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ENERGY MEASURES TO REDUCE
U. S. DEPENDENCE ON FOREIGN OIL

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4 AT THE CONFERENCE ON THE UNITED STATES AND OPEC *3*
SWARTHMORE COLLEGE
APRIL 8, 1979

I appreciate your invitation to participate in the Conference on The United States and OPEC. I hope my discussion will build on what you have already heard by underscoring the importance of action in three areas where the General Accounting Office (GAO) has done previous work and which will be of continued interest to the Congress.

--The Government needs to get its conservation act together.

There is ample reason to believe that the world is going to continue to experience periods of tight supply and upward pressure on prices. The time is here to bite the bullet on conservation.

--We should encourage more exploration and development from non-OPEC areas, and formulate specific strategies and initiatives the United States should take in dealing with international energy issues.

--National energy policy should be more focused to achieve an orderly transition to an economy based upon alternative sources of energy. We urgently need to move more rapidly to a renewable

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Speech

energy resource base and adjust the emphasis of our programs accordingly.

Before getting into the substance of my remarks, let me give you a brief capsule of GAO's role in the Federal Government.

GAO is an independent agency in the legislative branch, which means that it reports to the Congress, not to the President. We assist the Congress in carrying out its legislative and oversight responsibilities by evaluating the policies and programs of Federal agencies. As such, GAO does not make policy. That is the job of the executive branch and the Congress. What we can do is influence programs and policies by issuing high quality and convincing reports, on our work.

Within GAO, an Energy and Minerals Division was created because of rapidly increasing Federal involvement in those subjects. I don't have to remind you that until the oil embargo there was little recognition that the Nation had any energy problem. Our work runs the gamut from economy, efficiency and effectiveness of program operations to evaluation of policy options.

Requests from the Congress, mostly from Committees rather than individual members, account for about one-third of the projects GAO undertakes. The other two-thirds of our jobs are self-initiated, based on our own assessments of key issues and the needs of policymakers.

LACK OF NATIONAL ENERGY
CONSERVATION PROGRAM

Now let me spend a few minutes addressing the Nation's continuing reluctance to develop an effective energy conservation strategy. Our reliance on crude oil imports has increased substantially in recent

years and could reach 12 or 13 million barrels per day (B/D) by 1985. The current Iranian oil situation, which once again has jarred our complacency, is still only one of a series of events which underscores the importance of moving forward in the energy conservation area.

As long as the United States continues to rely on insecure foreign sources for a significant share of its crude oil needs, the Government must be prepared to effectively deal with a crude oil supply disruption. The Congress recognized this need when it charged the Department of Energy-- in the Energy Policy and Conservation Act--with the responsibility to develop, and have approved by the Congress, emergency energy conservation plans and a gasoline-rationing plan.

Our energy conservation work over the past few years has surfaced three overriding problems which have limited the success of the Nation's efforts to conserve energy.

Our February 13, 1979, letter to the Chairmen of Energy-Related Committees and Subcommittees (EMD-79-34) highlighted the following problems which, in our opinion, must be solved before the Nation will achieve any significant level of energy conservation:

- A lack of specific planning and direction from the Government in the energy conservation area. In an earlier report issued on June 30, 1978 (EMD-78-38), we concluded that the Federal Government had not developed an overall energy conservation strategy for the Nation. While DOE generally agreed with our position, no strategy has been forthcoming.
- The absence of an aggressive, coordinated effort by the Government to conserve energy in its own operations and facilities. We have issued a series of reports on various Federal in-house

conservation programs which show the lack of commitment by the Administration to aggressively pursue energy conservation within the Federal Government.

--The failure to develop, and have approved by the Congress, emergency energy conservation and gasoline rationing plans. While the Administration submitted such plans earlier this month, it took over 3 years to develop them.

The Government's approach to achieving domestic energy conservation has generally been to either appeal for voluntary energy conservation actions by consumers or to establish mandatory-type energy conservation programs (e.g., automobile fuel economy standards and building energy performance standards). Our work has shown that appeals for voluntary energy conservation have had limited success while the mandatory programs are expected to have their greatest impact in the post 1985 period. In the next few years, energy pricing options appear to be the only remaining alternative for encouraging greater energy conservation.

Our past work has shown that relatively low energy prices have acted as a barrier to greater investment in energy conservation measures, primarily in the industrial sector. While we recognize that evaluating the impacts of specific energy pricing options is complex and certain options might have inflationary impacts, we have indicated our general support for certain energy pricing actions to achieve greater energy conservation.

We continue to believe that more attention needs to be given to the development of an energy conservation ethic and to energy-pricing options. But of more immediate concern is the need for the Government to provide

consistent, clear direction in terms of energy conservation's role in the overall National Energy Plan.

