

FOR IMMEDIATE RELEASE

April 12, 1976

Office of the Vice President

STATEMENT OF THE VICE PRESIDENT
BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS ON S 2532
A BILL TO CREATE THE ENERGY INDEPENDENCE AUTHORITY
WASHINGTON, D. C.

April 12, 1976

Mr. Chairman, Members of the Committee: I appreciate this opportunity to join with you to discuss the most challenging problem of a challenging era -- the energy crisis.

First, I would like to ask, and then answer, the following questions: (1) Is there really an energy crisis? (2) What happens if we just continue as is -- to depend on increasing foreign imports to meet our Nation's growing energy needs? (3) Do we, as a Nation, have the resources and capacity to achieve energy independence? (4) What does it take to do it? (5) Why does government have to get into it?-- Why isn't private enterprise doing it? (6) How can government play an appropriate role in achieving energy independence without subsidizing private interests, or without interfering with the free enterprise system? (7) If the answer to getting us off dead center is an Energy Independence Authority, as provided for in Senate Bill 2532, how would it work? (8) With an all-out national effort, how fast can we expect to achieve the goal of energy independence?

I. Is There Really an Energy Crisis? -- Unfortunately, many Americans do not believe the energy crisis is real because there is no tangible evidence of it. There is gas in the pumps, and the lights go on when they flip the switch. They recognized it two and a half years ago during the Arab oil embargo when the lines formed at the service stations. But there are no lines now because we are importing 40 per cent of the oil consumed in this Nation.

In 1960, we received 18 per cent of our oil from foreign sources. During one week last month, our foreign oil imports reached more than 50 per cent of our total consumption. Even more alarming is the fact that the proportion of our imports which comes from unstable Mideast sources is rising faster than the growth rate of our imports as a whole.

While imports rise, domestic production of both oil and natural gas is declining. The Northeastern part of this country is now dependent upon foreign sources for 75 per cent of its oil. If this supply were suddenly cut off, there would be social and economic chaos. Should we have another embargo, the economy of this country would be shattered. Today's energy situation is, in my judgment, a clear definition of a crisis.

(MORE)

II. What happens if we just continue as is -- to depend on increasing foreign imports to meet our Nation's needs? -- Between now and 1985, our energy needs will grow by 36 per cent. If we continue our current course, and continue to regulate oil and natural gas prices at current levels, if we do not develop our current reserves, if we fail to increase the generating capacity of nuclear plants, if we do not adopt a strong program of conservation, and if we fail to commercialize new sources of energy, such as gas and oil from coal and shale, we will be importing between 50 and 60 per cent of our oil in 1985. And it will cost us in foreign exchange not \$30 billion as it will this year, but \$50 billion by 1985. It is obvious what a threat of an embargo would do to our national security and defense capabilities under such circumstances as well as to our capacity to meet our responsibilities to the other nations of the free world who, without our protection, would be equally vulnerable. I am hesitant even to speculate on the kinds of economic, political and military pressures that could be imposed on this Nation if we continued to be more than 50 per cent reliant on foreign sources.

With such a large amount of the oil coming from one area of the world, the supply lines provide a tempting opportunity for the Soviet Union, with its growing sea power, to disrupt the transport on the high seas. But there are other serious consequences that could result. The continued dependence upon foreign sources of oil could cause us to lose credibility with our allies. They would be justified in asking whether or not we would support their interests against those of our oil suppliers. Our continuing dependence on imported oil threatens our ability to maintain our leadership in the free world, our economic well-being and our national security.

Now, let's look at what happens to our economy, if we continue along our present path of depending on increasing foreign imports to meet our Nation's growing energy needs. In 1973, we were spending \$4.3 billion annually for foreign oil. And in 1976 we will spend \$30 billion. We now export \$22 billion in agricultural products -- which is up from \$8 billion in 1973. Were it not for the sale of these farm products and the sale of \$10 billion worth of arms, we would not have maintained our balance of payments.

