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Date: November 30, 1979

MEMORANDUM FOR: THE SECRETARY

From: Joseph Laitin

Subject: Boston Speech

The AP correspondent who covers Treasury, Eileen Powell, volunteered to me today that she thought your Boston speech last night was the best she'd ever read of yours--"in spite of the fact it had no big headlines in it, it was well organized, and said very well what he wanted to say. He really had his act together."

I had the same general reaction from the correspondents on the plane after I gave them advance copies--and some of them said they planned to use material in it for their Sunday wrapups of your trip.

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname						
als / Date	/	/	/	/	/	/

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rtment of Treasury

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

RELEASE ON DELIVERY
Expected 8:30 p.m. EST

REMARKS OF THE HONORABLE
G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE NEW ENGLAND COUNCIL
AT THE NEW ENGLANDER OF THE YEAR AWARDS DINNER
BOSTON, MASSACHUSETTS
NOVEMBER 29, 1979

It is a special honor for me to receive the Council's New Englander of the Year Award. In my many years as a New England businessman, I was always an admirer and supporter of the New England Council. The Council has a distinguished history of service, promoting New England's economic development. You have also been an important force in developing an understanding of how national economic policies affect this area. In the energy field, for example, the Council was one of the first organizations to look carefully at the issue of natural gas pricing and to demonstrate that deregulation was to New England's economic advantage.

Also, by the turn of fortune, it is very special circumstances that bring me here tonight. I have just returned from visiting Saudi Arabia, the United Arab Emirates, and Kuwait. It is appropriate that Boston be my first stop upon returning home. No section of the country relies more on petroleum than New England. No region is more affected by changes in the price and availability of oil.

Energy and inflation are the dominant economic issues of our time. It is absolutely vital that we develop a broader public understanding of what must be done with respect to these crucial matters.

In order to bring about a lasting reduction in inflation it is essential that we have effective programs for diminishing our dependence on imported oil. My discussions with the leaders of the Arabian Gulf oil producing nations have reinforced my conviction that we must continue to move ahead forcefully on this score if we are to avoid highly unfavorable impacts on our economy. This evening I would like to talk about our programs to accomplish this.

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Our problems with energy and inflation did not develop overnight, nor will they be solved quickly or easily. Inflation has built up over the past 15 years and has now become deeply embedded in our economic structure.

The Administration has, therefore, been marshalling a broad range of policies to deal with inflation's fundamental causes, not just its symptoms. We have already put into place a comprehensive anti-inflation program including monetary and fiscal restraint, voluntary price and pay moderation, balance in international payments, stability for the dollar, and major redirection of energy policies.

Taken together, these policies made up a sound strategy for defeating inflation. However, just as this strategy was becoming effective, it was overtaken by events in the energy area. The dramatic increase in energy prices following the cutback in Iran's oil production earlier this year is a primary cause of the current acceleration in inflation.

THE IMPACT OF ENERGY ON INFLATION

Energy has been accounting directly for about 3-1/2 percentage points in our present 13 percent inflation rate. Its indirect impact may be another 1 or 2 percent. The energy component of the CPI has increased at an annual rate of 43 percent so far this year. Since December, gasoline prices have risen at a 57 percent annual rate; fuel oil, so important to New England, has increased at a 67 percent annual rate. Fortunately, there was some indication last month that the rate of increase in energy prices had begun to slow.

While it is essential that we have in place all of our other programs to defeat inflation, they cannot be successful over the long run if we remain vulnerable to continued shocks from dramatic increases in oil prices. Over the longer run, the war against inflation will be won or lost on the energy issue. The danger is that another round of sharp increases in oil prices, or shortfalls in oil supply could bring higher unemployment, higher inflation and a possible world-wide recession. For these reasons, it is of the utmost urgency that we take all steps necessary now to diminish our dependence on imported oil.

RESTORING ORDER TO WORLD OIL MARKETS

The reduction in world oil production of 2 million barrels per day caused by events in Iran earlier this year was followed by speculative purchases and inventory building. This combination of events left world oil markets in perilously close balance. As a result, producers have been able to increase prices almost at will. In some cases they have done this by abrogating long-term contracts and selling a larger proportion of

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output in the spot market where prices have sometimes reach $45 per barrel.

In the absence of effective efforts to conserve on energy usage, the outlook is for oil markets to remain tight next year. Free world demand for oil could still be about 51 million barrels a day in 1980. Most experts expect supply to be very close to this level. This forecast leaves little margin for comfort. A significant cutback in production by any of the major oil exporting countries would result in serious economic disruptions. We do not expect this to happen. But as events of recent weeks indicate we must be prepared for the unexpected.

Returning order to world energy markets will require sacrifice on the part of both consumers and producers. We have already made a start. In the International Energy Agency (IEA), and at the Tokyo Summit, the major oil consuming nations made commitments to control consumption and reduce oil imports. However, much more must be done. In the IEA, we are now working on an accelerated timetable to develop new and stronger commitments for increased reductions by member countries. If we are prepared to make the necessary sacrifices to achieve a significant reduction in oil use, the principal Arabian Gulf oil producing countries have indicated that they are prepared to respond by producing a stable oil supply. By much cooperation between consuming countries and producing countries, we should be able to restore order to the world oil market.

The United States has made more progress than most countries in cutting back on oil imports. So far this year, we have reduced our total oil consumption by about 2.4 percent from the same period of 1978. The extent of this reduction has increased in each quarter, reaching 4.4 percent in the third quarter, despite the resumption of positive growth in our economy. Moreover, we have cut our consumption of imported oil by about 5 percent over the same period in 1978. Since the oil boycott in 1973, we have reduced by 7-1/2 percent the amount of energy used to produce a unit of national output. While our progress to date has been good, we must do more.

