State of the Union Message two years ago, I outlined a comprehensive energy program for the Nation with goals of:

- Halting our growing dependence on imported oil.
- Attaining energy independence by 1985 by achieving invulnerability to disruptions caused by oil embargoes, by reducing oil imports to between 3 and 5 million barrels per day with an accompanying ability to offset any supply interruption with stored petroleum reserves and emergency standby measures.
- Mobilizing our technological capability and resources to supply a significant share of the free world's energy needs beyond 1985.

These goals do not mean that we should seek to eliminate all energy imports, because generally it will be in the Nation's best interest to continue importing energy when it can be obtained at lower cost -- as long as we have the ability to withstand interruptions of supply from insecure sources.

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The goals do mean that we should reduce and then eliminate our vulnerability. In the longer term, we should better use our resources and technological capability to regain our ability to assure the reasonableness of energy prices.

Whether the date I set for achieving energy independence and the level of imports I proposed are realistic has been the subject of considerable debate. I believe the goals could be attained if the Congress approved the critical legislation I proposed, but that is not the major point. The essential point now is that we recognize that our excessive dependence and vulnerability are costly and that it is in the Nation's best interest to solve the problem as soon as possible.

AVOIDING ILLUSIONS

A number of well-intentioned proposals have been advanced for dealing with our energy problems which, when evaluated, are found to have far less potential or merit than is claimed by their proponents. Four such proposals warrant special attention: advanced energy technologies, energy conservation in lieu of increased production, abandoning nuclear fission energy or coal, and oil company divestiture. All four are likely to receive Congressional consideration this year.

Contribution of Advanced Technologies

There are repeated claims that fusion, solar or geothermal energy, or some other advanced technology, will soon provide a virtually risk-free answer to our energy needs. Such claims warrant and have been given very careful consideration because new technological developments have helped us solve many problems in the past.

There are three common myths about fusion, solar and geothermal energy:

- That major contributions to our energy supplies can be expected soon from these sources.
- That there are no serious economic, safety, technological or environmental problems to be overcome before these technologies are available for widespread use.
- That the remaining problems can be quickly resolved by greatly increasing Federal funding for R&D.

The facts are that major economic, safety and environmental problems must be solved and major technological breakthroughs are needed before these emerging technologies will be available for widespread commercial use.

Practical and economic applications are already available in the case of energy from geothermal steam. However, geothermal steam resources are geographically limited, and major technical, environmental and economic hurdles must be overcome before other sources of geothermal energy will be available for practical application.

Heating with solar energy is expected to become economically competitive soon in some areas with electrical heating by electricity -- but not by oil and gas. Costs will have to be reduced substantially before solar heating and cooling systems will be competitive for widespread use. Major breakthroughs are needed before fusion and solar energy will

produce economical electric power. Costs must be reduced and problems of safety and environmental impact must be solved.

Advanced technologies cannot contribute significantly to our energy supply in the near or mid-term. Even with intensive efforts to achieve necessary breakthroughs, solar, geothermal and fusion energy are expected to provide no more than one percent of our total energy supplies by 1985 and no more than five-seven percent by the year 2000. Until these advanced technologies are available and are acceptable from the standpoint of cost, safety and environmental impact, we must rely on resources and technologies which are available.

Federal funding for the development of advanced technologies has been increased substantially over the past two years in my budgets -- to the point where Congressional additions above my requests generally cannot be used productively. When major breakthroughs are required, the necessary ingredients are ideas and time. Large funding increases are likely to be wasteful and often merely contribute to overly optimistic expectations.

Energy Conservation in Lieu of Production

There are some who believe that our energy needs for a growing population and expanding economy and workforce can be satisfied by eliminating wasteful and inefficient uses of energy. They point out correctly that the ready availability of cheap energy in the past tended to encourage uses of energy which now are wasteful.

There is no question but that energy conservation can and must contribute to the solution of our energy problems. In many cases it will be cheaper, more efficient, and involve less environmental impact, to reduce energy waste than it will be to produce a comparable amount of new energy. We have begun major efforts in energy conservation, and progress is being made in reducing growth in energy consumption. However, it takes time to achieve results from energy conservation because energy-intensive plants and equipment and consumer products (such as automobiles and appliances) will only be replaced gradually as they wear out.

Growth in our energy demands simply cannot be eliminated without severe economic impact. We must have both energy conservation and sharply increased energy production if we are to meet the needs for energy in a growing economy. To rely solely on energy conservation would soon mean a lower standard of living for all, and insufficient energy to keep people employed in productive and meaningful work.

Abandoning Coal Energy or Nuclear Fission

Some believe that we should not continue or expand the use of coal and others have the same view about nuclear energy. But a careful look indicates that we do not have a choice between increasing the use of coal or nuclear energy. Instead, we must increase the use of both coal and nuclear energy until more acceptable alternate energy sources are available. Even with strong efforts to conserve energy, and increased efforts to produce domestic oil and natural gas, we must increase the use of both coal and nuclear energy if we are to meet the demands for energy for a growing economy. The only alternative is to increase our growing dependence on imported oil.

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One example will illustrate the point: Nuclear energy now provides about nine percent of our electrical requirements. If this nuclear energy were not available and we substituted imported oil, our imports would increase by about one million barrels of oil per day. If we were to substitute coal for existing nuclear energy, additional annual production of 100 million tons would be required.

Divestiture

Some suggest that our energy problem would be relieved by divestiture of the major oil companies -- either by barring investments in other energy sources (horizontal divestiture) or by barring integrated operations whereby one company engages in production, refining, and marketing activities (vertical divestiture). They claim that divestiture would increase competition and thereby reduce petroleum prices and lead to a more intensive pursuit of alternative domestic energy resources and alternative energy technologies.

Experience has demonstrated important advantages from vertical integration in commercial and industrial activities in terms of efficiency of operation. Vertical divestiture may merely mean that petroleum products pass through the hands of more middle men -- resulting in higher consumer costs. Horizontal integration has helped make private capital and managerial talent available to develop other alternative energy resources which will be used to supplement our declining oil and natural gas resources.

Proponents of divestiture have yet to present concrete evidence that divestiture would either increase domestic energy production or provide cheaper and more secure energy supplies. Such evidence should be required and weighed carefully along with the evidence against divestiture before the Congress acts.

DANGERS OF EXPANDING THE FEDERAL ROLE IN ENERGY

Much of the dispute over energy legislation has resulted from differing views as to the appropriate role of the Federal Government.

