

ACTION

Date: June 4, 1980

MEMORANDUM FOR: THE SECRETARY

Through: Deputy Secretary Carswell

From: Joseph Laitin

Subject: Energy Speech in New York, June 11

If you have a light afternoon next Wednesday (June 11), you might find it useful to take an earlier shuttle and let me arrange for a meeting with one of the editorial boards-- New York Times, Time, Newsweek, Wall Street Journal or the Associated Press.

6/5
Joe: OK
Bill

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname					W. A. A. A. A. A.	Stenche
Initials / Date					WAA / 6-5	6/6/85

Exec Sec
grom 6185

Date: 6 JUN 1980

MEMORANDUM FOR: THE SECRETARY

From: Curt Hessler (Signed)

Subject: National Energy Foundation Speech

The contact person at the National Energy Foundation (NEF) indicated that a 12-15 minute speech would be appropriate. Hence, we have tried to limit the extent of your remarks, but it may still have to be cut somewhat.

The speech departs significantly from the outline that you saw earlier. In our later discussion with the NEF they indicated they would like an energy focus, which this speech attempts to detail, and not an economic outlook focus. You may still want to address some of the various themes that you touched upon in your remarks to the National Association of Broadcasters, but we wanted to get you a draft tonight so that you could look at it over the weekend. We will revise this Monday to reflect whatever changes you wish to make.

We have sought clearance of this draft from OASIA and Joe Laitin. Charles Schotta provided comments and suggestions that we incorporated into this version. We did not hear from Joe.

Attachment

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	EDS:COMIEZ	ED:SYRON				
Initials / Date	MLC / 6-68					

Keynote Address of
The Honorable William G. Miller
Secretary of the Treasury
Before the National Energy Foundation's
Fourth Annual Energy Achievement Award Dinner
New York, New York
June 11, 1980

Introduction

I am honored to be the keynote speaker for the National Energy Foundation's Fourth Annual Energy Achievement Award Dinner. It is appropriate this evening that I discuss the relationship between energy issues and the number one problem facing our Nation and the world--inflation, review the Administration's national energy program and comment on the long-term energy outlook for the U.S.

Energy and Inflation

Since 1973 the price of OPEC oil has increased ten-fold, and in less than two years gasoline prices have doubled while fuel oil prices have been increasing at an annual average rate of nearly 70 percent. In the first three months of 1980 when inflation was running at an annual rate of 18 percent, energy accounted directly for about 5 percentage points of the total increase. This does not include the indirect impacts as the second- and third-round effects of energy price increases worked their way through the economy. In recent months energy prices have shown signs of slowing down, but it is not clear how long this fortunate situation will last.

While it is essential that we have in place all of our other programs to defeat inflation, the war against inflation cannot be successful 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 to a great extent on the energy issue. There can be no question that our national and economic security is threatened by excessive oil imports. The 1979 oil price explosion was the primary cause of the acceleration in inflation, the swift escalation of interest rates, and the massive drain of consumer purchasing power, all of which have combined to throw the U.S. economy into recession.

We have seen our oil import bill rise from \$3 billion in 1970 to \$60 billion in 1979, and we estimate that our oil import bill in 1980 will total between \$85 and \$90 billion despite a reduction in the volume of oil imports. A failure to reduce oil imports would have serious consequences for our efforts to achieve lasting improvement in the U.S. balance of payments and to maintain a stable dollar and would threaten our efforts to solve our domestic inflation problem.

Addressing the Fundamentals

America is presently faced with a fundamental question about our future. Will we as a Nation face up to the growing energy crisis and working together respond in a way that will mean energy security and a renewed sense of confidence for our people? This is the challenge we face. It is a challenge made far more difficult because of the excess reliance on energy each of us has in our daily lives. It is made more difficult because the more visible

signs of crisis--like the gas lines of last summer--seem to come and go. It is made more difficult because of the many special interest groups which are constantly shouting at us that their view of America's energy problem is the only right one. And the challenge is made more difficult because of the complexity of the problem and its solutions.