HOW WE BECAME DEPENDENT ON IMPORTED OIL

While the U.S. produces 22 percent of world economic output and has only 5 percent of world population, we account for 29 percent of world energy consumption. Not only do we consume too much energy, we also consume the wrong mix of energy. Ten years ago, oil provided about 44 percent of all of our energy. Now it provides about 50 percent. Furthermore, an increasing share of the petroleum we use is imported. In 1969, we used about 14 million barrels a day of oil, of which about one-fifth was imported. In 1973, we were using about 17 million barrels a day, of which about a third was imported. This year we will use about 19 million barrels a day, of which more than 40 percent will be imported.

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The principal reason that we adopted this pattern of energy consumption is that domestic oil was cheap relative to other energy forms. For example, between 1967 and 1972 the real price of gasoline decreased by about 13 percent.

Another factor behind oil's increased share in our total energy consumption is that there were price controls on interstate sales of natural gas until they were removed last year by enactment of the Natural Gas Act. Price controls diminished the incentives for new exploration and production of natural gas. New supplies of natural gas were increasingly reserved for the unregulated intrastate market. As a result, natural gas declined from one third of U.S. energy use in 1970 to one quarter in 1978.

The oil embargo in 1973 and the subsequent quadrupling of the price of oil signaled the end of the era of cheap energy. This should have served as a warning of the necessity of reducing our dependence on foreign oil. Instead, we failed to respond adequately to our changed circumstances. Since the oil shock of 1973/74, two American presidents chose to impose arbitrary price controls to keep domestic oil prices below world levels. This action has helped give the American people the false impression that oil is still plentiful and inexpensive. It is neither. While President Carter has faced the issue courageously and squarely, there are still those who fail to understand this economic reality.

Price controls encouraged the wasteful consumption of energy. They subsidized the use of domestic oil. Controls also diminished the incentive to develop domestic oil or alternate sources of energy. As a result, our total oil imports increased dramatically from 5 million barrels a day in 1973 to 8.5 million barrels a day in 1977. We have now been able to turn the tide so that in 1979 we expect to import 8 million or less barrels a day -- bettering the target set by President Carter on July 15 and coming in well under the commitment made at the Tokyo Summit. But we must do even more if we are to reduce our vulnerability to interruptions in the availability of foreign oil with all its implications.

Removing price controls will mean somewhat higher energy prices in the short run. However, over the longer run, pricing energy at its replacement value is essential if we are to regain control of our own destiny. That is why President Carter made the courageous decision to implement phased decontrol of domestic crude prices.

We must face economic reality. Anyone who advocates reimposing controls, and implies that we can have cheap oil, will be misleading the American people. He will simply be ignoring the consequences and the inevitable increased reliance on imported oil. Reimposing price controls on oil would place us once more on a dangerous road.

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Decontrol must be an essential part of any program for U.S. energy security; but it is only a part.

The Administration has proposed a comprehensive program to enable us to have less dependence on imported oil. It will require sacrifice and some change in our life style, but it must be done if we are to avoid even greater difficulties in the years ahead.

The Administration's program entails more vigorous conservation, and increased development of conventional energy, renewable energy sources and synthetic fuels. Without this program, which we have been putting in place since 1977, we estimate that the United States would have needed to import about 14 million barrels a day of oil by 1990. Measures already adopted have cut that estimate to 8-9 million barrels a day.

When the President's latest proposals are enacted and implemented, we will need to import between 4 and 5 million barrels a day in 1990 -- about half our current level.

CONSERVATION

Conservation is the first priority in our national energy program. Conservation is the surest, cleanest, cheapest way to reduce our reliance on imported oil.

Higher oil prices in themselves will encourage more efficient use of energy. In addition, we have a wide ranging array of tax credits, grants, financing subsidies and other incentives to promote energy saving investments. While some of these are just being proposed, others are already in place. The Internal Revenue Service has calculated that about 6 million 1978 tax returns claimed residential energy conservation credits totaling $596 million.

One area in which we must do more to promote conservation is gasoline use. Forty percent of our petroleum consumption is for motor gasoline. We have established statutory requirements requiring new cars to be more fuel efficient. We are also undertaking ambitious research programs to develop more fuel efficient automobiles. In addition, we have proposed expanded assistance for public transit.

We hope that these efforts, along with voluntary conservation by the American people, will result in a significant reduction in gasoline usage. If gasoline consumption does not decline significantly, we may have to consider new, more forceful action.

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Coal is one form of energy we have in great abundance. We are actively promoting its industrial and utility use. The National Energy Act of 1978 prohibits the use of gas or oil in new electric utility generating facilities or new industrial boilers. We are also setting targets for reduced use of oil and gas by utilities already using these fuels. We have proposed grants to help utilities make these conversions.

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Nuclear energy is, of course, another highly important energy source for many of our utilities, particularly in New England. The incident at Three Mile Island has demonstrated the potential perils associated with nuclear power. However, at this point, it would be unwise for us to forego the opportunities offered by the safe use of nuclear energy. The Kemeny Commission has just made important recommendations as to how nuclear energy can be made safer through more effective supervision and better training.

RENEWABLE ENERGY SOURCES

The first stage of our country's industrial development began in New England powered not by fossil fuels, but by water, wind and wood. The third priority in our energy program is increased reliance on such renewable energy sources, including solar, biomass, and alcohol. While none of these sources by itself is likely to account immediately for a substantial share of our energy, together they can begin to play a very significant role today and they will be even more important in the future. Unlike fossil fuels, renewable sources will always be available and will not pose threats to human safety or to our environment.