The primary responsibility for providing the Nation's energy needs has been and should continue to rest with the private sector. The amount and forms of energy that are produced and used depend upon literally millions of decisions reached daily by individuals and organizations throughout the country. Since energy is such a pervasive component of our economy and our daily lives, special care must be taken to assure that Federal actions affecting energy -- including changes in the Federal role -- will help solve the problem rather than make it worse or cause new problems.

The Congress should give particular attention to the growing concern throughout the country about the size and cost of Government, the extent of Government intrusion in individuals' activities, and the burden of regulations which restrict freedom of choice. Unfortunately, the people who develop Government rules and regulations often do not understand adequately the conditions they are regulating nor appreciate fully the impact of their decisions on the millions of people who are affected.

The question of the proper role of the Federal Government in energy has become important in the case of:

- Controls over decisions that would normally be made in the marketplace.
- Mandatory conservation measures.
- Resource exploration and energy production.
- Energy research, development and demonstration.

Government Controls or Marketplace Decisions

Many legislative proposals will involve the question of whether there should be greater reliance on decisions made in the marketplace or upon regulations, standards and controls developed by the Federal Government.

Recent experience has again demonstrated that Federal price and allocation controls on energy ultimately work against the best interests of consumers because they reduce incentives to produce new supplies, they reduce competition and they reduce freedom of choice. For example, Federal price controls on natural gas have been a major factor leading to declining production and to wasteful and inefficient use of this resource. Also, controls on crude oil have contributed to a decline in production.

Federal price and allocation controls inevitably mean that the Government must employ people to develop, issue and revise regulations; to sit in judgment on requests for exceptions when the regulations do not fit real world circumstances; and to enforce the regulations. Federal controls mean that millions of decisions by producers, distributors, wholesalers, retailers and consumers must conform with Government-developed regulations -- even when the people directly involved know that another course of action makes more sense and would still be in the national interest.

The principal alternative to Federal regulation and controls is to allow prices and allocation of energy supplies to be determined in the marketplace -- with decisions made by individuals most directly affected. In some cases, avoiding or eliminating price controls can mean somewhat higher consumer prices in the short run. But the higher prices help stimulate new production and cut down on wastefulness. Market decisions are also made faster and more efficiently, and often result in cheaper prices than if the government made the decision. For example, the higher prices that will result from removing price controls from new natural gas would be less costly for consumers than the expense of switching to higher priced alternative fuels.

Mandatory Conservation Measures

Most of the problems resulting from Federal price controls also result from Federal attempts to dictate specific actions by individuals to conserve energy. The prospect of higher energy prices already is stimulating major efforts by individuals and organizations throughout the country to use existing products and develop new means to reduce wasteful and inefficient uses of energy. Such voluntary action by consumers is far preferable to mandatory measures selected and enforced by a larger and more obtrusive Government.

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Resource Exploration and Energy Production

The Congress will again be faced with the question of whether the Federal Government should be directly involved in energy resources exploration, development, production and refining activities.

Some argue that such activities can be performed better by the Federal Government, that it is necessary to have a Government "standard" to evaluate private industry performance and prices, or that subsidized Government performance is necessary to hold down consumer prices. Others argue that the Government should itself explore Federal lands to better ascertain the value of lands that it leases for the production of energy resources.

In fact, the Federal Government can seldom perform these functions faster, more efficiently or at lower cost than private industry. There is no convincing evidence that the competitive leasing system now used does not provide a fair return and adequately protect the public interest.

Despite this, proposals undoubtedly will continue to surface which would expand the size and role of the Federal Government to include exploration, production and related activities. Accordingly, the best course of action will be to insist upon hard facts to support the proposal and close scrutiny of each measure to see whether the advantages outweigh the disadvantages.

Energy Research, Development and Demonstration

Still other questions before the Congress involve the Federal role and funding for developing, demonstrating and promoting the use of new technologies for energy production and conservation.

I believe that Federal funding is necessary and appropriate for the development of new energy technologies which show promise of providing a significant and economical way of producing or conserving energy -- but only when such technologies would not be developed by the private sector. During the past two years, I have requested major increases in funding for energy R&D to carry out this policy.

However, continued vigilance is needed to prevent the use of Federal funds to duplicate or displace funds which industry would otherwise spend, and to insure that the Federal Government does not fund efforts which industry has rejected for lack of merit.

In addition, new energy technologies must find acceptance and application in the private sector -- unlike the situation in military and space exploration programs where the Federal Government is the only customer. This presents a special challenge because those responsible for managing Federal funds for energy R&D often are not in a good position to determine which technologies are likely to meet success in the private sector.

The Federal Government is not well equipped to carry out commercialization, marketing, promotional and technical assistance for particular energy technologies, products and services. Such activities should be left to private industry.

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At present, the Federal activities that would contribute most to the resolution of our energy problem are:

- Adopting changes in laws, policies and programs that will lead to a framework within which individuals and organizations outside the Federal Government can make efficient, effective and equitable decisions about energy. Laws and policies which discourage energy production or energy conservation should be modified.
- Providing carefully targeted support for energy R&D.
- Providing incentives and assistance where necessary -- such as tax relief -- in order to encourage energy conservation and aid low-income people in adjusting to higher energy prices which are necessary to generate new, adequate supplies.

INTERDEPENDENCE OF THE U.S. AND OTHER CONSUMER NATIONS

The 1973-74 embargo, and the impact of sharply increased prices for OPEC oil, demonstrated clearly that the interests of the United States are tied closely to those of other nations which are net importers of energy. Events in the last three years have demonstrated further that the economies of all nations are interrelated and that no nation can be truly economically independent in the world today. Many of our allies, and particularly the developing countries, do not have major undeveloped energy resources and therefore are even more dependent upon imported energy than is the United States.

Much progress has been made in strengthening energy cooperation among the industrialized nations through the International Energy Agency. Together we have coordinated efforts to reduce our collective vulnerability by establishing a long-term program for conservation and development of new energy sources, and an energy-sharing program to safeguard against supply interruptions. It is in the best interests of the United States to continue to work with and assist other energy-consuming countries in meeting their energy needs -- by reinforcing their conservation efforts, accelerating development of conventional and new energy sources, and encouraging the application of practical new energy technologies.

Such efforts will help to achieve our objective over the long term of a better equilibrium between energy supply and demand in the world, so that no one group of nations will be able to impose its will on others. Unless we are willing to cooperate with others, and provide adequate assistance in this area, continued dependence by many nations on a few countries for energy supplies will remain a major source of world political instability, uncertainty, and economic hardship.

At the same time, of course, we must continue our efforts to strengthen relations between oil-importing and exporting nations, recognizing that cooperation is important to the future well-being of both.

