I am quite aware today that rumors are rife that there is about to be a change in the position of Under Secretary in the Department of the Interior. Such speculation, whether founded or unfounded, is certain to attract attention to what I say—not necessarily for the content, but for evidence or indicators bearing upon the rumors.

Whether I have or haven't a portfolio, I clearly have an audience, and the duty to fulfill a commitment of months ago—such is the tyranny of a printed program.

I was hesitant from the outset. What can I say that hasn't been said by Department officials over and over again. Government speakers before industry groups tend to be stylized. They exhibit their knowledge of the industry, they pay tribute, they call attention to the programs of their Departments and to their beneficent effects, and they exhort toward greater cooperation.

I can do no better—I only hope the spice of rumor seasons your interest.

At the direction of President Johnson, the executive branch has been going through some soul-searching about all its various programs. The effort is called Planning-Programming-Budgeting and it has had newspaper attention which you may have seen. In carrying out the President's directive we've rearranged our considerations of programs. The traditional bureau or organizational approach is displaced for analysis purposed by program categories. One of these program categories is energy, another is minerals other than fuels, another is water, and so on.

I need not tell you that you have a vital interest in knowing how the United States approaches the task of making decisions and judgments affecting your industry.

Those decisions and judgments are made over a wide band of interactions and relationships. It is not only the Federal Government, either, that you are concerned about. State regulatory agencies, actions under the police power such as zoning, and ad valorem and other taxes, all involve public and private interaction affecting the oil industry.
On the federal side, the United States is a customer. Where, when, and under what rules the Defense Department purchases petroleum products is an example of government action which I need not discuss here, but whose implications are clear in a simple mention of the problem.

Of more direct relevance is the oil import program.

The Department's Oil Import Administration is charged by Executive order with maintaining stability in this potentially unstable situation in the interest of the national security. We believe this program must continue if the United States is to meet security requirements for oil. For planning purposes we assume and project stability. In other words, we assume that the ratio of imports to domestic production will be stable.

The hallmark of the oil import program administration is balance. The attempt is to take into account both the health of the domestic industry of the United States, and the need on the part of friends of the United States in the free world to find a market for their crude oil. Thousands of American workers have jobs which are dependent upon the free flow of goods to foreign markets for their manufactured items and their farm products, in turn dependent upon the United States being a customer for foreign oil.

The role of the United States as a proprietor is a major one, and of major interest to me. Under the Continental Shelf Act, under the public land laws of the United States and under various other statutes including the trust responsibilities for Indian lands, the United States is a major "owner" of oil resources.

In its role of proprietor, the United States like any owner, wants to consider the revenue-producing potential of its holdings.

The sum is not insubstantial. All of the proceeds from offshore leasing go into the Treasury; lease and royalty proceeds, including bonuses, from public domain reserves is shared with the State of origin, which gets 37-1/2 percent, and with the fund for reclamation of western land, which gets 52-1/2 percent, leaving the direct Treasury interest at 10 percent.

To put some perspective on the impact on the federal treasury, consider these relationships:

From 1920 until 1964, revenues from leases under the Mineral Leasing Act of 1920 totalled a billion and a quarter dollars. From the passage of the Outer Continental Shelf Act in 1953 until 1964, revenues deposited in the Treasury from offshore leasing totalled over $800 million. This is exclusive of the Louisiana Escrow Fund also of approximately $800 million.

In fiscal 1965, revenues from oil and gas competitive leasing was $81 million, and from noncompetitive leasing was $33 million. What the
Treasury received was 10 percent in each case, but the net Treasury benefit from noncompetitive leasing was virtually doubled, as the filing fees (all of which go to the Treasury) totalled almost four million dollars, and this was virtually all ascribable to the "simultaneous filing" scheme under which noncompetitive leases are issued.

The policies affecting the placing of oil reserves on the market must also be characterized by the key world "balance." Luther Hoffman, the Secretary's Special Assistant for the Outer Continental Shelf Mineral Leasing, has devised a program for long-range lease-sale scheduling, having in mind production of revenue, conservation of petroleum resources, and identification of reserves and stimulation of the economy under appropriate circumstances. But all sorts of other factors affecting balances have to be considered. These are difficult--aesthetic considerations, accommodation to military needs in the lease areas, and a multitude of economic determinants.