Gasohol, produced by mixing methanol or alcohol with gasoline, could enable us to reduce consumption of gasoline significantly. We have proposed tax incentives for alcohol used in the production of gasohol.

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One of the most promising sources of energy for the future is the sun. We are funding ambitious research efforts to develop more efficient solar devices. We also have an extensive set of incentives to encourage greater use of solar energy now, including financial assistance for the large front end investments that are sometimes required. In addition, we also have programs to encourage the use of low head hydro electric power. Here again, New England is a leader and already has a number of projects underway.

SYNTHETIC FUELS

While the United States is running short of inexpensive, conventional oil and gas, we do have tremendous untapped resources in shale oil, unconventional natural gas and coal. Much of this energy, however, is not in a form that can be readily used. The fourth priority in our energy program is the development of synthetic fuels from these resources.

Over time the United States has become heavily dependent on conventional liquid fuels for transportation, heat, and power generation. However, we can no longer be sure how long we can rely on overseas suppliers to meet our needs for this form of energy. Synthetic fuels are essential as the long term safety net to protect our economy from interruptions in the supply of imported oil.

The development of synthetic fuels will take time and require enormous financial resources. In many cases, the financial commitments required and the risks involved are greater than most private firms could assume on their own. For this reason, we have proposed an Energy Security Corporation to work with the private sector in the development of synthetic fuels. To enable it to operate with the flexibility and efficiency which this task will require, the ESC will be an independent government agency.

THE ENERGY MOBILIZATION BOARD

The regulatory requirements of Federal, state and local governments have sometimes delayed or even acted as a deterent to the development of important new energy sources. We cannot afford unnecessary delays in our efforts to achieve energy security. We have, therefore, proposed an Energy Mobilization Board to help shorten the time required to obtain permits for new energy projects. The Energy Mobilization Board will work with state and local governments and other regulatory parties to expedite projects that are in our common interest.

THE WINDFALL PROFITS TAX

The dramatic increases in world oil prices have already led to substantial increases in oil company earnings, particularly

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for those companies who have access to Saudi Arabian oil which has been priced at $18 per barrel -- below other OPEC oil, and far below prevailing spot prices. This lower price has not been passed on to U.S. consumers. Decontrol will generate further increases in oil company earnings. Much of this is a pure windfall, and not the result of any new economic activity on the part of the oil companies.

The windfall profits tax would use an equitable portion of the increase in oil company earnings to finance many of the energy programs so essential to our nation's future. The tax is also essential to help pay for financial assistance to those least able to bear the burden of higher energy costs. The tax is carefully designed so that oil companies will be left with ample funds and ample incentive for the exploration and development of new energy.

The House has already passed a responsible windfall profits tax bill which meets the President's objectives and the nation's needs. The Senate Finance Committee bill, now on the Senate floor, provides the appropriate framework, but needs to be further strengthened.

However, the Senate in action this week has further weakened the windfall profits tax by providing that each independent oil producer can exempt up to $11 million of annual production from the tax. This exemption will cost about $10 billion over the next ten years while having very little impact on production.

CONCLUSION

Recent events dramatically demonstrate the importance of immediately implementing President Carter's energy program. We must understand that time is running out. Continued reliance on imported oil leaves us vulnerable to serious economic disruptions and threatens our freedom.

We must also understand that the current levels of production are not considered by OPEC nations to be in their own self-interest. Thus, they are looking to us to exercise the discipline and self-control necessary to implement our own energy policies. If we do, I believe that we can count on their continued cooperation and constructive policies.

The greatest danger is that we do too little. We must undertake an ambitious program now. If there should be a favorable change in circumstances in the future, we can always scale back our efforts. If we proceed too timidly, we may loose forever the opportunity to reestablish American energy security.

Once the American people understand the issues involved, I am confident they will have the will to curtail dramatically their use of imported oil. The last few weeks have been frustrating and anguishing for most Americans. The most important message we can send the world right now is that we are willing to bear whatever burden, and accept whatever sacrifice is necessary to recapture control of our own destiny.

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INTRODUCTION

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PROGRAM TO REDUCE INFLATION - ADDRESSING THE FUNDAMENTALS

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The Administration has, therefore, been marshalling a broad range of policies to deal with inflation's fundamental causes, not just its symptoms. We have already put into place a comprehensive anti-inflation program including monetary and fiscal restraint, voluntary price and pay moderation, balance in international payments, stability for the dollar, and major redirection of energy policies.

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The development of synthetic fuels will take time and require enormous financial resources. In many cases, the financial commitments required and the risks involved are greater than most private firms could assume on their own. For this reason, we have proposed an Energy Security Corporation to work with the private sector in the development of synthetic fuels. To enable it to operate with the flexibility and efficiency which this task will require, the ESC will be an independent government agency.

THE ENERGY MOBILIZATION BOARD

The regulatory requirements of Federal, state and local governments have sometimes delayed or even acted as a deterent to the development of important new energy sources. We cannot afford unnecessary delays in our efforts to achieve energy security. We have, therefore, proposed an Energy Mobilization Board to help shorten the time required to obtain permits for new energy projects. The Energy Mobilization Board will work with state and local governments and other regulatory parties to expedite projects that are in our common interest.

THE WINDFALL PROFITS TAX

The dramatic increases in world oil prices have already led to substantial increases in oil company earnings, particularly

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for those companies who have access to Saudi Arabian oil which has been priced at $18 per barrel -- below other OPEC oil, and far below prevailing spot prices. This lower price has not been passed on to U.S. consumers. Decontrol will generate further increases in oil company earnings. Much of this is a pure windfall, and not the result of any new economic activity on the part of the oil companies.