On the other hand, if we just continue on the present course, we will be spending up to \$50 billion overseas for imported oil to meet the growth in our domestic needs. On the other hand, if we were to spend the \$30 billion at home, it would provide jobs for at least 1,200,000 people. And, by 1985, \$50 billion spent at home to produce our energy requirements domestically would produce close to 2,000,000 jobs for American workers.

If we don't follow this course, at some point, the economics of business will compel industrial concerns to locate their facilities in close proximity to energy sources abroad, rather than to their markets and customers at home. This would mean an additional loss of jobs in this country and would be detrimental to the vitality of the entire American economy.

As energy costs rise due to the arbitrary action of the OPEC cartel over which we have no control, inflationary pressures are placed on our economy. When this occurs, there is a tendency for government to enact policy which inhibits economic growth. To continue along our present path spells economic, social and political chaos.

(MORE)

III. Do we as a Nation have the resources and capacity to achieve energy independence? -- The answer is yes! We are extremely fortunate as a Nation to have vast reserves of resources that can be converted into energy. The North Slope of Alaska will make available significant amounts of oil and natural gas. And we have known reserves of coal that will last us for at least one hundred years. It is estimated that our shale oil reserves are equivalent to four to five times the total amount of known oil reserves in the Middle East. The potential resources on the outer continental shelf are expected to be substantial. We have the technology and ability to more than triple the generation of nuclear power with appropriate safeguards by 1985. We have, in this country, potential energy from geothermal, solar and other sources. All of these can replace our dwindling present domestic supply of natural gas and oil -- in a way that protects our environment.

To achieve energy independence in this century, we must develop and construct the facilities necessary to exploit these new sources, and we have already lost two years in getting started.

IV. What does it take to do it? -- To achieve energy self-sufficiency we must, in the short-term, face up to the issues that confront this Congress and the American people. We must enact and employ conservation measures. We must deregulate the prices of domestic oil and gas. We must assure that we do not unduly impede the development of nuclear power. And we must assure that our environment is protected, but that the policies we adopt in doing so do not deter the development of our resources, such as coal, oil shale, and off shore oil reserves. There is no problem in achieving both goals if we all work together. Modern science and technology can assure the achievement of both goals together.

According to Federal Energy Administration estimates, if we take all the necessary actions in the next 10 years, we can reduce our energy needs by 5 per cent through conservation, increase domestic oil production by 50 per cent, increase coal production by 100 per cent, increase natural gas production by 10 per cent and increase nuclear power generation by 300 per cent. This will require, among other things, deregulation of oil and gas -- strong conservation measures -- and \$600 billion to \$800 billion in private sector investment in domestic energy production. We must restore existing and construct new transportation systems where necessary. In the longer-term, we must commercialize known technology for the gasification and liquefaction of coal.

And, as new technologies become known for the development of such energy sources as solar, geothermal and urban wastes, they can be applied commercially. Energy independence can be achieved from the application of all of these approaches before the end of the century if we have an all out national commitment.

V. Why does government have to get into it? -- Why isn't private enterprise doing it? -- Energy independence is a national objective that is essential to the economic and strategic well-being of this Nation. Private enterprise alone cannot and will not do it. There is ample precedent for positive government action to encourage the American enterprise system in achieving national objectives that contribute to economic growth, the well-being of our people, and our national security.

(MORE)

We have a transcontinental railroad system because the government provided the land. We have a uniquely productive free enterprise agricultural system because of assistance by the government through the Homestead Act, Land Grant Colleges, the Extension Service, and the Federal Agricultural Credit System. Our civilian aviation industry evolved from the research and development of military aircraft. Because of the billions of dollars spent on our highway system by all levels of government, we have a prosperous automotive industry which is basic to our economy. All of these are examples of the partnership between government and industry to achieve an essential national goal which was not attainable by either acting alone.