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ACHIEVING BALANCE AMONG CONFLICTING OBJECTIVES

In recent years, we have been faced more and more with the dilemma that actions taken to achieve one important objective conflict with efforts to achieve other objectives. For example, we learned that tough standards and deadlines applied in the early 1970's to reduce pollution from automobiles and improve air quality resulted in lower gasoline mileage and higher gasoline consumption, poorer vehicle performance and higher consumer costs.

Conflicting objectives are becoming more and more apparent as we recognize that the easy solutions are illusions and that there are major dangers in expanding the Federal role. The Nation must, therefore, face up to the task of achieving a balance among conflicting objectives involving energy.

Low Consumer Prices vs. Adequate and Secure Energy Supplies

The reality that must be faced which appears to cause the most difficulty for elected officials is the inevitability of higher energy prices. Energy prices, particularly for consumers, will increase in the future principally because prices in the past have been held artificially low through Government controls, because cheaper domestic energy resources are being depleted, because past energy prices have not reflected the costs of environmental protection, and because foreign nations are charging more for the energy that they export. There simply are no cheap energy alternatives. Higher prices will continue to be a major factor in obtaining adequate and secure energy supplies.

This difficulty is compounded for elected officials because it takes a long time in energy matters for our actions to show results -- a condition that is not readily accepted in a Nation that prefers quick results. The prospect of higher prices will provide the incentive for increased energy production but it then takes up to five years, for example, to bring a new off-shore oil well into production and up to ten years to bring a new nuclear electric generating plant on line.

Environment vs. Energy

An equally difficult problem is that of finding the best possible balance between our energy and environmental objectives. Our environmental objectives are also important in protecting health and welfare, improving our quality of life, and preserving natural resources for future generations. On the other hand, an adequate energy supply is essential to our objectives for a strong economy, national defense and role in world affairs, and in achieving a better life for all.

The conflict between energy and environmental objectives will require attention when the Congress considers amendments to the Clean Air Act, changes in laws governing the development of Federally-owned energy resources, improvements in the processes for siting and approving energy facilities, and controls on domestic energy production activities such as the surface mining of coal.

More specifically, air quality requirements forced shifts away from the use of domestic coal to the use of oil and natural gas which are now in short supply. Some air quality

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requirements -- particularly emission standards set by states -- are far tighter than necessary to meet standards which have been set to protect human health.

Efforts are now underway to reverse this trend but it is clear that increased production and utilization of domestic coal in the short term requires either billion dollar investments in controversial control equipment or some relaxation of existing air quality requirements. Most such requirements were set before we were aware of our energy problems, and often without sufficient regard to energy or consumer price impact. They often prevent substitution of coal resources for oil and gas and prevent construction of new coal producing and burning facilities.

As another example, concerns about environmental protection and reclamation requirements for surface mining activities led to legislation -- twice vetoed -- which would have imposed unnecessarily rigid requirements, cut domestic coal production and employment and led to even greater reliance on imported oil. Under these bills, Federal regulations and enforcement activities -- which would contribute to a larger more cumbersome Federal Government -- would have supplanted State laws and enforcement activities which are now in place and which require reclamation as a condition of mining.

Limiting Growth

The concept of limiting growth and development is an important ingredient in some efforts to halt increased domestic energy production or to develop and use newer energy technologies. Limits on growth and development may be necessary in particular areas, but I oppose strongly the concept of limiting growth as an objective in itself. For the Nation, I continue to believe that our best hope for increasing the standard of living and quality of life for all our people is to expand and strengthen our economy and, in this way, create meaningful and productive jobs for all who are willing and able to work. The energy policies and goals that I have advocated do not require limiting our economic growth below historic rates.

Eliminating Risk

In some cases, attempts to increase domestic energy production -- particularly from nuclear energy and coal and oil and gas resources from Outer Continental Shelf -- are met with demands that virtually all safety and environmental risks be eliminated.

There should be no disagreement that major efforts are necessary to protect human health and the environment. For example, strong efforts have already been made in the case of nuclear energy and an excellent record of safety and minimum environmental impact has been achieved. However, it must be recognized that there is no practical way of completely eliminating all risks. Further, each additional precaution adds cost in terms of reduced supplies or higher prices. Risk levels that have already been achieved in many energy producing activities are often far lower than those readily accepted in other human activities.

Because different Committees of Congress have responsibility for competing objectives, it is especially difficult to achieve a satisfactory balance among our national objectives in new legislation. This will be a continuing problem in the new Congress and I can only urge that each measure affecting

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energy supply and demand, which also involves other objectives, be evaluated carefully to assure that the resulting costs, risks and benefits are truly in the national interest.

THE NEED FOR SUBSTANTIVE LEGISLATION AFFECTING ENERGY

We have made significant progress over the past two years toward establishing the framework of law and policies that are needed to permit decisions and actions that will help solve our energy problem.

Nine of the proposals that I submitted have been enacted into law. However, there remains a long list of requirements for early Congressional action.

Highest Priority

Because of the large number of legislative proposals that need action, I want to make clear that I believe highest priority should be given to measures which:

- Remove Federal price regulation from new natural gas supplies. This action is crucial to increasing domestic production and reducing wasteful and inefficient uses.
- Revise domestic crude oil price controls to allow greater flexibility in establishing a pricing formula that will encourage increased domestic production and assist in phasing out controls. This action is needed to overcome problems in the current law and to reduce market distortions that have resulted.
- Make clear our determination to expand capacity in the United States, principally through the efforts of private industry, to enrich uranium needed to provide fuel for nuclear power plants. This action is necessary to permit increased use of nuclear power in the U.S. and to assure other nations that we will be a reliable supplier of uranium enrichment services -- a step that is critical to our nuclear non-proliferation objectives.
- Amend the Clean Air Act to:
 - Change the statutory requirements for meeting auto emission standards so that there can be a better balance among our environmental quality, energy, economic and consumer price objectives.
 - Provide flexibility in meeting national air quality standards applicable to power plants and major industrial facilities so that the use of coal can be continued and expanded, and so that new energy-producing facilities can be constructed in selected areas that have not yet attained national air quality standards.
 - Remove the requirement imposed by the courts for preventing significant deterioration of air quality in areas already meeting air quality standards -- until information is available on the impact of such actions and informed decisions can be made.

Other Important Proposals

In addition to the above select list, favorable action is needed from the Congress on legislation in all the following areas:

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-- Natural Gas

- Temporary emergency legislation to allow pipelines and high priority users to obtain intrastate gas at unregulated prices for limited periods -- to help cope with shortages and curtailments.