The windfall profits tax would use an equitable portion of the increase in oil company earnings to finance many of the energy programs so essential to our nation's future. The tax is also essential to help pay for financial assistance to those least able to bear the burden of higher energy costs. The tax is carefully designed so that oil companies will be left with ample funds and ample incentive for the exploration and development of new energy.

The House has already passed a responsible windfall profits tax bill which meets the President's objectives and the nation's needs. The Senate Finance Committee bill, now on the Senate floor, provides the appropriate framework, but needs to be further strengthened.

However, the Senate in action this week has further weakened the windfall profits tax by providing that each independent oil producer can exempt up to $11 million of annual production from the tax. This exemption will cost about $10 billion over the next ten years while having very little impact on production.

CONCLUSION

Recent events dramatically demonstrate the importance of immediately implementing President Carter's energy program. We must understand that time is running out. Continued reliance on imported oil leaves us vulnerable to serious economic disruptions and threatens our freedom.

We must also understand that the current levels of production are not considered by OPEC nations to be in their own self-interest. Thus, they are looking to us to exercise the discipline and self-control necessary to implement our own energy policies. If we do, I believe that we can count on their continued cooperation and constructive policies.

The greatest danger is that we do too little. We must undertake an ambitious program now. If there should be a favorable change in circumstances in the future, we can always scale back our efforts. If we proceed too timidly, we may loose forever the opportunity to reestablish American energy security.

Once the American people understand the issues involved, I am confident they will have the will to curtail dramatically their use of imported oil. The last few weeks have been frustrating and anguishing for most Americans. The most important message we can send the world right now is that we are willing to bear whatever burden, and accept whatever sacrifice is necessary to recapture control of our own destiny.

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Also, by the turn of fortune, it is very special circumstances that bring me here tonight. I have just returned from visiting Saudi Arabia, the United Arab Emirates, and Kuwait. It is appropriate that Boston be my first stop upon returning home. No section of the country relies more on petroleum than New England. No region is more affected by changes in the price and availability of oil.

Energy and inflation are the dominant economic issues of our time. It is absolutely vital that we develop a broader public understanding of what must be done with respect to these crucial matters.

In order to bring about a lasting reduction in inflation it is essential that we have effective programs for diminishing our dependence on imported oil. My discussions with the leaders of the Arabian Gulf oil producing nations have reinforced my conviction that we must continue to move ahead forcefully on this score if we are to avoid highly unfavorable impacts on our economy. This evening I would like to talk about our programs to accomplish this.

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PROGRAM TO REDUCE INFLATION - ADDRESSING THE FUNDAMENTALS

Our problems with energy and inflation did not develop overnight, nor will they be solved quickly or easily. Inflation has built up over the past 15 years and has now become deeply embedded in our economic structure.

The Administration has, therefore, been marshalling a broad range of policies to deal with inflation's fundamental causes, not just its symptoms. We have already put into place a comprehensive anti-inflation program including monetary and fiscal restraint, voluntary price and pay moderation, balance in international payments, stability for the dollar, and major redirection of energy policies.

Taken together, these policies made up a sound strategy for defeating inflation. However, just as this strategy was becoming effective, it was overtaken by events in the energy area. The dramatic increase in energy prices following the cutback in Iran's oil production earlier this year is a primary cause of the current acceleration in inflation.

THE IMPACT OF ENERGY ON INFLATION

Energy has been accounting directly for about 3-1/2 percentage points in our present 13 percent inflation rate. Its indirect impact may be another 1 or 2 percent. The energy component of the CPI has increased at an annual rate of 43 percent so far this year. Since December, gasoline prices have risen at a 57 percent annual rate; fuel oil, so important to New England, has increased at a 67 percent annual rate. Fortunately, there was some indication last month that the rate of increase in energy prices had begun to slow.

While it is essential that we have in place all of our other programs to defeat inflation, they cannot be successful over the long run if we remain vulnerable to continued shocks from dramatic increases in oil prices. Over the longer run, the war against inflation will be won or lost on the energy issue. The danger is that another round of sharp increases in oil prices, or shortfalls in oil supply could bring higher unemployment, higher inflation and a possible world-wide recession. For these reasons, it is of the utmost urgency that we take all steps necessary now to diminish our dependence on imported oil.

RESTORING ORDER TO WORLD OIL MARKETS

The reduction in world oil production of 2 million barrels per day caused by events in Iran earlier this year was followed by speculative purchases and inventory building. This combination of events left world oil markets in perilously close balance. As a result, producers have been able to increase prices almost at will. In some cases they have done this by abrogating long-term contracts and selling a larger proportion of

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output in the spot market where prices have sometimes reach $45 per barrel.

In the absence of effective efforts to conserve on energy usage, the outlook is for oil markets to remain tight next year. Free world demand for oil could still be about 51 million barrels a day in 1980. Most experts expect supply to be very close to this level. This forecast leaves little margin for comfort. A significant cutback in production by any of the major oil exporting countries would result in serious economic disruptions. We do not expect this to happen. But as events of recent weeks indicate we must be prepared for the unexpected.

Returning order to world energy markets will require sacrifice on the part of both consumers and producers. We have already made a start. In the International Energy Agency (IEA), and at the Tokyo Summit, the major oil consuming nations made commitments to control consumption and reduce oil imports. However, much more must be done. In the IEA, we are now working on an accelerated timetable to develop new and stronger commitments for increased reductions by member countries. If we are prepared to make the necessary sacrifices to achieve a significant reduction in oil use, the principal Arabian Gulf oil producing countries have indicated that they are prepared to respond by producing a stable oil supply. By much cooperation between consuming countries and producing countries, we should be able to restore order to the world oil market.

