Events in Russia Could Push U.S. Toward a Clearer Energy Policy

Jim Kingsdale, August 18, 2008

I recently had lunch with a top U.S Department of Energy executive. He's "in charge" of half the world - mostly the half that exports oil. This very charming individual was unable to define what the present U.S. energy policy is.

I suppose he understands, but cannot admit publicly, that our policy under the present nitwit administration is to give oil companies and oil supply companies, e.g. Halliburton, everything they want - tax breaks, drilling rights, lack of oversight - and to give the 44 farm-state senators a mandate for turning corn into ethanol, which produces little if any net new energy. In other words, our policy is to maintain our dependence on the internal combustion engine.

Voters - as we know because all the candidates are talking energy- clearly see the cost of oil dependence and want a new direction and a truly useful energy policy. But it's been hard to be optimistic that we will get one because the executive branch is controlled by the oil industry and the legislative branch is so gridlocked and clueless that they have so far only come up with such harebrained schemes as suing OPEC or drilling for oil off the OCS or in ANWR or providing huge mandates and subsidies for ethanol. These may be "get re-elected" policies, but they do not solve our oil dependency.

But now the Russian invasion of Georgia gives me a new sense of optimism. It makes crystal clear the fact that the control of vast amounts of oil by dangerous governments means that OECD societies which must have that oil are powerless to resolve potentially war-and-peace sorts of international disputes - other than to give up. We've heard it said before in respect of Middle Eastern countries and Venezuela that our oil policies are only empowering our enemies. But Russia's aggression in Georgia creates a new and much more tangible danger that could motivate us to move toward the security that energy independence offers.

The Russians are making it clear even to the average American that oil is putting us at great risk. We cannot envision NATO coming to the military aid of Georgia against a continuing Russian invasion and potentially a take-over of Georgia. Similarly we cannot envision NATO taking action against a Russian takeover of Ukraine or the Baltics or any other target the Russians may find attractive down the road.

The reason NATO is feckless, obviously, is that most if not all NATO countries <u>must</u> have Russia's oil and gas exports. How can you go to war against a country you depend upon to supply you with the energy life support system you require? It is a contradiction in terms - sort of like going to war against your own body. This is such a clearly unacceptable global posture for the OECD that it must be changed. To do so will require a real energy policy.

The policy the U.S. - and our OECD allies - must adopt is very simple. We must free our transportation system from its use of oil.

In the U.S. we have enormous quantities of unconventional domestic natural gas that can help us transition our transportation system from oil. Compressed natural gas, CNG, can substitute for gasoline more quickly than electricity can, especially for truck fleets. The trucking industry should have tax incentives to switch to natural gas. We should require that over time gas stations in urban areas also offer CNG. We should also encourage cars to be “flex fuel” so they can use “CNG,” as Brazil has been doing for years thanks to a government mandate. (And which cars are built in Brazil by U.S. car companies.)

But electricity, not CNG , is the longer term solution. We must mandate that by a certain date all new cars be plug-in hybrid electrics “PHEV’s.” In the interim we must offer tax rebates for PHEV purchase and tax the purchase of non-PHEV’s. Those tax incentives should increase over time. Right now the battery costs of PHEV’s is excessive. That is why tax policies are needed to make them our standard.

If the U.S. moves aggressively toward PHEV’s such cars will become a global standard. Other OECD countries and even developing countries will see PHEV’s as the future and will move toward them as well. A PHEV still uses some gasoline - but the amount can be minimal. A car that is only driven locally - which is a huge percent of U.S. cars and an even larger percent in more densely populated countries - may use only electricity, depending on the size of the battery and the distance driven. With cars using PHEV’s and trucks using natural gas, there is enough fossil fuels to eliminate any energy emergency.

A transition away from gasoline will virtually bankrupt our Highway Trust Fund which gets its money from gasoline taxes. Therefore we must tax freight that moves by truck to fund highways. That tax will also make it clear that over time we are going to transition to electric powered trains for freight and as much as possible away from trucks - even ones that run on natural gas. To that end we should also offer incentives to electrify our railroads and to build more rail transport in our densely populated areas.

Such policies don’t offer an immediate fix. It will take at least a decade to achieve a significant reduction in oil use by cars and trucks and then another decade to virtually eliminate it. But the adoption of such policies will tell the Russians that their game is only temporary. When they see that the West is starting to move away from oil with a serious determination, they will not want to make oil even more expensive. Oil is the basis of their wealth and they will try to make it more attractive. They will become more cooperative.

The vision of an oil-free future will also let the U.S. go forward with optimism, which makes all the difference to economic vitality. Optimism is essential for growth.

The policies I am suggesting will create losers so they present steep political costs. But the fear that otherwise we are committing ourselves to a national defense nightmare vis-a-vis Russia - in addition to the other very substantial balance of trade risks and costs of oil dependency - could give our government the backbone it needs to finally move us forward away from oil.

We'll never get there by yelling "climate change." But we can possibly get there by yelling "The Russians Are Coming." In fact the reality is that the Russians may very well be coming, as we now see in Georgia, if we don't cut off our dependence on oil and therefore on Russia.

Will there be enough electricity? I think so. For one thing, most electrical "re-fueling" will take place at night when there are huge existing surpluses of electrical supply right now. For another, we'll be transitioning to LED lighting which will save about 15% of our electrical use. Yes, we will need some additional capacity over time and will probably need policies to promote renewable solar, wind, local geothermal, and wave. Such technologies are available now. They will become much less expensive over the next five years.

A major side benefit of this new energy/national defense policy would be a renaissance for the U.S. economy. We would produce so many new jobs in the battery and automotive and rail transport and renewable electricity generation industries that we would see another American economic miracle. That is one of the benefits that would motivate other countries to join with us and adopt similar policies.

Interestingly, in the process of moving deliberately away from oil we would also solve the climate change problem. Without even trying.

Will it happen? With the right new leadership and a continuation of Russia overplaying its hand…there is hope now. But I still wouldn't bet money on it yet.