In the case of energy, we have the raw materials to achieve self-sufficiency. However, the normal functioning of our economy will not, because of the uncertainty of the risks involved, produce the capital investment required to fully develop these resources within a reasonable period of time. Private capital sources are -- for good reason -- reluctant to make capital available for domestic energy production projects because of the uncertainty of government regulation, cost and prices. For example, the development of a single coal gasification plant would require a capital investment of up to \$1 billion and take approximately 6 to 10 years to construct. Because of the uncertainties of the technology, and price, and the long lead times, such a project has more than just the ordinary risk. Many projects, such as floating nuclear power plants, railroad reconstruction, or large pipelines, are of such size and scope that financing from the private sector alone may not be adequate. Ninety-two nuclear power plants have been cancelled or postponed, in large part because the electrical utilities have not been able to raise the financing necessary to construct them. They now take 10 or more years to build, cost approximately \$1 billion, and the state regulatory bodies will not give a rate increase to finance them until the power from the new plant comes on line. Thus, their inability to get private financing.

This is not to suggest that these projects are destined to lose money. It only points out the uncertainties that deter private sector investment. We are not in a position to wait until these uncertainties become certainties. The longer we wait, the further into the future we push the day when these projects will add to our domestic energy production.

VI. How can government play an appropriate role without subsidizing private interest, or without interfering with the free enterprise system? -- Government has traditionally played a role of providing incentives in one form or another to assure that adequate capital is available to the private sector in achieving national objectives. In this case, the government's role would be to provide up to a total of \$100 billion of risk capital for energy projects essential to energy independence which cannot get the necessary amount of private financing. The government loans would be on terms comparable to those offered by the private sector. In financing the development of energy resources, the government program should function like an investment bank or other private sector financing agency -- providing assistance to promising projects, but on a self-liquidating basis. This would provide an appropriate government/private sector partnership which would work together to get this country off dead center in achieving energy independence without a giveaway or subsidy.

(MORE)

The legislation stipulates that the private sector would own and operate productive facilities, and not the government. The American enterprise system has shown itself to be the most efficient and capable producer in the world. By providing financial assistance to take those risks which are beyond the capacity of the private sector, the government would act as a catalyst in getting the energy independence program into motion.

But after costs were determined and market prices established, then the competitive nature of our system would provide the incentives necessary for the successful achievement of our energy independence goals.

VII. If the answer to getting us off dead center is an Energy Independence Authority, as provided for in Senate Bill 2532, how would it work? -- The Energy Independence Authority would have authority to provide up to \$100 billion of financial assistance for energy projects which could not otherwise secure financing from private sector sources. This sum would be raised through the sale to the Treasury of up to \$25 billion in equity securities and the issuance of up to \$75 billion in government-guaranteed obligations. The Authority could provide financial assistance in a variety of ways, including loans, loan or price guarantees, purchase of equity securities, or construction of facilities for lease-purchase. The Authority would not be permitted to own and operate facilities, or to provide financing at interest rates which are below those which prevail in the private sector. The Authority would be authorized to support emerging technologies in energy supply, transportation or transmission, and conservation, projects which displace oil or natural gas as fuels for electric power generation, projects which involve technologies essential to the production or use of nuclear power and projects of unusual size or scope, or which involve innovative regulatory or institutional arrangements. It is also authorized to finance capital investments necessary for environmental protection. The Energy Independence Authority would be run by a board of five directors appointed by the President and confirmed by the Senate.

VIII. With an all-out national effort, how fast can we expect to achieve the goal of energy independence?-- With an all-out effort -- based on the establishment of the Energy Independence Authority to assist in financing the short-term actions required to limit our vulnerability by 1985, as well as the new domestic energy sources we will need after 1935 -- we can achieve energy independence before the end of this century. But time is of the essence. We cannot wait another year if we are going to protect our national security and rebuild our economic strength to meet the needs of our people at home and our responsibilities abroad.

#