The United States has made more progress than most countries in cutting back on oil imports. So far this year, we have reduced our total oil consumption by about 2.4 percent from the same period of 1978. The extent of this reduction has increased in each quarter, reaching 4.4 percent in the third quarter, despite the resumption of positive growth in our economy. Moreover, we have cut our consumption of imported oil by about 5 percent over the same period in 1978. Since the oil boycott in 1973, we have reduced by 7-1/2 percent the amount of energy used to produce a unit of national output. While our progress to date has been good, we must do more.

HOW WE BECAME DEPENDENT ON IMPORTED OIL

While the U.S. produces 22 percent of world economic output and has only 5 percent of world population, we account for 29 percent of world energy consumption. Not only do we consume too much energy, we also consume the wrong mix of energy. Ten years ago, oil provided about 44 percent of all of our energy. Now it provides about 50 percent. Furthermore, an increasing share of the petroleum we use is imported. In 1969, we used about 14 million barrels a day of oil, of which about one-fifth was imported. In 1973, we were using about 17 million barrels a day, of which about a third was imported. This year we will use about 19 million barrels a day, of which more than 40 percent will be imported.

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The principal reason that we adopted this pattern of energy consumption is that domestic oil was cheap relative to other energy forms. For example, between 1967 and 1972 the real price of gasoline decreased by about 13 percent.

Another factor behind oil's increased share in our total energy consumption is that there were price controls on interstate sales of natural gas until they were removed last year by enactment of the Natural Gas Act. Price controls diminished the incentives for new exploration and production of natural gas. New supplies of natural gas were increasingly reserved for the unregulated intrastate market. As a result, natural gas declined from one third of U.S. energy use in 1970 to one quarter in 1978.

The oil embargo in 1973 and the subsequent quadrupling of the price of oil signaled the end of the era of cheap energy. This should have served as a warning of the necessity of reducing our dependence on foreign oil. Instead, we failed to respond adequately to our changed circumstances. Since the oil shock of 1973/74, two American presidents chose to impose arbitrary price controls to keep domestic oil prices below world levels. This action has helped give the American people the false impression that oil is still plentiful and inexpensive. It is neither. While President Carter has faced the issue courageously and squarely, there are still those who fail to understand this economic reality.

Price controls encouraged the wasteful consumption of energy. They subsidized the use of domestic oil. Controls also diminished the incentive to develop domestic oil or alternate sources of energy. As a result, our total oil imports increased dramatically from 5 million barrels a day in 1973 to 8.5 million barrels a day in 1979. We have now been able to turn the tide so that in 1979 we expect to import 8 million or less barrels a day -- bettering the target set by President Carter on July 15 and coming in well under the commitment made at the Tokyo Summit. But we must do even more if we are to reduce our vulnerability to interruptions in the availability of foreign oil with all its implications.

Removing price controls will mean somewhat higher energy prices in the short run. However, over the longer run, pricing energy at its replacement value is essential if we are to regain control of our own destiny. That is why President Carter made the courageous decision to implement phased decontrol of domestic crude prices.

We must face economic reality. Anyone who advocates reimposing controls, and implies that we can have cheap oil, will be misleading the American people. He will simply be ignoring the consequences and the inevitable increased reliance on imported oil. Reimposing price controls on oil would place us once more on a dangerous road.

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Decontrol must be an essential part of any program for U.S. energy security; but it is only a part.

The Administration has proposed a comprehensive program to enable us to have less dependence on imported oil. It will require sacrifice and some change in our life style, but it must be done if we are to avoid even greater difficulties in the years ahead.

The Administration's program entails more vigorous conservation, and increased development of conventional energy, renewable energy sources and synthetic fuels. Without this program, which we have been putting in place since 1977, we estimate that the United States would have needed to import about 14 million barrels a day of oil by 1990. Measures already adopted have cut that estimate to 8-9 million barrels a day.

When the President's latest proposals are enacted and implemented, we will need to import between 4 and 5 million barrels a day in 1990 -- about half our current level.

CONSERVATION

Conservation is the first priority in our national energy program. Conservation is the surest, cleanest, cheapest way to reduce our reliance on imported oil.

Higher oil prices in themselves will encourage more efficient use of energy. In addition, we have a wide ranging array of tax credits, grants, financing subsidies and other incentives to promote energy saving investments. While some of these are just being proposed, others are already in place. The Internal Revenue Service has calculated that about 6 million 1978 tax returns claimed residential energy conservation credits totaling $596 million.

One area in which we must do more to promote conservation is gasoline use. Forty percent of our petroleum consumption is for motor gasoline. We have established statutory requirements requiring new cars to be more fuel efficient. We are also undertaking ambitious research programs to develop more fuel efficient automobiles. In addition, we have proposed expanded assistance for public transit.

We hope that these efforts, along with voluntary conservation by the American people, will result in a significant reduction in gasoline usage. If gasoline consumption does not decline significantly, we may have to consider new, more forceful action.

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Coal is one form of energy we have in great abundance. We are actively promoting its industrial and utility use. The National Energy Act of 1978 prohibits the use of gas or oil in new electric utility generating facilities or new industrial boilers. We are also setting targets for reduced use of oil and gas by utilities already using these fuels. We have proposed grants to help utilities make these conversions.

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Nuclear energy is, of course, another highly important energy source for many of our utilities, particularly in New England. The incident at Three Mile Island has demonstrated the potential perils associated with nuclear power. However, at this point, it would be unwise for us to forego the opportunities offered by the safe use of nuclear energy. The Kemeny Commission has just made important recommendations as to how nuclear energy can be made safer through more effective supervision and better training.