And yet at the heart of our energy problems are some basic facts which nearly everyone can agree with as a matter of common sense. Our dominant source of energy, oil, will eventually run out. Each new barrel of oil extracted from the ground will become harder to find, harder to extract, and more expensive. Too much of our oil, almost half, is produced in and imported from other countries. As a result, we are forced to rely on sources that are insecure and have sharply escalated the prices that we have had to pay.

For nearly 100 years the United States prospered while the availability and price of energy was not a pressing concern to Americans. We developed casual and wasteful ways toward our nonrenewable energy resources. Because these energy resources were so inexpensive and seemingly inexhaustible, our natural appetite for oil eventually exceeded our ability to produce it. The United States--along with most of the world's industrialized nations--turned increasingly to a small group of countries for vital oil supplies. By 1973 the United States was highly dependent on those few nations for much of its oil supply, and other countries were even more dependent.

Several events in the years since 1973 have provided painful reminders of the folly of this overreliance on imported energy: the oil embargo of 1973 and 1974; the natural gas shortage in the harsh winter of 1976/1977; and last year's reduction in imports of Iranian oil.

Less than a year ago our Nation was in turmoil over short-term shortages of gasoline and diesel fuel. Since then the sense of impending crisis which gripped our country has been virtually eliminated. What has outlived the saga of the gas lines is, however, an awareness that unless we as a Nation act and act now we will continue to be held hostage to an uncertain supply of foreign oil.

President's Program

We have embarked upon the most massive peacetime program in the history of our country--a program to cut our oil imports in half and to break forever our reliance on that long, thin line of oil tankers stretched from the Persian Gulf half way across the world. This will not be easy. The President's program deals with the fundamental security of our Nation, and it calls for the participation of every American. Like the space program, the Manhattan Project, and our commitment to defend ourselves militarily in times of war and peace, reaching these goals will be neither simple nor inexpensive.

The President's program is based on some common-sense principles which I believe everyone can understand.

First, we must conserve energy. This is the fastest way to move toward energy security, and we must take this step immediately.

Second, we must make more and better use of energy that is not based on oil--especially coal.

Third, we must launch a massive effort to produce more domestic energy supplies, including synthetic fuels, solar energy, and others. This is the only way we can reduce future imports without sacrificing progress and economic growth. The time is past for a national debate on the virtues of energy conservation versus energy production. We must emphasize both.

Finally, we must pay for this massive commitment by taxing the windfall profits of the oil companies that result from oil decontrol.

Conservation

Conservation is the top priority in our near-term national energy program and is the surest, cleanest, cheapest way to reduce our reliance on imported oil. There is a vast reserve of energy available in America right now--energy that can be found at little or no cost. It is not deep in the ground or embedded in rock. Rather it is in our homes, our automobiles, our trucks, our offices, and our industries. It is energy that is being wasted--energy that can be conserved. Estimates vary as to how much energy we use unnecessarily, and we can never eliminate all of our energy waste. But by acting individually and collectively we can make significant savings which can help us through a period of uncertain energy supplies without drastically diminishing our quality of life.

One area in which we must do more to conserve energy is gasoline use. Forty percent of our petroleum consumption is for

motor fuels. 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.

Too many people just don't believe they can make a difference as far as energy conservation is concerned, but they can and they must if we are going to solve our energy problems.

Long-Term U.S. Energy Policy

Most of the steps to conserve energy can be implemented immediately by the average American consumer or business. But what about the longer term?

The major problem we face in the long term is identical to that we face in the short term--the U.S. consumes far too much petroleum of which a substantial part is imported. While the U.S. produces 22 percent of world economic output and has only 5 percent of the world population, it accounts for 29 percent of world energy consumption. Ten years ago oil provided about 44 percent of all our energy. It now provides 50 percent. Furthermore, an increasing share of the petroleum we use is imported. In 1969 we used about 14 million barrels of oil a day, of which about one-fifth was imported. In 1973 we were consuming about 17 million barrels a day, of which one-third was imported. Last year we consumed about 19 million barrels of oil a day, of which more than 40 percent was imported.

