Ferguson: Energy Matters

June 29, 2007

Irrelevant Washington

As a general rule, I don't pay much attention to what goes on in Washington DC. Judging from the lack of coherence on an energy bill this summer, I'm not in danger of missing much. The problem is that Washington doesn't know what the problem is.

The coal industry, which has gotten fat from higher prices, is seeking subsidies for experimental "clean coal" power plants and for making gasoline from coal. The oil and gas industries, also fat from high prices, are protecting the tax breaks they received in the bygone era when prices were low.

The nuclear industry also wants subsidies, of course, as well as financial guarantees for building new plants, even though we still don't have a place to dump nuclear waste.

The corn ethanol industry is protecting its subsidies and import barriers that keep out cheaper fuel from Brazil, while world corn prices have reached record levels.

Not to be outdone, the renewable energy industry also wants subsidies and federal mandates to buy their product.

All this money-grubbing activity goes on behind a façade of promises to make us "independent from imported energy" and to "fight global warming," depending on which side of the aisle you're on, and the issue du jour.

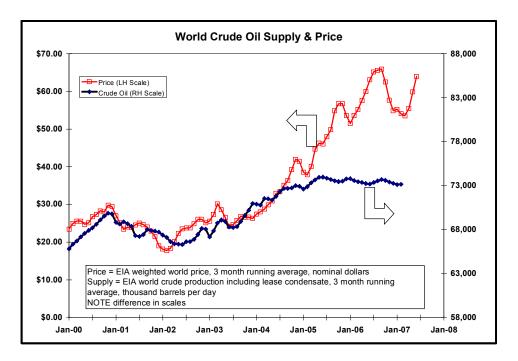
The best we can hope for is that the politicians will do nothing. No progress can be made until they agree on what the problem is and devise a coherent strategy for dealing with it.

I'm not holding my breath.

The immediate energy problem is the rising price of crude oil and the likelihood that prices will go higher. Much higher.

As the chart below shows, since May 2004 world production of crude oil – including oil from unconventional sources – has remained essentially flat while prices have soared. The *increase* in crude prices in the last since May '04 has

resulted in an *additional* flow of money from consumers to oil producers, approaching 1.5 trillion dollars.



There are good reasons to believe that this is not a fluke or an OPEC conspiracy. Congressional threat to sue OPEC under U.S. anti-trust laws—the "Nopec" proposal—is foolish posturing. The world, which includes the US as far as I know, must come to terms with the increasing depletion of oil resources. As global oil supplies become scarcer, it is inevitable that prices will rise enough to reduce demand. If Washington were relevant, it would be taking steps to minimize the pain of this eventuality.

A relevant Washington would be concentrating its efforts on ways to reduce the consumption of oil-based fuels. As the adage goes, when you find yourself in a hole, the best thing to do is stop digging. The currently proposed legislation does increase automotive fuel efficiency, at long last. However, the bill includes language requiring that fuel standards be "cost effective", thereby allowing future bureaucrats to decide whether the new standards are for real or not. (Is the war in Iraq "cost effective"?)

Since limiting consumption is considered unpatriotic in some circles, efforts to promote alternatives to crude oil are inevitable. Corn ethanol is not a great alternative, since it requires about as much energy to produce as it provides. Nor can we drill our way out of this hole. Which brings us to gasoline from coal.

The biggest long-term energy problem facing us, however, is global warming. A relevant Washington would avoid strategies to deal with the crude oil problem that exacerbate global warming. Making and burning coal-derived fuel results in considerably more greenhouse gas than simply burning oil-based fuels. Relying

on coal-based fuel is like burning your house down to keep warm. Not a good long term strategy.

Talk of a carbon tax is gaining respectability, although you won't hear such talk in irrelevant Washington. FPL, a major Florida utility, recently issued a document arguing for a revenue-neutral carbon *fee* (thereby avoiding the "T" word) to address global warming. Raising the price of carbon would also help reduce demand for carbon-rich crude oil as well.

Such a coherent strategy is too much to expect from Irrelevant Washington.

—Dr. Rich Ferguson, Research Director, CEERT, rich@ceert.org.