RENEWABLE ENERGY SOURCES

The first stage of our country's industrial development began in New England powered not by fossil fuels, but by water, wind and wood. The third priority in our energy program is increased reliance on such renewable energy sources, including solar, biomass, and alcohol. While none of these sources by itself is likely to account immediately for a substantial share of our energy, together they can begin to play a very significant role today and they will be even more important in the future. Unlike fossil fuels, renewable sources will always be available and will not pose threats to human safety or to our environment.

Gasohol, produced by mixing methanol or alcohol with gasoline, could enable us to reduce consumption of gasoline significantly. We have proposed tax incentives for alcohol used in the production of gasohol.

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RENEWABLE ENERGY SOURCES

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One of the most promising sources of energy for the future is the sun. We are funding ambitious research efforts to develop more efficient solar devices. We also have an extensive set of incentives to encourage greater use of solar energy now, including financial assistance for the large front end investments that are sometimes required. In addition, we also have programs to encourage the use of low head hydro electric power. Here again, New England is a leader and already has a number of projects underway.

SYNTHETIC FUELS

While the United States is running short of inexpensive, conventional oil and gas, we do have tremendous untapped resources in shale oil, unconventional natural gas and coal. Much of this energy, however, is not in a form that can be readily used. The fourth priority in our energy program is the development of synthetic fuels from these resources.

Over time the United States has become heavily dependent on conventional liquid fuels for transportation, heat, and power generation. However, we can no longer be sure how long we can rely on overseas suppliers to meet our needs for this form of energy. Synthetic fuels are essential as the long term safety net to protect our economy from interruptions in the supply of imported oil.

The development of synthetic fuels will take time and require enormous financial resources. In many cases, the financial commitments required and the risks involved are greater than most private firms could assume on their own. For this reason, we have proposed an Energy Security Corporation to work with the private sector in the development of synthetic fuels. To enable it to operate with the flexibility and efficiency which this task will require, the ESC will be an independent government agency.

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The regulatory requirements of Federal, state and local governments have sometimes delayed or even acted as a deterent to the development of important new energy sources. We cannot afford unnecessary delays in our efforts to achieve energy security. We have, therefore, proposed an Energy Mobilization Board to help shorten the time required to obtain permits for new energy projects. The Energy Mobilization Board will work with state and local governments and other regulatory parties to expedite projects that are in our common interest.

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for those companies who have access to Saudi Arabian oil which has been priced at $18 per barrel -- below other OPEC oil, and far below prevailing spot prices. This lower price has not been passed on to U.S. consumers. Decontrol will generate further increases in oil company earnings. Much of this is a pure windfall, and not the result of any new economic activity on the part of the oil companies.

The windfall profits tax would use an equitable portion of the increase in oil company earnings to finance many of the energy programs so essential to our nation's future. The tax is also essential to help pay for financial assistance to those least able to bear the burden of higher energy costs. The tax is carefully designed so that oil companies will be left with ample funds and ample incentive for the exploration and development of new energy.

The House has already passed a responsible windfall profits tax bill which meets the President's objectives and the nation's needs. The Senate Finance Committee bill, now on the Senate floor, provides the appropriate framework, but needs to be further strengthened.

However, the Senate in action this week has further weakened the windfall profits tax by providing that each independent oil producer can exempt up to $11 million of annual production from the tax. This exemption will cost about $10 billion over the next ten years while having very little impact on production.

CONCLUSION

Recent events dramatically demonstrate the importance of immediately implementing President Carter's energy program. We must understand that time is running out. Continued reliance on imported oil leaves us vulnerable to serious economic disruptions and threatens our freedom.

We must also understand that the current levels of production are not considered by OPEC nations to be in their own self-interest. Thus, they are looking to us to exercise the discipline and self-control necessary to implement our own energy policies. If we do, I believe that we can count on their continued cooperation and constructive policies.

The greatest danger is that we do too little. We must undertake an ambitious program now. If there should be a favorable change in circumstances in the future, we can always scale back our efforts. If we proceed too timidly, we may loose forever the opportunity to reestablish American energy security.

Once the American people understand the issues involved, I am confident they will have the will to curtail dramatically their use of imported oil. The last few weeks have been frustrating and anguishing for most Americans. The most important message we can send the world right now is that we are willing to bear whatever burden, and accept whatever sacrifice is necessary to recapture control of our own destiny.

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Also, by the turn of fortune, it is very special circumstances that bring me here tonight. I have just returned from visiting Saudi Arabia, the United Arab Emirates, and Kuwait. It is appropriate that Boston be my first stop upon returning home. No section of the country relies more on petroleum than New England. No region is more affected by changes in the price and availability of oil.

Energy and inflation are the dominant economic issues of our time. It is absolutely vital that we develop a broader public understanding of what must be done with respect to these crucial matters.

In order to bring about a lasting reduction in inflation it is essential that we have effective programs for diminishing our dependence on imported oil. My discussions with the leaders of the Arabian Gulf oil producing nations have reinforced my conviction that we must continue to move ahead forcefully on this score if we are to avoid highly unfavorable impacts on our economy. This evening I would like to talk about our programs to accomplish this.

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Taken together, these policies made up a sound strategy for defeating inflation. However, just as this strategy was becoming effective, it was overtaken by events in the energy area. The dramatic increase in energy prices following the cutback in Iran's oil production earlier this year is a primary cause of the current acceleration in inflation.

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While it is essential that we have in place all of our other programs to defeat inflation, they cannot be successful over the long run if we remain vulnerable to continued shocks from dramatic increases in oil prices. Over the longer run, the war against inflation will be won or lost on the energy issue. The danger is that another round of sharp increases in oil prices, or shortfalls in oil supply could bring higher unemployment, higher inflation and a possible world-wide recession. For these reasons, it is of the utmost urgency that we take all steps necessary now to diminish our dependence on imported oil.