The Department's objective is to have an orderly, planned program of offshore leasing with areas broadly identified and sales timed by calendar year, in order to enable industry to make its financing, equipment acquisition, exploration and personnel scheduling more efficient. At the same time we have to remember that in the American competitive free enterprise system we must place considerable reliance on actual competition to assure an appropriate return to the Government both by way of bonuses and by way of increased rentals and royalties from increased production.

The relationship between offshore oil production and imports also must be in balance, as must factors of shortage or surplus in different regions and similar situations.

As to leasing on the public lands under the Mineral Leasing Act of 1920, which I've mentioned, the leeway open to the Department is more restrictive than in the Shelf leases. The question of competitive versus noncompetitive methods of leasing has been the subject of much discussion.

Whether or how the Department should ask the Congress to amend the Mineral Leasing Act with respect to the so-called "simultaneous filing" question has occupied the attention of a great many minds, within and without the Department, and within and without the government.

From the straight revenue standpoint, and I'm being only half facetious, the "lottery" system has much to commend it. If, as was the case, over 350 thousand applications were filed last year, it is difficult not to conclude that the social objectives apparently sought by the Congress are not particularly aided. An inordinate amount of the Department's adjudicative time, and a great deal of its litigation and much of its legislative load, can be traced to this particular system of allocating public resources.

Yet the contrary approach raises problems, too. I can only say that the final arbiter will be the Congress, influenced of course by the Department's recommendations, and there will be plenty of opportunity for all views to be heard.
One instrumentality for considering this and other questions like it, and one in which I have great confidence, is the Public Land Law Review Commission. This Commission, chaired by Congressman Wayne Aspinall of Colorado, and having 12 congressional and 6 public members in addition, will between now and the end of 1968 be examining the laws and the policies and practices of the agencies which affect the public proprietorship over not only a great deal of oil but over competing energy sources and minerals and materials.

The representative of the oil industry who is a member of the Commission's Advisory Council told the Commission in March that he believes the "prudent utilization of the Nation's mineral resources spreads ever multiplying dividends throughout the whole of the economy." He asked that all of the needs and all of the benefits of the public lands be gauged, matched, coordinated and correlated. Concerning mineral leasing on public land and acquired lands, he suggested a review of the simultaneous filing system, of acreage limitations in terms of leases, of unitization, and of the distribution of revenues derived from leasing. Concerning the Outer Continental Shelf, he urged that there be better coordination between State and Federal regulations, and a balance between onshore and offshore petroleum production; that there be uniformity of lease terms and provisions; and that a study be made of the distribution of revenues as between offshore and onshore revenues and of the question of applicability of State taxes; and he recommended more orderly scheduling of offshore sales.

Other Advisory Council members naturally emphasized different aspects of the problem but there was a striking unanimity among all the papers submitted at the recent Washington meeting of the Commission both as to the objectives to be studied and as to the great hopes for the Commission.

The United States has an indirect but important interaction with your industry and others by reason of its proprietorship over competing sources of energy and by reason of its assigned functions of research and development for other minerals.

Most, but by no means all of these other programs, are in the Interior Department, the notable exception being the Atomic Energy Commission. A major area of direct concern to this industry, of course, is the oil shale source of energy.

We have watched with a great deal of interest how our neighbor to the north has dealt with an equivalent situation, the Athabaskan tar sands.

Alberta is about to realize the first commercial production at Fort McMurray, and a plant now under construction will mine, separate and refine an oil equivalent of 45,000 barrels per day. With estimated reserves of 600 billion barrels in these sands, the impact upon the energy economy of the world presents a problem very similar to oil shale.

There is an instructive lesson about the capital commitment necessary to open up a new kind of energy resource, for the information we have is that it is expected that $235 million will be spent to recover this 45,000 barrels per day of 42-degree gravity oil, a premium quality product.
The Canadians affirmatively have been seeking the same thing I've been emphasizing—balance. Our reserves of oil shale are relatively even higher—two trillion barrels. I am confident that these reserves will be incorporated and integrated into the mainstream of petroleum economics in both countries in an evolutionary, not a revolutionary way.

The Secretary has before him alternatives to meet the need for both research and development with respect to this mineral, but complications are arising rapidly. This will undoubtedly be the greatest test of the ability of the United States, both the executive and legislative branches, to act to meet the need in the interests of all the people of the United States.

