

ENERGY POLICY

“Realistic Strategies for Our Future”

**Public Address by
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**The Colorado Renewable Energy Society
Denver, Colorado
June 26, 2004**

To discuss the “Future of U.S. Energy Policy,” as I have been invited to do this afternoon, requires a rapid review of the current situation. We can’t imagine where we want to go unless we have a pretty good idea of where we are at the present time.

Unhappily, the coordinates of our present policy are all too familiar. With very few exceptions – most notably in renewables and especially in energy efficiency – we have been stuck in a pattern of energy policy that really hasn’t changed very much since the first Arab oil embargo thirty years ago:

- Our oil imports have doubled in the last 30 years, reflecting demand growth and a parallel decline in domestic production;
- More than two-thirds of our oil goes for transportation, and it looks like we will require carbon based liquid fuels for a long time to come;
- As ever, energy policy making in the Congress stimulates a lot of campaign money, but precious little change comes about. The “Lords of Yesteryear” dominate the politics of energy, wield huge veto power, and resist change.

President Bush has reminded us that “national security depends on energy security,” but the energy policy put forward by the Administration – under the tutelage and leadership of Vice President Dick Cheney – has been a complete failure:

- Even if the President’s domestic oil production plans had been adopted in their entirety, the Administration’s own analysts projected that U.S. oil imports from the volatile Persian Gulf would nearly double by 2020;
- The President’s policy completely ignored the implications of the interconnected global economy. The development of global financial markets and trade inextricably ties our economic health to the continuing growth of developing nations in Asia and Latin America, and oil consumption in the developing world will grow by nearly 50 percent over the next 20 years. As these economies are increasingly vulnerable to price shocks and political disruption, ours is too;
- Price shocks have also hit the American consumer at the gas pump; but this should come as no surprise. Our huge domestic and trade deficits have driven the value of the dollar down by nearly 50% in the last two years. That means that in order to stay even, OPEC has to receive more dollars for the same barrel of oil.

What else explains the simple fact that while oil in the US has risen by nearly 50%, oil purchased in Euros has remained at about the same price. Our deficits hurt us every time we fill up the tank.

- But even as we use more and more expensive oil for our transportation needs, we have paid scant attention to developing more fuel-efficient vehicles. Detroit is less and less competitive, and the auto industry—a huge American job base—is threatened as never before.
- Nor has the Administration tried to develop near-term alternatives to oil, such as ethanol from farm and forest residues and from non-food crops like switchgrass – a shift that might, over time, transform global agriculture. Instead, while exhorting the world to free trade, the U.S. has embraced protectionist subsidies and ignored the glittering opportunity of linking bio-fuels with economic development and global poverty reduction.
- Our government continues in denial about the increasingly well-understood and urgent threat of global climate change. Energy is climate; climate is energy. Any honest policy has to recognize this nexus; yet the Administration’s so-called “Clear Skies” program will not lead to lower concentrations of carbon in the atmosphere, but to more. The Administration has argued that its proposals will reduce “greenhouse gas intensity” by 18 percent over the next decade. But since most forecasts call for GDP to expand 50 percent or more over the same period, the President actually is proposing a substantial increase in both emissions and concentrations of carbon in the atmosphere.
- Finally, any real energy policy also has to account for the needs, demands, and expectations of a rapidly growing population. Contrary to the Administration’s assertions that population is no longer a problem, global population is projected to rise by 50 percent by 2050. This growth – from six to nine billion – is unprecedented in world history, both in the absolute numbers and in the percentage growth. Nineteen of twenty of our new companions on the planet will be born in the developing world, in nations impoverished in part by their growing consumption of imported oil. They will join the 1.3 billion people now living on less than a dollar a day; in such a world, it will not require Osama bin Ladens to recruit criminals or terrorists. These numbers are the stew of growing instability.

So what should we be doing?

Let’s begin again with the President’s correct assertion that national security depends on energy security. The complex ties between energy and U.S. national interests have drawn tighter over time. The advent of globalization, the growing gap between rich and poor, the war on terrorism, and the need to safeguard the earth’s environment are all intertwined with energy concerns. National security depends on energy security.

So what is needed is a purposeful, strategic energy policy, designed to address three great challenges. First, the danger posed by the world’s dependence on oil. Second, the urgent risk of global climate change; and third, poverty—the world’s poor essentially have no access to electricity, the energy service which is essential for economic advancement.

For 30 years we have known that we are dangerously dependent on imported oil. And we are not alone—Japan buys three quarters of its oil from the volatile Persian Gulf, and China increased its imports by 20% last year alone.