RESTORING ORDER TO WORLD OIL MARKETS

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In the absence of effective efforts to conserve on energy usage, the outlook is for oil markets to remain tight next year. Free world demand for oil could still be about 51 million barrels a day in 1980. Most experts expect supply to be very close to this level. This forecast leaves little margin for comfort. A significant cutback in production by any of the major oil exporting countries would result in serious economic disruptions. We do not expect this to happen. But as events of recent weeks indicate we must be prepared for the unexpected.

Returning order to world energy markets will require sacrifice on the part of both consumers and producers. We have already made a start. In the International Energy Agency (IEA), and at the Tokyo Summit, the major oil consuming nations made commitments to control consumption and reduce oil imports. However, much more must be done. In the IEA, we are now working on an accelerated timetable to develop new and stronger commitments for increased reductions by member countries. If we are prepared to make the necessary sacrifices to achieve a significant reduction in oil use, the principal Arabian Gulf oil producing countries have indicated that they are prepared to respond by producing a stable oil supply. By much cooperation between consuming countries and producing countries, we should be able to restore order to the world oil market.

The United States has made more progress than most countries in cutting back on oil imports. So far this year, we have reduced our total oil consumption by about 2.4 percent from the same period of 1978. The extent of this reduction has increased in each quarter, reaching 4.4 percent in the third quarter, despite the resumption of positive growth in our economy. Moreover, we have cut our consumption of imported oil by about 5 percent over the same period in 1978. Since the oil boycott in 1973, we have reduced by 7-1/2 percent the amount of energy used to produce a unit of national output. While our progress to date has been good, we must do more.

HOW WE BECAME DEPENDENT ON IMPORTED OIL

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The principal reason that we adopted this pattern of energy consumption is that domestic oil was cheap relative to other energy forms. For example, between 1967 and 1972 the real price of gasoline decreased by about 13 percent.

Another factor behind oil's increased share in our total energy consumption is that there were price controls on interstate sales of natural gas until they were removed last year by enactment of the Natural Gas Act. Price controls diminished the incentives for new exploration and production of natural gas. New supplies of natural gas were increasingly reserved for the unregulated intrastate market. As a result, natural gas declined from one third of U.S. energy use in 1970 to one quarter in 1978.

The oil embargo in 1973 and the subsequent quadrupling of the price of oil signaled the end of the era of cheap energy. This should have served as a warning of the necessity of reducing our dependence on foreign oil. Instead, we failed to respond adequately to our changed circumstances. Since the oil shock of 1973/74, two American presidents chose to impose arbitrary price controls to keep domestic oil prices below world levels. This action has helped give the American people the false impression that oil is still plentiful and inexpensive. It is neither. While President Carter has faced the issue courageously and squarely, there are still those who fail to understand this economic reality.

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The Administration has proposed a comprehensive program to enable us to have less dependence on imported oil. It will require sacrifice and some change in our life style, but it must be done if we are to avoid even greater difficulties in the years ahead.

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INCREASED DEVELOPMENT OF CONVENTIONAL ENERGY

The second priority of our energy program is increased development of domestic sources of conventional energy. The Natural Gas Act enacted last year provided for the phased removal of controls on the wellhead price of natural gas. That action in combination with oil decontrol has substantially increased the incentive for domestic exploration and production of oil and gas.

Coal is one form of energy we have in great abundance. We are actively promoting its industrial and utility use. The National Energy Act of 1978 prohibits the use of gas or oil in new electric utility generating facilities or new industrial boilers. We are also setting targets for reduced use of oil and gas by utilities already using these fuels. We have proposed grants to help utilities make these conversions.

New England utilities, traditionally the most dependent on imported oil, are leading the way in converting to coal. Just last week the New England Electric Company announced the conversion of its Somerset, Massachusetts plant to coal. Major coal conversions are also being considered for plants in Salem and Mt. Tom. Boston Edison is also exploring the possibility of building a new, 800 megawatt coal-fired plant in Weymouth, Massachusetts.

Nuclear energy is, of course, another highly important energy source for many of our utilities, particularly in New England. The incident at Three Mile Island has demonstrated the potential perils associated with nuclear power. However, at this point, it would be unwise for us to forego the opportunities offered by the safe use of nuclear energy. The Kemeny Commission has just made important recommendations as to how nuclear energy can be made safer through more effective supervision and better training.

RENEWABLE ENERGY SOURCES

The first stage of our country's industrial development began in New England powered not by fossil fuels, but by water, wind and wood. The third priority in our energy program is increased reliance on such renewable energy sources, including solar, biomass, and alcohol. While none of these sources by itself is likely to account immediately for a substantial share of our energy, together they can begin to play a very significant role today and they will be even more important in the future. Unlike fossil fuels, renewable sources will always be available and will not pose threats to human safety or to our environment.

Gasohol, produced by mixing methanol or alcohol with gasoline, could enable us to reduce consumption of gasoline significantly. We have proposed tax incentives for alcohol used in the production of gasohol.

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One of the most promising sources of energy for the future is the sun. We are funding ambitious research efforts to develop more efficient solar devices. We also have an extensive set of incentives to encourage greater use of solar energy now, including financial assistance for the large front end investments that are sometimes required. In addition, we also have programs to encourage the use of low head hydro electric power. Here again, New England is a leader and already has a number of projects underway.

SYNTHETIC FUELS

While the United States is running short of inexpensive, conventional oil and gas, we do have tremendous untapped resources in shale oil, unconventional natural gas and coal. Much of this energy, however, is not in a form that can be readily used. The fourth priority in our energy program is the development of synthetic fuels from these resources.