As an approach to the problem, we have naturally started with the research aspect. We hope to be able to work cooperatively with the industry, and with other federal agencies, and with universities.

In this connection, we know that the private interests are not only willing, but probably intend to do their independent work.

Whether it will be possible to work out minimum acreage leases in the interest of gaining knowledge and furnishing incentive for research efforts I am not sure. In the past, I have expressed my personal view that there must be the closest possible coordination with the Congress on this subject.

There is an oil shale leasing statute on the books. Regulations under that authority could fill in the omissions in the law by way of guidelines, particularly in the incentives for research and development, and if these regulations were thoroughly exposed to public and congressional discussion, one might hope that something could be done to facilitate this type of development.

If the Canadian experience is indeed apt, an expenditure of two or more billions of dollars would be needed to get a half million barrels per day of oil from oil shales.

In this realm, experience tells us that a heavy reliance will be placed on a coordinated public-private effort.

A great many other incidental authorities of the United States are directly relevant to the oil industry. The proprietorship over the public lands, in the West at least, gives a control over how pipelines and other utilities may be permitted to cross these lands.

For the grant of these easements or rights of way, the laws presently authorize the fixing of terms and conditions by the Federal Government pretty much as a private proprietor might fix these terms. This is another area where numerous recommendations to the Public Land Law Review Commission coincided—asking for a review of the policies, and the fixing of legislative guidelines.

Another federal responsibility which affects development is the power to allocate short water supplies among competing uses, particularly where the water is associated with public or Indian lands.
The total effect, of course, is a pattern of complexity; that complexity is compounded when programs of air pollution control, water pollution control "freeport processing" and the like, are thrown in. Several departments—Commerce, Health, Education and Welfare, State and Agriculture—are as vital in these interrelationships as Interior.

This pattern may suggest that the United States has absolute power over your industry, the pattern of life and death.

This would not be accurate. The very complexity of the system I have outlined constitutes a system of checks and balances.

But a much more important fact can be summarized in a sentence. Under our system of government natural resources belonging to the public are managed for use, and use is a private function.

In other words, as pervasive as the Federal function is, it is only one-half the coin—the other half is our competitive free enterprise system.

We do not have government sawmills to manufacture government timber. Government timber is the principal source of supply for the whole lumber manufacturing business of the United States, and that business, like the oil business, is proudly private.

It is not government capital but private capital which explores for new supplies in the wildcat areas of the public lands, and in the expensive holes which must be dug beneath the surface of the ocean miles from the sight of land.

I should not fail to mention tax policies, conservation policies, and such policies as those incorporated in our anti-trust laws. All these join public proprietorship in being constraints upon private activity but in a free government these constraints are imposed by a government which owes its authority to the people.

Multiplicity and diversity, rather than unity and simplicity are the hallmarks of our society.

Public consideration of these questions must be of the high order which the President demanded when he announced the program for planning, programming and budgeting. The President did not hail this as a method of decision-making, but as an aid to decision-making.

In this context, it is a vital necessity to see the kinds of relationships I have discussed, and many more besides. We know that projections of energy demand to 1980, when compared to recoverable resources, appears now to be adequate. But we know, when we set the relevant data down, that a conscious effort will be required to maintain the resource base for oil and gas at the present levels of reserves and cost.
Both industry and government know that alternative sources of liquid and gaseous fuels from the indigenous supplies of oil shale and coal are possible, and we know that these must be pursued. How to carry on this research and development program, as I've said, is a major challenge, but one I'm confident we can meet.

Conservation in this decade, and increasingly in the future, is going to involve weighty judgments affecting our whole society. It is going to dictate the kind of a world in which man wants to live. These judgments, these decisions, are much too important to be left to the experts who have strong inclinations toward doctrinaire loyalties—to big dams, or exotic energy concepts, or multiple-use theories which make all things to all men. Social judgments in a democracy require involvement of the public. It is our task to inform the public and bring it into the decision-making process.

The new emphasis in conservation announced by the President adds another dimension to the continuing task of wise husbandry. Not only must we protect our resources against waste; we are also enjoined to use our technology in such a way that enjoyment of the Nation's abundance preserves, protects and restores the magnificent landscape which is a most precious part of that heritage.