The principal reason that we adopted this pattern of energy consumption was that oil was cheap relative to other energy forms.

For example, between 1967 and 1972 the real price of gasoline decreased by 13 percent, while the prices of almost everything else we were consuming were rising. Another factor behind oil's increased share in our total energy consumption was that there were price controls on interstate sales of natural gas. Price controls diminished the incentive for new exploration and production of natural gas. As a result natural gas declined from one-third of U.S. energy use in 1970 to about one-quarter in 1978.

Removing price controls on oil will mean somewhat higher energy prices in the short run. However, over the longer run, pricing energy at its replacement value will discourage wasteful consumption of energy and 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 oil prices.

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 be less dependent 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.

Development of Conventional Energy

In addition to conservation, the Administration's long-term program entails increased development of conventional energy, renewable energy sources, and synthetic fuels. Without this broad program which we have been implementing for the past three years, we estimate that the United States would have needed to import about 14 million barrels of oil a day by 1990. Measures already

adopted have cut this estimate to 8 to 9 million barrels per day. When all of the the President's proposals are enacted and implemented, we will need to import only between 4 and 5 million barrels a day in 1990, about half our current level.

As part of our effort to increase development of domestic sources of conventional energy, the Natural Gas Act was enacted in 1978. This Act provided for the phased removal of controls on the wellhead price of natural gas. That action in combination with oil decontrol substantially increased the incentives for domestic exploration and production of oil and natural gas.

Coal is one form of energy we have in great abundance, and we are actively promoting its industrial and utility use. The National Energy Act 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 presently using these fuels.

Nuclear energy is another highly important energy source for many of our utilities. The incident at Three Mile Island last year 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 last year made important recommendations as to how nuclear energy can be made safer through more effective supervision and better training of personnel.

Renewable Energy Sources

The third priority in our energy program is increased reliance on renewable energy resources including solar energy, biomass,

and alcohol fuels. While none of these sources by itself is likely to account immediately for a substantial portion of our energy consumption, together they can begin to play a significant role today, and they will be even more important in the future. The 1978 White House Domestic Policy Review of solar energy estimated that solar energy in all its various forms could by the turn of the century be providing one-fifth of total U.S. energy requirements. Further, unlike fossil fuels, renewable energy resources will always be available and will not pose threats to human safety or to our environment. We are funding ambitious research efforts to develop more efficient solar energy systems, and we have also enacted an extensive set of incentives designed to encourage greater use of solar energy in the near future.

Synthetic Fuels

The fourth priority in our energy program is the development of synthetic fuels from shale oil, unconventional natural gas, and coal. Synthetic fuels are essential as a long-term safety net to protect our economy from interruptions in the supply of imported oil. 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.

Energy Mobilization Board

The regulatory requirements of Federal, State, and local governments have sometimes delayed or even acted as a deterrent

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 bodies to expedite projects that are in our common interest.

Windfall Profits Tax

Dramatic increases in oil prices have already led to substantial increases in oil company earnings, particularly for those companies who have access to Saudi Arabian oil which has been priced below other OPEC oil and far below prevailing spot prices. Decontrol will generate further increases in oil company earnings, most of which are pure windfall and not the result of any new economic activity on the part of the oil companies. The windfall profits tax will use an equitable portion of the increased 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 the oil companies will be left with ample funds and ample incentives for the exploration and development of new domestic energy sources.

Conclusion

Recent events dramatically demonstrate the importance of immediately implementing President Carter's energy programs. 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 to implement our own energy policies. If we do, I believe that we can count on their continued cooperation and constructive policies.

Our Nation has unsurpassed technology. We have the enormous strength of a free enterprise system. We have a democratic government that can respond to the needs and concerns of the American people. We are uniquely equipped to win the energy war. We need to set aside our narrow partisan and regional interests and work together in a common purpose to strengthen and to serve the country that we love. That is the challenge of the energy crisis, and it is a challenge I--and President Carter--believe we can meet.