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INCREASED DEVELOPMENT OF CONVENTIONAL ENERGY

The second priority of our energy program is increased development of domestic sources of conventional energy. The Natural Gas Act enacted last year provided for the phased removal of controls on the wellhead price of natural gas. That action in combination with oil decontrol has substantially increased the incentive for domestic exploration and production of oil and gas.

Coal is one form of energy we have in great abundance. We are actively promoting its industrial and utility use. The National Energy Act of 1978 prohibits the use of gas or oil in new electric utility generating facilities or new industrial boilers. We are also setting targets for reduced use of oil and gas by utilities already using these fuels. We have proposed grants to help utilities make these conversions.

New England utilities, traditionally the most dependent on imported oil, are leading the way in converting to coal. Just last week the New England Electric Company announced the conversion of its Somerset, Massachusetts plant to coal. Major coal conversions are also being considered for plants in Salem and Mt. Tom. Boston Edison is also exploring the possibility of building a new, 800 megawatt coal-fired plant in Weymouth, Massachusetts.

Nuclear energy is, of course, another highly important energy source for many of our utilities, particularly in New England. The incident at Three Mile Island has demonstrated the potential perils associated with nuclear power. However, at this point, it would be unwise for us to forego the opportunities offered by the safe use of nuclear energy. The Kemeny Commission has just made important recommendations as to how nuclear energy can be made safer through more effective supervision and better training.

RENEWABLE ENERGY SOURCES

The first stage of our country's industrial development began in New England powered not by fossil fuels, but by water, wind and wood. The third priority in our energy program is increased reliance on such renewable energy sources, including solar, biomass, and alcohol. While none of these sources by itself is likely to account immediately for a substantial share of our energy, together they can begin to play a very significant role today and they will be even more important in the future. Unlike fossil fuels, renewable sources will always be available and will not pose threats to human safety or to our environment.

Gasohol, produced by mixing methanol or alcohol with gasoline, could enable us to reduce consumption of gasoline significantly. We have proposed tax incentives for alcohol used in the production of gasohol.

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One of the most promising sources of energy for the future is the sun. We are funding ambitious research efforts to develop more efficient solar devices. We also have an extensive set of incentives to encourage greater use of solar energy now, including financial assistance for the large front end investments that are sometimes required. In addition, we also have programs to encourage the use of low head hydro electric power. Here again, New England is a leader and already has a number of projects underway.

SYNTHETIC FUELS

While the United States is running short of inexpensive, conventional oil and gas, we do have tremendous untapped resources in shale oil, unconventional natural gas and coal. Much of this energy, however, is not in a form that can be readily used. The fourth priority in our energy program is the development of synthetic fuels from these resources.

Over time the United States has become heavily dependent on conventional liquid fuels for transportation, heat, and power generation. However, we can no longer be sure how long we can rely on overseas suppliers to meet our needs for this form of energy. Synthetic fuels are essential as the long term safety net to protect our economy from interruptions in the supply of imported oil.

The development of synthetic fuels will take time and require enormous financial resources. In many cases, the financial commitments required and the risks involved are greater than most private firms could assume on their own. For this reason, we have proposed an Energy Security Corporation to work with the private sector in the development of synthetic fuels. To enable it to operate with the flexibility and efficiency which this task will require, the ESC will be an independent government agency.

THE ENERGY MOBILIZATION BOARD

The regulatory requirements of Federal, state and local governments have sometimes delayed or even acted as a deterent to the development of important new energy sources. We cannot afford unnecessary delays in our efforts to achieve energy security. We have, therefore, proposed an Energy Mobilization Board to help shorten the time required to obtain permits for new energy projects. The Energy Mobilization Board will work with state and local governments and other regulatory parties to expedite projects that are in our common interest.

THE WINDFALL PROFITS TAX

The dramatic increases in world oil prices have already led to substantial increases in oil company earnings, particularly

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for those companies who have access to Saudi Arabian oil which has been priced at $18 per barrel -- below other OPEC oil, and far below prevailing spot prices. This lower price has not been passed on to U.S. consumers. Decontrol will generate further increases in oil company earnings. Much of this is a pure windfall, and not the result of any new economic activity on the part of the oil companies.

The windfall profits tax would use an equitable portion of the increase in oil company earnings to finance many of the energy programs so essential to our nation's future. The tax is also essential to help pay for financial assistance to those least able to bear the burden of higher energy costs. The tax is carefully designed so that oil companies will be left with ample funds and ample incentive for the exploration and development of new energy.

The House has already passed a responsible windfall profits tax bill which meets the President's objectives and the nation's needs. The Senate Finance Committee bill, now on the Senate floor, provides the appropriate framework, but needs to be further strengthened.

However, the Senate in action this week has further weakened the windfall profits tax by providing that each independent oil producer can exempt up to $11 million of annual production from the tax. This exemption will cost about $10 billion over the next ten years while having very little impact on production.

CONCLUSION

Recent events dramatically demonstrate the importance of immediately implementing President Carter's energy program. We must understand that time is running out. Continued reliance on imported oil leaves us vulnerable to serious economic disruptions and threatens our freedom.

We must also understand that the current levels of production are not considered by OPEC nations to be in their own self-interest. Thus, they are looking to us to exercise the discipline and self-control necessary to implement our own energy policies. If we do, I believe that we can count on their continued cooperation and constructive policies.

The greatest danger is that we do too little. We must undertake an ambitious program now. If there should be a favorable change in circumstances in the future, we can always scale back our efforts. If we proceed too timidly, we may loose forever the opportunity to reestablish American energy security.

Once the American people understand the issues involved, I am confident they will have the will to curtail dramatically their use of imported oil. The last few weeks have been frustrating and anguishing for most Americans. The most important message we can send the world right now is that we are willing to bear whatever burden, and accept whatever sacrifice is necessary to recapture control of our own destiny.

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