REDUCING THE RISK INHERENT IN
OUR DEPENDENCE ON IMPORTED OIL

The economic power of OPEC has been evident for years. The ability of its member countries to limit the world's supply of oil and arbitrarily raise its price was painfully demonstrated to oil consuming countries in the embargo of 1973-1974.

The recent OPEC crude oil price hikes and events in Iran serve to remind us of our Nation's vulnerability because of its dependence on foreign oil. We made this very point over a year ago in a report to the Congress GAO published in January 1978. 1/

From our examination of executive branch operations we found that an attitude of resignation had dominated U.S. policy toward OPEC. Policy-makers had created an illusion of U.S. impotence by their fixation on its weakness in the petroleum marketplace rather than on its many strengths outside the trade of dollars for oil.

GAO issued a call for a fundamental reassessment of U.S. policy toward OPEC and a recognition that while dependence on imported oil is inevitable for a long time it is not an isolated ingredient of international relations.

U.S. strengths seen by GAO and reported a year ago are:

--This is the home country of five of the seven multi-national major oil companies, which provide much of the expertise integral

1/"More Attention Should Be Paid to Making The U.S. Less Vulnerable To Foreign Oil Price and Supply Decisions." (EMD-78-24, January 3, 1978)

to the production, transportation, refining, and marketing of crude oil from OPEC countries.

--The U.S. market for foreign oil represents about 20 percent of OPEC exports--already large enough to be important to OPEC countries' sales.

--The U.S. is a leading innovator and supplier of high technology and managerial know-how.

--It offers large and secure opportunities for capital investments.

--It occupies a leading, often commanding, position in the international flow of loans, loan guarantees, and aid.

--It has the capability to offer security to other nations.

We believed at that time, and still do, that national strengths needed to be inventoried, studied, and interrelated in a systematic way with the specific objective of bringing them to bear on reducing the risks inherent in our dependence on imported oil. Our report recommended that the Secretaries of State and Energy present to the Congress by July 1, 1978, a plan for improving security of U.S. imported oil supplies at reasonable prices by U.S. policy initiatives directed toward changes in access terms, incentives for production in other than OPEC countries, and bilateral and multilateral approaches to OPEC and other nations.

Contrary to the accusation of some critics, GAO did not say and does not believe that the unique strengths of the United States can be

used to totally override the will and self interest of other countries. Each strength needs to be assessed and tailored to particular situations where it can be asserted so as to call forth responses which are likely and desirable in light of particular circumstances. I do not say this kind of analysis is an easy task. But it is the duty of our policy-makers to address it. Unfortunately, their tendency has been rather to take the easy way out saying that our strengths offer no leverage, because they do not offer total leverage. That tendency ought to be revised.

I should note that some encouragement of new oil production in non-OPEC areas have occurred in the past year as a result of the Overseas Private Investment Corporation's (OPIC) insuring oil development projects abroad, and the World Bank's adoption of a policy which allows loans for oil development.

We have not yet seen evidence, however, of an adequate response to our recommendations. We continue to believe that the Departments of State and Energy should take the lead in formulating specific strategies and initiatives for review by the Congress.

POTENTIAL FOR INEXHAUSTIBLE ENERGY RESOURCES

Let me now turn briefly to our need to achieve an orderly transition to an economy based upon alternative sources of energy. The need becomes obvious with the recognition that hydrocarbon resources are finite in quantity. They will run out someday.

Simple prudence requires us to look to the future. We have to plan and put in place the energy sources to replace oil and gas before

they run out or even before their supply becomes so tight that industrial and economic activity begins to falter. If that happens, planning would become difficult. It would be pushed aside by panic responses. Construction of alternative energy systems would be hampered or prevented by the crippled state of the economy.

Without a major policy change, energy resources that are renewable or essentially inexhaustible are not expected to make a major contribution to the Nation's energy needs until about the turn of the century. Solar energy, for example, probably will supply about one percent of the Nation's energy demand in 1985, but estimates of its contribution by the year 2000 range from 5 to 25 percent.

Inexhaustible energy resources are not truly infinite, but are rather self-renewing or renewable. Included are such resources as alcohol fuels from wood or grain, tidal currents, hydrogen from sea water, and better known sources such as solar, wind, geothermal and nuclear fusion. Early development, demonstration, and commercialization of these resources would help to diminish demand for fossil fuels and offer the potential to meet a significant portion of the country's future energy needs.

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One final comment. GAO believes the energy problem is real, the choices are hard, and the need to present a realistic assessment of options to our intolerable dependence on foreign oil is greater than ever. The hour is late. Both the Congress and the Administration have to deal realistically with our energy problems, and now is the time to do so.