The cost of energy will clearly alter the lifestyles of most Americans and require sacrifice on the part of both consumers and producers. Cheap energy is a luxury that we never will experience again, and rightly so, because unless we accept the replacement cost of energy we will encourage its wasteful consumption.

The problems we as a Nation face will not be solved today or tomorrow. They will require years of effort and sacrifice. Because these problems affect the Nation's future, young people more than anyone else must be made aware of this need for change. Our educational system has a duty to inform these young people about our present and future energy problems. The National Energy Foundation, by promoting energy education and generating an interest in energy issues among students and the public in

general, and the students who are being honored here this evening for their outstanding achievements in the energy area, are to be highly commended for their contributions toward solving one of the Nation's most crucial problems of the 1980s.

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to Secretary Miller Department
of the Treasury
Executive
room: _____ date: 6/3/80 Secretariat

Subject: Draft Outline for your
Keynote Speech to the
National Energy Foundation,
June 11

Mr. Hessler provided the attached
draft outline and would appreciate
you reaction to it and the speech's
general thrust.

Exec Sec

cc: Mr. Laitin
Mr. Schotta

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Outline for Secretary's June 11, 1980
National Energy Foundation Speech

I. Context for Economic Policy in 1980/81

- A. Economic trends over last decade.
- B. Administration's long-term approach to economic policy.
- C. Events of late last year and early 1980.

II. Intensified Anti-inflation Program and Recent Economic Developments

- A. Developments leading up to March 14 decisions--program.
- B. Recent actions--relaxation of credit control measures.
- C. Post-March 14 economic data indicate appreciably slower economic activity: unemployment rate; industrial production; retail sales--credit trends; orders; leading indicators; housing starts; trade data--imports.

III. Outlook

- A. Outlook is for sharper decline than forecast last March.
- B. Second quarter looks like a very sharp decline.
- C. Should see continued depressed activity during second half, but not as depressed as second quarter. On balance, recession not as severe as 1973-75.
 - 1. Picture from leading econometric models.
 - 2. Average of forecasts from Eggert Enterprise.
 - 3. Reasons for some optimism.
 - a. Inventories lean.
 - b. Interest rates falling--housing and investment impact

IV. Inflation Problem

- A. Inflation still our number 1 priority.
- B. Continued need for fiscal and monetary discipline.
- C. However, these policies act with lag; thus need to have balanced attack that includes:
 - 1. Voluntary pay/price program.
 - 2. Regulatory reform.
 - 3. Increased investment and productivity improvement.
 - 4. Stable dollar.
 - 5. Reduced reliance on imported oil
 - a. Energy and inflation are closely related.

V. Need for Effective Energy Program

- A. How we got into current dilemma.
 - 1. Data on U.S. production and consumption trends.
 - 2. Import quotas held prices down.
 - 3. Regulated gas prices.
 - 4. Oil embargo and impact on world oil prices.
 - 5. Still had price controls after 1973--still encouraged wasteful use of oil.
- B. President has proposed broad and comprehensive energy program
 - 1. Decontrol of oil prices.
 - 2. Limit on oil imports.

3. Conservation--first priority in national energy program
 - a. Price impact.
 - b. Gasoline use--discretionary but large share; need for 10¢ fee, which is a moderate but straightforward step toward reducing our dependence on foreign oil--impact on use and balance of payments, etc.
4. Increased development and use of conventional domestic sources of energy.
5. Increased use of renewable energy sources.
6. Development of unconventional domestic energy supplies--Energy Security Corporation.
7. Windfall profits tax.
8. Energy Mobilization Board.

VI. Conclusion

- A. Energy and inflation closely intertwined. Difficult to solve one without the other.
- B. Need to act expeditiously and forcefully, on both inflation and energy fronts. Persistence and consistency.
- C. Future of country at stake.
- D. President is providing the leadership in both areas. The Congress is cooperating. Together we will win the battle.