Diversification of sources helps, but doesn't really answer the problem. Oil is like any other commodity – the last unit sold determines its price. The United States could shift all of our purchases to sources that are relatively safe politically, such as Canada and Mexico, but we would still not be protected. The global price is what matters most. Just in the last month, the price of oil rose sharply following a few terrorist incidents in Saudi Arabia and resultant fears in the oil markets. Imagine what would happen if, for example, a terrorist set off a 'dirty bomb' in the Saudi port of Ras Tanura. The price of oil would soar everywhere in the world, dramatically affecting the global economy.

Nor are supply disruptions and price shocks the only risks that oil dependence creates for U.S. national security. The flow of funds to certain oil-producing states has financed widespread corruption, perpetuated repressive regimes, funded radical anti-American fundamentalism, and fed hatreds that derive from rigid rule and stark contrasts between rich and poor. If this situation remains unchanged, the United States will find itself sending soldiers into the battle again and again, adding the lives of American men and women in uniform to the already high cost of oil.

Remarkably, our dangerous oil dependence receives almost no attention—it is a fuse ready to ignite bombs of political instability, terrorism, and corruption. We ignore it at our peril.

Second, as illustrated by issues of local air pollution, regional acid rain, or global climate change, energy policy and environmental policy are inextricably intertwined and must be addressed together. The prospect of climate change represents the greatest threat. In the international scientific community, just about the only disagreement lies in how fast the climate is warming and how much this will affect the globe.

Preventing catastrophic climate change is, at its core, an energy challenge. Globally, fossil fuel production and use accounts for nearly 60 percent of the emissions that are causing the earth's atmospheric greenhouse to trap more heat. To slow down and eventually arrest this alarming trend, the world must take immediate, far-reaching steps: dramatically reducing the burning of fossil fuels, slowing deforestation, altering agricultural practices, and stemming the use of certain chemicals.

Because change of this magnitude will take so much time, and because there is so much momentum built into the current rate of carbon release, it will be impossible to hold atmospheric concentrations at the current level of 380 parts per million (which is already one-third higher than preindustrial levels). More realistically, studies for the Intergovernmental Panel on Climate Change suggest that an extremely ambitious program to reduce worldwide carbon emissions by as much as two-thirds by the end of the century will be necessary just to hold the level of accumulated carbon in the earth's atmosphere below 550 parts per million – roughly double pre-industrial levels, or twice

the atmospheric concentration in the last 400,000 years. Sea levels are already rising, temperatures are up, and disease vectors are spreading. We are conducting an extremely dangerous and irreversible global experiment, and Washington is fiddling as the planet begins a slow burn.

Third, energy policy must focus on global poverty. Of the world's six billion people, one-third enjoy the kind of energy on demand that Americans take for granted (electricity at the flick of a switch), and another third have such energy services intermittently. The final third – two billion people – simply lack access to modern energy services. Not coincidentally, the energy-deprived are the world's most impoverished, living on less than \$2 per day. And their ranks will grow: according to UN estimates, the total population of the 50 poorest nations will triple in size over the next 50 years.

So energy is the common thread weaving together so many of America's interests and global challenges. Leadership from Washington is critical because the United States is so big, so economically powerful, and so vulnerable to oil shocks and terrorism. This is a time of opportunity, too – a major technological revolution is beginning in energy, with great potential markets. And finally, where the United States goes, others will likely follow. America's example for good or for ill sets the tempo and the direction of action far beyond its borders and far into the future.

At the UN Foundation, we have joined together in a broad political alliance to try to do something in Washington about these three challenges. Calling ourselves the Energy Future Coalition, co-chaired by such unlikely allies as John Podesta (President Clinton's Chief of Staff), and Boyden Gray (Counsel to the first President Bush), and governed by a representative network that reaches from the Coal Council to the Sierra Club, we are working to help break the political log-jam, and to hurry solutions for our energy future.

We have targeted six major initiatives that we believe can be achieved in the next few years:

- Advanced vehicles;
- Better fuels to run them;
- Carbon sequestration;
- A smarter grid;
- Financing global energy development; and
- Renewables and conservation.

Concerning advanced vehicles, the central idea is a major incentive program to help manufacturing plants retool for the production of hybrid vehicles, and to engage American consumers with a significant purchase incentive. These ideas emerged from an industry/UAW/environmental working group, and we are hopeful that this new coalition will be carrying its ideas and political clout to Washington next January.

Too little attention is paid to the fuels that drive our transportation system. Working with a broad agriculture industry, trade, and technical group, the Energy Future Coalition has built a program to redirect export subsidies to support a new, farm-based alternative fuels

program. This classic win-win-win proposal, based on rapidly emerging technologies in biofuels, can make a major contribution toward reducing our energy dependence, develop clean fuels, give farmers around the world new economic opportunities, and stem the costly and counterproductive flow of agricultural subsidies.