-- Oil

- Authorization for the President to impose fees and taxes as standby emergency measures to reduce energy consumption in the event of another embargo -- to avoid the inefficiencies and burdens of mandatory conservation measures in such emergencies.
- An Oil Spill Liability Act -- to establish a comprehensive system of liability and compensation for oil spill damage and removal costs.
- Authorization for private competitive exploration and development of the National Petroleum Reserve in Alaska.

-- Coal

- Extension of the authority to require utilities and other major fuel-burning installations to convert from oil and gas to coal.
- Changes in provisions of the Coal Leasing Amendments Act of 1976 which unnecessarily delay or restrict leasing and development of coal on Federal lands.
- Authority for the use of eminent domain in the construction of coal slurry pipelines and authority for the Secretary of the Interior to issue certificates of public convenience and necessary to expedite slurry pipeline construction.

-- Nuclear Energy

- Authority for the Energy Research and Development Administration to enter into cooperative agreements with firms wishing to finance, build, own and operate uranium enrichment plants -- to assure the availability of required capacity and avoid the need for billions of dollars in Federal outlays when the private sector can provide the financing.
- Authority to increase the price for uranium enrichment services performed in Government-owned plants -- to assure a fair return to the taxpayers for their investment, to price services more nearly comparable to their private sector value, and to end the unjustified subsidy by taxpayers to both foreign and domestic customers.
- Criteria for the control of nuclear exports which is necessary to round out the comprehensive non-proliferation, export control, reprocessing evaluation and waste management program I outlined in my October 28, 1976, statement on nuclear policy.
- Reform the nuclear facilities licensing process by providing for early site review and approval and encouraging standardization of nuclear facility design.

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-- Building Energy Facilities

- Establishment of an Energy Independence Authority (EIA), a new government corporation, to assist private sector financing of new energy facilities.
- Legislation to encourage states to develop comprehensive and coordinated processes to expedite review and approval of energy facilities siting applications, and to assure the availability of sites.

-- Energy Conservation

- Tax credit for homeowners to provide up to \$150 for purchasing and installing insulation in existing residences.
- Reform of rate setting practices applicable to public utilities -- to expedite consideration of proposed rate changes and assure that rates reflect full costs of generating and transmitting power.

1978 BUDGET REQUESTS

My 1978 Budget which will soon be forwarded to the Congress will include major new funding to:

- Continue and expand our extensive program of energy research and development in cooperation with private industry which is directed toward new technologies for conserving energy and for producing energy from fossil, nuclear, solar and geothermal sources.
- Implement the Early Storage Program as part of the Strategic Petroleum reserves which will provide up to 500 million barrels of oil for use in emergency situations such as an embargo.
- Implement my comprehensive nuclear policy statement issued on October 28, 1976.
- Continue ERDA's development program on the liquid metal fast breeder reactor -- to resolve any remaining environmental, safety and safeguards questions -- so that this technology will be available to bridge the gap until advanced technologies can make their contribution to our energy needs.
- Provide increased operating funds for other Federal energy activities.

I urge the Congress to approve these funding requests.

REORGANIZATION OF FEDERAL ENERGY ACTIVITIES

Under the provisions of the Energy Conservation and Production Act of August 1976, I am called upon to make recommendations to the Congress with respect to the reorganization of Federal energy and natural resource activities. At my direction, a major study of alternatives had already been undertaken in May 1976 under the leadership of the Energy Resources Council and the Office of Management and Budget.

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I have reviewed the findings and recommendations from the study. Within the next few days, I will forward my recommendations to the Congress.

TIME TO ACT

The Nation has waited far too long for completion of a sound and effective national energy policy. In many cases, the issues are complex and controversial, the decisions are tough to make -- particularly because the right decisions will be unpopular in the short run. The costs of continued energy dependence are far too great for further delay.

The Congress can act. It is a matter of organizing itself to make the tough decisions and choices and moving ahead with the task. I urge the Congress to weigh the alternatives carefully and proceed promptly.

GERALD R. FORD

THE WHITE HOUSE,

January 7, 1977.

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TO THE CONGRESS OF THE UNITED STATES:

Three years have now passed since the Arab oil embargo demonstrated that the Nation had become overly dependent on other countries for our energy supplies. We have made progress in dealing with our energy problems but much more must be done if we are to achieve our objective of assuring an adequate and secure supply of energy at reasonable prices.

Action by the Congress is vitally important in the coming year on a number of matters affecting energy supply and demand. The outcome of that action will affect the Nation's security, economic strength and role in world affairs. Decisions made during this critical period will affect the health, welfare, quality of life and freedom of choice of our people for years to come.

A new Congress and change in Administration provide an appropriate occasion to review our energy situation, to summarize and share the knowledge that has been gained from analysis and debate over the past two years, and to outline the remaining need for action.

I am pleased that we have made a good start towards a comprehensive national energy policy; that we have taken major steps forward on programs to conserve energy, increase domestic energy production, develop strategic petroleum reserves, and develop new technology; and that our imports are less today than they would have been had we not begun taking the steps I outlined in my State of the Union address two years ago.

But our imports are higher today than they were three years ago, and we have not yet as a Nation faced up to many of the hard decisions and choices that are necessary before we can achieve our energy objectives.

The lack of better progress is regrettable but I believe the reasons for it are quite clear:

- First, the real nature of the Nation's energy problem and the implications of leaving it unresolved are not fully understood or appreciated by many people.
- Second, many of those who recognize the problem and the implications of not solving it have looked for easy solutions. This has led often to proposals which:
 - promise far more than can be delivered; or
 - expand significantly the role of the Federal Government.

We are now beginning to recognize more clearly the dangers of a greatly expanded Federal role in energy. We also now realize that other "easy" answers are turning out to be impractical, ineffective, or oversold.

FUNDAMENTAL ISSUES AND CHOICES

The decisions which must be made are difficult and the implications of the choices are far reaching. Thus, the Congress and the public should have the best possible understanding of the fundamental issues and choices that are involved in my proposals and in the proposals that will be forthcoming from the new Administration and Congress. There are five matters that deserve special attention:

- The high cost to the Nation of delay in solving our energy problem.
- The illusions and false hopes that are involved in some of the "easy" answers that have been proposed.
- The dangers of expanding the Federal role in energy.
- The need to recognize the interdependence of the U.S. and other consumer nations in energy matters.
- The necessity of facing up to the hard choices that must be made in order to achieve a balance among our Nation's security, energy, economic, consumer price, and environmental objectives.