We are also much taken with the need to address the future of coal – an energy resource that is cheap, widely available, and very polluting. Led by the former head of the National Mining Association, Dick Lawson, and the head of the Climate Center for the Natural Resources Defense Council, David Hawkins, a group from coal producers, utilities, and the environment came together. These are not natural allies! But they agreed about this: Technologies that allow the capture and sequestration of carbon dioxide emissions can transform the future of the coal industry. They could allow the United States and others – especially China and India – to exploit vast coal reserves in a climate-friendly fashion. And carbon-capture technology, which leaves behind a hydrogen stream, might eventually make coal a low-cost source of hydrogen for fuel cells in buildings and cars and reduce U.S. dependence on oil.

A fourth policy intervention focused on what we have called “the Smart Grid.” The urgent need for this initiative was illustrated by last summer’s vast power outage. The nation’s electrical power system is antiquated, fragile, and inefficient, operating for the most part on 50-year-old technology. Mandating standards for the grid, as currently being discussed in Washington, is an important first step. But much more can and should be done. Introducing microprocessor technologies, rewiring the grid with advanced computer controls, and developing self-healing transmission and distribution elements are among the steps that have to be part of a new “smart grid.” Running today’s digital society through yesterday’s grid is like running the Internet through a telephone switchboard.

A fifth major policy initiative focuses on international energy development. The world is looking at a tripling of energy use by 2050, as the economies of China, India, and other developing nations increase economic output. Even with that growth, the modern energy-services gap faced by nearly two billion people will not be closed. And if that growth occurs using outdated and polluting energy sources, climate-altering emissions will grow dramatically. In human and environmental terms, this scenario presents an unacceptable future and a daunting challenge. Innovative financing techniques are needed that can reduce the risk to the private sector and mobilize investment in energy development. We are exploring the creation of a new category of investment securities, called “Global Development Bonds.” These would combine tax benefits, political risk insurance, and matching funds from the U.S. government to encourage private investment in selected countries (consistent with the President’s Millennium Challenge Account initiative) for sustainable energy development.

Finally, we agree with you that the promise of solar is great, and that we must continue to make it more cost competitive and user friendly. I remember when NREL was but a dream during the Carter Administration, when it came to Golden, and how its progress has reflected advancement of the science, maturation of the technology and the growth of

the industry. Photovoltaics have nearly become everyday possibilities—but a lot of work remains to be done among architects, builders, and developers.

Here in Colorado, with the natural gas and wind industries in our backyard, we are beginning to explore the linkage between the emerging natural gas supply crisis and the improving economics of wind power. An emerging consensus suggests that what was once envisioned as an abundant domestic natural gas supply was overly optimistic; consequently, natural gas price forecasts have risen so that wind power in many cases is a cheaper alternative.

Taken as a whole, the program of the Energy Future Coalition is an enormously ambitious undertaking – but if you don't set a goal, you have an absolute chance of not getting there. We believe that the time is right for a truly persistent focus on energy policy. The episodic responses of the last 30 years are inadequate to the urgency of the present.

We believe that we can help to mobilize the political coalition necessary for the task.

- New constituencies, from traditional NGOs to an invigorated faith-based community, are arguing for greater justice and opportunity around the world;
- An increasing number of leaders in the farm belt want change, and their voices are being mobilized on Capitol Hill to alter our subsidy policies;
- Organized labor is searching for alternatives to support as they work to keep manufacturing vigorous, and in the United States;
- And most important, the public can be offered solutions that are right and in our long-term national interest. The key ingredient is leadership – recognizing the problem, identifying the opportunity, and selling the options.

Let me close by again thanking you for support of the Colorado energy ballot initiative. This work is a direct descendent of the tradition of citizen action in the United States:

- The Civil Rights movement came from grass roots America, not from the Halls of a Southern dominated State;
- When the Cuyahoga River caught on fire, citizens organized the first Earth Day and the environmental movement was born;
- Ralph Nader and his fabled “raiders” (back when he was a constructive force in America) catalyzed the consumer movement in America;
- And strong voices from leaders like Gloria Steinem, Jane Fonda, Bella Abzug, and our own Pat Schroeder drove the Women's Movement and the Choice issue – in America and around the world.

Government often needs a kick in the pants; the interest groups often get too cozy; and the future becomes unattended as political vision dwindles. Energy is an excellent example of too much coziness and too little vision.

We need the fire in your bellies; we need your energy and your vision. We also need your ballot initiative – it is so American, and it is right for the country.

Thank you for what you are doing, and thank you for asking me to be with you today.