HIGH COST OF DELAY IN SOLVING OUR ENERGY PROBLEM

A better understanding of our energy problem and the high cost of delay in solving it should help restore the sense of urgency that was lost when the embargo ended, the gasoline lines disappeared, and an adequate supply of most forms of energy became available -- though at higher prices.

Our Energy Problem

The principal energy problem now facing the United States is our excessive and growing dependence on imported oil from a relatively few foreign nations that own the majority of world oil reserves and have the ability to control world oil prices and production. We are also faced with a problem of shortages of natural gas in some areas. This problem will become more serious this winter if unusually cold weather continues and will grow each year as production and interstate sales decline -- resulting in job losses and economic dislocation.

Our situation is the result of several factors. For example, our economy and style of life -- neither of which can be altered quickly -- have been built upon cheap and abundant energy. Low prices, resulting from government regulations and policies, and heightened environmental concerns encouraged excessive reliance on oil and natural gas, rather than coal which we have in plentiful supply. This led to wasteful and inefficient uses of oil and gas.

Our domestic production of oil and natural gas peaked in the early 1970's and has been declining steadily as cheap, easily developed reserves have dwindled. In the early 1980's, oil and natural gas from Alaska and the Outer Continental Shelf -- our last frontiers -- will help offset the decline in production from on-shore areas. But, overall, domestic oil and gas production will again decline precipitously unless higher prices are available to cover the costs of developing resources which are not now economically feasible to produce.

Meanwhile, our energy demands are increasing to meet the needs of a growing economy. We are not expanding the use of coal and nuclear energy fast enough as substitutes for oil and gas, where this is possible, or to meet growing energy requirements. Instead we have turned to imports, and imports will continue to grow as we face declining production and depletion of oil and gas reserves.

The Costs of Dependence

The real price paid for our growing dependence on imported oil is our vulnerability to significant economic and social disruption from the interruption of oil imports. Apart from the inconvenience experienced by millions of people, the 1973-74 embargo and the resulting higher prices caused a loss of about 500,000 jobs and approximately \$20 billion in our Gross National Product. The sudden four-fold increase in OPEC oil prices contributed significantly to inflation. Since 1974 our dependence on imports, particularly from Arab nations, has grown by a million barrels per day, so that an interruption of supply today would be even more disruptive of our economy than the 1973-74 embargo.

Another cost of energy dependence is the outflow of U.S. dollars to pay for imported oil, totalling about \$34 billion in 1976 or \$160 for each American, eleven times that in 1972.

Still another cost is the limitation on our freedom of action in international affairs due to our vulnerability to the threat of another interruption.

Realistic Energy Goals

In my first State of the Union Message two years ago, I outlined a comprehensive energy program for the Nation with goals of:

- Halting our growing dependence on imported oil.
- Attaining energy independence by 1985 by achieving invulnerability to disruptions caused by oil embargoes, by reducing oil imports to between 3 and 5 million

barrels per day with an accompanying ability to offset any supply interruption with stored petroleum reserves and emergency standby measures.

-- Mobilizing our technological capability and resources to supply a significant share of the free world's energy needs beyond 1985.

These goals do not mean that we should seek to eliminate all energy imports, because generally it will be in the Nation's best interest to continue importing energy when it can be obtained at lower cost -- as long as we have the ability to withstand interruptions of supply from insecure sources.

The goals do mean that we should reduce and then eliminate our vulnerability. In the longer term, we should better use our resources and technological capability to regain our ability to assure the reasonableness of energy prices.

Whether the date I set for achieving energy independence and the level of imports I proposed are realistic has been the subject of considerable debate. I believe the goals could be attained if the Congress approved the critical legislation I proposed, but that is not the major point. The essential point now is that we recognize that our excessive dependence and vulnerability are costly and that it is in the Nation's best interest to solve the problem as soon as possible.

AVOIDING ILLUSIONS

A number of well-intentioned proposals have been advanced for dealing with our energy problems which, when evaluated, are found to have far less potential or merit than is claimed by their proponents. Four such proposals warrant special attention: advanced energy technologies, energy conservation in lieu of increased production, abandoning nuclear fission energy or coal, and oil company divestiture. All four are likely to receive Congressional consideration this year.

Contribution of Advanced Technologies

There are repeated claims that fusion, solar or geothermal energy, or some other advanced technology, will soon provide a virtually risk-free answer to our energy needs. Such claims warrant and have been given very careful consideration because new technological developments have helped us solve many problems in the past.

There are three common myths about fusion, solar and geothermal energy:

- That major contributions to our energy supplies can be expected soon from these sources.
- That there are no serious economic, safety, technological or environmental problems to be overcome before these technologies are available for widespread use.
- That the remaining problems can be quickly resolved by greatly increasing Federal funding for R&D.

The facts are that major economic, safety and environmental problems must be solved and major technological breakthroughs are needed before these emerging technologies will be available for widespread commercial use.

Practical and economic applications are already available in the case of energy from geothermal steam. However, geothermal steam resources are geographically limited, and major technical, environmental and economic hurdles must be overcome before other sources of geothermal energy will be available for practical application.

Heating with solar energy is expected to become economically competitive soon in some areas with electrical heating by electricity -- but not by oil and gas. Costs will have to be reduced substantially before solar heating and cooling systems will be competitive for widespread use. Major breakthroughs are needed before fusion and solar energy will produce economical electric power. Costs must be reduced and problems of safety and environmental impact must be solved.

Advanced technologies cannot contribute significantly to our energy supply in the near or mid-term. Even with intensive efforts to achieve necessary breakthroughs, solar, geothermal and fusion energy are expected to provide no more than one percent of our total energy supplies by 1985 and no more than five-seven percent by the year 2000. Until these advanced technologies are available and are acceptable from the standpoint of cost, safety and environmental impact, we must rely on resources and technologies which are available.

Federal funding for the development of advanced technologies has been increased substantially over the past two years in my budgets -- to the point where Congressional additions above my requests generally cannot be used productively. When major breakthroughs are required, the necessary ingredients are ideas and time. Large funding increases are likely to be wasteful and often merely contribute to overly optimistic expectations.

Energy Conservation in Lieu of Production

There are some who believe that our energy needs for a growing population and expanding economy and workforce can be satisfied by eliminating wasteful and inefficient uses of energy. They point out correctly that the ready availability of cheap energy in the past tended to encourage uses of energy which now are wasteful.

There is no question but that energy conservation can and must contribute to the solution of our energy problems. In many cases it will be cheaper, more efficient, and involve less environmental impact, to reduce energy waste than it will be to produce a comparable amount of new energy. We have begun major efforts in energy conservation, and progress is being made in reducing growth in energy consumption. However, it takes time to achieve results from energy conservation because energy-intensive plants and equipment and consumer products (such as automobiles and appliances) will only be replaced gradually as they wear out.

Growth in our energy demands simply cannot be eliminated without severe economic impact. We must have both energy conservation and sharply increased energy production if we are to meet the needs for energy in a growing economy. To rely solely on energy conservation would soon mean a lower standard of living for all, and insufficient energy to keep people employed in productive and meaningful work.

Abandoning Coal Energy or Nuclear Fission

Some believe that we should not continue or expand the use of coal and others have the same view about nuclear energy. But a careful look indicates that we do not have a choice between increasing the use of coal or nuclear energy. Instead, we must increase the use of both coal and nuclear energy until more acceptable alternate energy sources are available. Even with strong efforts to conserve energy, and increased efforts to produce domestic oil and natural gas, we must increase the use of both coal and nuclear energy if we are to meet the demands for energy for a growing economy. The only alternative is to increase our growing dependence on imported oil.

One example will illustrate the point: Nuclear energy now provides about nine percent of our electrical requirements. If this nuclear energy were not available and we substituted imported oil, our imports would increase by about one million barrels of oil per day. If we were to substitute coal for existing nuclear energy, additional annual production of 100 millions tons would be required.

Divestiture

Some suggest that our energy problem would be relieved by divestiture of the major oil companies -- either by barring investments in other energy sources (horizontal divestiture) or by barring integrated operations whereby one company engages in production, refining, and marketing activities (vertical divestiture). They claim that divestiture would

increase competition and thereby reduce petroleum prices and lead to a more intensive pursuit of alternative domestic energy resources and alternative energy technologies.

Experience has demonstrated important advantages from vertical integration in commercial and industrial activities in terms of efficiency of operation. Vertical divestiture may merely mean that petroleum products pass through the hands of more middle men -- resulting in higher consumer costs. Horizontal integration has helped make private capital and managerial talent available to develop other alternative energy resources which will be used to supplement our declining oil and natural gas resources.

Proponents of divestiture have yet to present concrete evidence that divestiture would either increase domestic energy production or provide cheaper and more secure energy supplies. Such evidence should be required and weighed carefully along with the evidence against divestiture before the Congress acts.

DANGERS OF EXPANDING THE FEDERAL ROLE IN ENERGY

Much of the dispute over energy legislation has resulted from differing views as to the appropriate role of the Federal Government.

The primary responsibility for providing the Nation's energy needs has been and should continue to rest with the private sector. The amount and forms of energy that are produced and used depend upon literally millions of decisions reached daily by individuals and organizations throughout the country. Since energy is such a pervasive component of our economy and our daily lives, special care must be taken to assure that Federal actions affecting energy -- including changes in the Federal role -- will help solve the problem rather than make it worse or cause new problems.

The Congress should give particular attention to the growing concern throughout the country about the size and cost of Government, the extent of Government intrusion in individuals' activities, and the burden of regulations which restrict freedom of choice. Unfortunately, the people who develop Government rules and regulations often do not understand adequately the conditions they are regulating nor appreciate fully the impact of their decisions on the millions of people who are affected.

The question of the proper role of the Federal Government in energy has become important in the case of:

- Controls over decisions that would normally be made in the marketplace.
- Mandatory conservation measures.
- Resource exploration and energy production.
- Energy research, development and demonstration.

Government Controls or Marketplace Decisions

Many legislative proposals will involve the question of whether there should be greater reliance on decisions made in the marketplace or upon regulations, standards and controls developed by the Federal Government.

Recent experience has again demonstrated that Federal price and allocation controls on energy ultimately work against the best interests of consumers because they reduce incentives to produce new supplies, they reduce competition and they reduce freedom of choice. For example, Federal price controls on natural gas have been a major factor leading to declining production and to wasteful and inefficient use of this resource. Also, controls on crude oil have contributed to a decline in production.

Federal price and allocation controls inevitably mean that the Government must employ people to develop, issue and revise regulations; to sit in judgment on requests for exceptions when the regulations do not fit real world circumstances;

and to enforce the regulations. Federal controls mean that millions of decisions by producers, distributors, wholesalers, retailers and consumers must conform with Government-developed regulations -- even when the people directly involved know that another course of action makes more sense and would still be in the national interest.

The principal alternative to Federal regulation and controls is to allow prices and allocation of energy supplies to be determined in the marketplace -- with decisions made by individuals most directly affected. In some cases, avoiding or eliminating price controls can mean somewhat higher consumer prices in the short run. But the higher prices help stimulate new production and cut down on wastefulness. Market decisions are also made faster and more efficiently, and often result in cheaper prices than if the government made the decision. For example, the higher prices that will result from removing price controls from new natural gas would be less costly for consumers than the expense of switching to higher priced alternative fuels.

Mandatory Conservation Measures

Most of the problems resulting from Federal price controls also result from Federal attempts to dictate specific actions by individuals to conserve energy. The prospect of higher energy prices already is stimulating major efforts by individuals and organizations throughout the country to use existing products and develop new means to reduce wasteful and inefficient uses of energy. Such voluntary action by consumers is far preferable to mandatory measures selected and enforced by a larger and more obtrusive Government.

Resource Exploration and Energy Production

The Congress will again be faced with the question of whether the Federal Government should be directly involved in energy resources exploration, development, production and refining activities.

Some argue that such activities can be performed better by the Federal Government, that it is necessary to have a Government "standard" to evaluate private industry performance and prices, or that subsidized Government performance is necessary to hold down consumer prices. Others argue that the Government should itself explore Federal lands to better ascertain the value of lands that it leases for the production of energy resources.

In fact, the Federal Government can seldom perform these functions faster, more efficiently or at lower cost than private industry. There is no convincing evidence that the competitive leasing system now used does not provide a fair return and adequately protect the public interest.

Despite this, proposals undoubtedly will continue to surface which would expand the size and role of the Federal Government to include exploration, production and related activities. Accordingly, the best course of action will be to insist upon hard facts to support the proposal and close scrutiny of each measure to see whether the advantages outweigh the disadvantages.

Energy Research, Development and Demonstration

Still other questions before the Congress involve the Federal role and funding for developing, demonstrating and promoting the use of new technologies for energy production and conservation.

I believe that Federal funding is necessary and appropriate for the development of new energy technologies which show promise of providing a significant and economical way of producing or conserving energy -- but only when such technologies would not be developed by the private sector. During the past two years, I have requested major increases in funding for energy R&D to carry out this policy.

However, continued vigilance is needed to prevent the use of Federal funds to duplicate or displace funds which industry would otherwise spend, and to insure that the Federal Government does not fund efforts which industry has rejected for lack of merit.

In addition, new energy technologies must find acceptance and application in the private sector -- unlike the situation in military and space exploration programs where the Federal Government is the only customer. This presents a special challenge because those responsible for managing Federal funds for energy R&D often are not in a good position to determine which technologies are likely to meet success in the private sector.

The Federal Government is not well equipped to carry out commercialization, marketing, promotional and technical assistance for particular energy technologies, products and services. Such activities should be left to private industry.

At present, the Federal activities that would contribute most to the resolution of our energy problem are:

- Adopting changes in laws, policies and programs that will lead to a framework within which individuals and organizations outside the Federal Government can make efficient, effective and equitable decisions about energy. Laws and policies which discourage energy production or energy conservation should be modified.
- Providing carefully targeted support for energy R&D.
- Providing incentives and assistance where necessary -- such as tax relief -- in order to encourage energy conservation and aid low-income people in adjusting to higher energy prices which are necessary to generate new, adequate supplies.

INTERDEPENDENCE OF THE U.S. AND OTHER CONSUMER NATIONS

The 1973-74 embargo, and the impact of sharply increased prices for OPEC oil, demonstrated clearly that the interests of the United States are tied closely to those of other nations which are net importers of energy. Events in the last three years have demonstrated further that the economies of all nations are interrelated and that no nation can be truly economically independent in the world today. Many of our allies, and particularly the developing countries, do not have major undeveloped energy resources and therefore are even more dependent upon imported energy than is the United States.

Much progress has been made in strengthening energy cooperation among the industrialized nations through the International Energy Agency. Together we have coordinated efforts to reduce our collective vulnerability by establishing a long-term program for conservation and development of new energy sources, and an energy-sharing program to safeguard against supply interruptions. It is in the best interests of the United States to continue to work with and assist other energy-consuming countries in meeting their energy needs -- by reinforcing their conservation efforts, accelerating development of conventional and new energy sources, and encouraging the application of practical new energy technologies.

Such efforts will help to achieve our objective over the long term of a better equilibrium between energy supply and demand in the world, so that no one group of nations will be able to impose its will on others. Unless we are willing to cooperate with others, and provide adequate assistance in this area, continued dependence by many nations on a few countries for energy supplies will remain a major source of world political instability, uncertainty, and economic hardship.

At the same time, of course, we must continue our efforts to strengthen relations between oil-importing and exporting nations, recognizing that cooperation is important to the future well-being of both.

ACHIEVING BALANCE AMONG CONFLICTING OBJECTIVES

In recent years, we have been faced more and more with the dilemma that actions taken to achieve one important objective conflict with efforts to achieve other objectives. For example, we learned that tough standards and deadlines applied in the early 1970's to reduce pollution from automobiles and improve air quality resulted in lower gasoline mileage and higher gasoline consumption, poorer vehicle performance and higher consumer costs.

Conflicting objectives are becoming more and more apparent as we recognize that the easy solutions are illusions and that there are major dangers in expanding the Federal role. The Nation must, therefore, face up to the task of achieving a balance among conflicting objectives involving energy.

Low Consumer Prices vs. Adequate and Secure Energy Supplies

The reality that must be faced which appears to cause the most difficulty for elected officials is the inevitability of higher energy prices. Energy prices, particularly for consumers, will increase in the future principally because prices in the past have been held artificially low through Government controls, because cheaper domestic energy resources are being depleted, because past energy prices have not reflected the costs of environmental protection, and because foreign nations are charging more for the energy that they export. There simply are no cheap energy alternatives. Higher prices will continue to be a major factor in obtaining adequate and secure energy supplies.

This difficulty is compounded for elected officials because it takes a long time in energy matters for our actions to show results -- a condition that is not readily accepted in a Nation that prefers quick results. The prospect of higher prices will provide the incentive for increased energy production but it then takes up to five years, for example, to bring a new off-shore oil well into production and up to ten years to bring a new nuclear electric generating plant on line.

Environment vs. Energy

An equally difficult problem is that of finding the best possible balance between our energy and environmental objectives. Our environmental objectives are also important in protecting health and welfare, improving our quality of life, and preserving natural resources for future generations. On the other hand, an adequate energy supply is essential to our objectives for a strong economy, national defense and role in world affairs, and in achieving a better life for all.

The conflict between energy and environmental objectives will require attention when the Congress considers amendments to the Clean Air Act, changes in laws governing the development of Federally-owned energy resources, improvements in the processes for siting and approving energy facilities, and controls on domestic energy production activities such as the surface mining of coal.

More specifically, air quality requirements forced shifts away from the use of domestic coal to the use of oil and natural gas which are now in short supply. Some air quality requirements -- particularly emission standards set by states -- are far tighter than necessary to meet standards which have been set to protect human health.

Efforts are now underway to reverse this trend but it is clear that increased production and utilization of domestic coal in the short term requires either billion dollar investments

in controversial control equipment or some relaxation of existing air quality requirements. Most such requirements were set before we were aware of our energy problems, and often without sufficient regard to energy or consumer price impact. They often prevent substitution of coal resources for oil and gas and prevent construction of new coal producing and burning facilities.

As another example, concerns about environmental protection and reclamation requirements for surface mining activities led to legislation -- twice vetoed -- which would have imposed unnecessarily rigid requirements, cut domestic coal production and employment and led to even great reliance on imported oil. Under these bills, Federal regulations and enforcement activities -- which would contribute to a larger more cumbersome Federal Government -- would have supplanted State laws and enforcement activities which are now in place and which require reclamation as a condition of mining.

Limiting Growth

The concept of limiting growth and development is an important ingredient in some efforts to halt increased domestic energy production or to develop and use newer energy technologies. Limits on growth and development may be necessary in particular areas, but I oppose strongly the concept of limiting growth as an objective in itself. For the Nation, I continue to believe that our best hope for increasing the standard of living and quality of life for all our people is to expand and strengthen our economy and, in this way, create meaningful and productive jobs for all who are willing and able to work. The energy policies and goals that I have advocated do not require limiting our economic growth below historic rates.

Eliminating Risk

In some cases, attempts to increase domestic energy production -- particularly from nuclear energy and coal and oil and gas resources from Outer Continental Shelf -- are

met with demands that virtually all safety and environmental risks be eliminated.

There should be no disagreement that major efforts are necessary to protect human health and the environment. For example, strong efforts have already been made in the case of nuclear energy and an excellent record of safety and minimum environmental impact has been achieved. However, it must be recognized that there is no practical way of completely eliminating all risks. Further, each additional precaution adds cost in terms of reduced supplies or higher prices. Risk levels that have already been achieved in many energy producing activities are often far lower than those readily accepted in other human activities.

Because different Committees of Congress have responsibility for competing objectives, it is especially difficult to achieve a satisfactory balance among our national objectives in new legislation. This will be a continuing problem in the new Congress and I can only urge that each measure affecting energy supply and demand, which also involves other objectives, be evaluated carefully to assure that the resulting costs, risks and benefits are truly in the national interest.

THE NEED FOR SUBSTANTIVE LEGISLATION AFFECTING ENERGY

We have made significant progress over the past two years toward establishing the framework of law and policies that are needed to permit decisions and actions that will help solve our energy problem.

Nine of the proposals that I submitted have been enacted into law. However, there remains a long list of requirements for early Congressional action.

Highest Priority

Because of the large number of legislative proposals that need action, I want to make clear that I believe highest priority should be given to measures which:

- Remove Federal price regulation from new natural gas supplies. This action is crucial to increasing domestic production and reducing wasteful and inefficient uses.
- Revise domestic crude oil price controls to allow greater flexibility in establishing a pricing formula that will encourage increased domestic production and assist in phasing out controls. This action is needed to overcome problems in the current law and to reduce market distortions that have resulted.
- Make clear our determination to expand capacity in the United States, principally through the efforts of private industry, to enrich uranium needed to provide fuel for nuclear power plants. This action is necessary to permit increased use of nuclear power in the U.S. and to assure other nations that we will be a reliable supplier of uranium enrichment services -- a step that is critical to our nuclear non-proliferation objectives.
- Amend the Clean Air Act to:
 - Change the statutory requirements for meeting auto emission standards so that there can be a better balance among our environmental quality, energy, economic and consumer price objectives.
 - Provide flexibility in meeting national air quality standards applicable to power plants and major industrial facilities so that the use of coal can be continued and expanded, and so that new energy-producing facilities can be constructed in selected areas that have not yet attained national air quality standards.
 - Remove the requirement imposed by the courts for preventing significant deterioration of air quality in areas already meeting air quality standards -- until information is available on the impact of such actions and informed decisions can be made.

Other Important Proposals

In addition to the above select list, favorable action is needed from the Congress on legislation in all the following areas:

-- Natural Gas

- Temporary emergency legislation to allow pipelines and high priority users to obtain intrastate gas at unregulated prices for limited periods -- to help cope with shortages and curtailments.

-- Oil

- Authorization for the President to impose fees and taxes as standby emergency measures to reduce energy consumption in the event of another embargo -- to avoid the inefficiencies and burdens of mandatory conservation measures in such emergencies.
- An Oil Spill Liability Act -- to establish a comprehensive system of liability and compensation for oil spill damage and removal costs.
- Authorization for private competitive exploration and development of the National Petroleum Reserve in Alaska.

-- Coal

- Extension of the authority to require utilities and other major fuel-burning installations to convert from oil and gas to coal.
- Changes in provisions of the Coal Leasing Amendments Act of 1976 which unnecessarily delay or restrict leasing and development of coal on Federal lands.
- Authority for the use of eminent domain in the construction of coal slurry pipelines and authority for the Secretary of the Interior to issue certificates of public convenience and necessary to expedite slurry pipeline construction.

-- Nuclear Energy

- Authority for the Energy Research and Development Administration to enter into cooperative agreements with firms wishing to finance, build, own and operate uranium enrichment plants -- to assure the availability of required capacity and avoid the need for billions of dollars in Federal outlays when the private sector can provide the financing.
- Authority to increase the price for uranium enrichment services performed in Government-owned plants -- to assure a fair return to the taxpayers for their investment, to price services more nearly comparable to their private sector value, and to end the unjustified subsidy by taxpayers to both foreign and domestic customers.
- Criteria for the control of nuclear exports which is necessary to round out the comprehensive non-proliferation, export control, reprocessing evaluation and waste management program I outlined in my October 28, 1976, statement on nuclear policy.
- Reform the nuclear facilities licensing process by providing for early site review and approval and encouraging standardization of nuclear facility design.

-- Building Energy Facilities

- Establishment of an Energy Independence Authority (EIA), a new government corporation, to assist private sector financing of new energy facilities.
- Legislation to encourage states to develop comprehensive and coordinated processes to expedite review and approval of energy facilities siting applications, and to assure the availability of sites.

-- Energy Conservation

- Tax credit for homeowners to provide up to \$150 for purchasing and installing insulation in existing residences.
- Reform of rate setting practices applicable to public utilities -- to expedite consideration of proposed rate changes and assure that rates reflect full costs of generating and transmitting power.

1978 BUDGET REQUESTS

My 1978 Budget which will soon be forwarded to the Congress will include major new funding to:

- Continue and expand our extensive program of energy research and development in cooperation with private industry which is directed toward new technologies for conserving energy and for producing energy from fossil, nuclear, solar and geothermal sources.
- Implement the Early Storage Program as part of the Strategic Petroleum reserves which will provide up to 500 million barrels of oil for use in emergency situations such as an embargo.
- Implement my comprehensive nuclear policy statement issued on October 28, 1976.
- Continue ERDA's development program on the liquid metal fast breeder reactor -- to resolve any remaining environmental, safety and safeguards questions -- so that this technology will be available to bridge the gap until advanced technologies can make their contribution to our energy needs.
- Provide increased operating funds for other Federal energy activities.

I urge the Congress to approve these funding requests.

REORGANIZATION OF FEDERAL ENERGY ACTIVITIES

Under the provisions of the Energy Conservation and Production Act of August 1976, I am called upon to make recommendations to the Congress with respect to the re-organization of Federal energy and natural resource activities. At my direction, a major study of alternatives had already been undertaken in May 1976 under the leadership of the Energy Resources Council and the Office of Management and Budget.

I have reviewed the findings and recommendations from the study. Within the next few days, I will forward my recommendations to the Congress.

TIME TO ACT

The Nation has waited far too long for completion of a sound and effective national energy policy. In many cases, the issues are complex and controversial, the decisions are tough to make -- particularly because the right decisions will be unpopular in the short run. The costs of continued energy dependence are far too great for further delay.

The Congress can act. It is a matter of organizing itself to make the tough decisions and choices and moving ahead with the task. I urge the Congress to weigh the alternatives carefully and proceed promptly.

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THE WHITE HOUSE,