

# Obama's Energy Policy

## Joseph A. Stanislaw discusses how far Obama's energy policy is a transformative moment

In just six months, the Obama administration has made Washington the epicentre of a veritable revolution in American energy and environmental policy. After decades of lethargy, during which California and over thirty other states were the centre of innovation, hardly a week now passes without a landmark measure announced on the Hill or in the White House.

Among the highlights have been the passage of a stimulus bill in February that included over \$60 billion for clean-energy initiatives; the appointment to the post of energy secretary of a Nobel Prize-winning Cassandra of global warming; the elevation of energy and environmental issues in the White House hierarchy; the creation in spring of a network of Energy Frontier Research Centres; the increase in May, for the first time in a decade, of fuel economy standards for cars; the launch of an historic energy-efficiency initiative in June; and a stream of ambitious rhetoric on a post-Kyoto climate pact. This was capped, of course, by the House's passage of the Waxman-Markey climate change legislation in late June. The complex, 1200-page bill would require the United States to reduce carbon dioxide and other greenhouse gas emissions by 17 percent from 2005 levels by 2020 and by 83 percent by midcentury.

All this marks a transformation for America that will echo worldwide. Obama has reordered the country's energy priorities, focusing first on the energy we should not be wasting – through efficiency initiatives, conservation, and demand reduction, all without sacrificing economic

growth – and then emphasising new and renewables. Oil and gas come in a distant third – natural gas was mentioned *but one time* in the 1200 pages of the Waxman bill. Nuclear energy, meanwhile, remains a question mark. Thus shakes out the new energy playing field in America.

Yet what might have been the single most revealing moment occurred not in Washington, but halfway around the world – in China. Not Brussels, not Dubai, not Moscow, nor Berlin or London. Beijing.

It was there in mid-July that Energy Secretary Chu and Commerce Secretary Locke – notably, two Americans of Chinese descent – convened with their Chinese counterparts to discuss both energy and climate change (also of note: their visit was advanced by two months from its original date). Secretary of State Clinton followed shortly afterwards, and President Obama will travel to China in November for a summit with President Hu Jintao.

The headlines from the visit focused on US–China cooperation in negotiating a new climate treaty next December in Copenhagen. After all, beyond their combined political weight, the USA and China are the world's two largest carbon emitters. But there was an even more important agenda: 'seeking common interests between China and the United States in developing clean energy,' as the Department of Energy gently put it in a statement.

This is because, despite all the American *rhetoric* on clean energy this year, much of the *action* is taking place abroad. In fact, the USA could well develop the innovations to be *one* of the leaders in the field – but even then it is likely that the bulk of the manufacturing will take place abroad. This is why the House voted overwhelmingly on 10 June against any climate change treaty that could weaken the intellectual property rights of American green technology.

President Obama has been adamant about America's clean-energy future. 'The American people know that the nation that leads in building a 21st century clean-energy economy is the nation that will lead in creating a 21st century global economy – I want America to be that nation,' Obama said on 26 June, the day the US House of Representatives passed the American Clean Energy and Security Act.

The United States, however, needs to peer vigilantly through its rear-view mirror – and through the windshield – to keep tabs on the competition. A quick survey of the scene shows why.

Asian nations in particular are investing vast resources in renewable energy research and technology development, while setting ambitious targets for clean energy use. For example, South Korea has committed to investing 2 percent of GDP each year in clean energy, for a total of \$80 billion over five years. China is aiming to generate 20 gigawatts of solar power by 2020, a tenfold increase from today, and is offering its industry the world's most generous subsidy to help meet that goal. Beijing also is investing heavily in wind, battery, and other technologies. Already, the USA lags in key industries. Only one-fourth of the world's top renewable-energy companies are American-owned. And only one US company, General Electric, is among the world's top ten wind turbine makers; American solar companies do not fare much better.

Obama is aware of the deficit. 'It is China that has launched the largest effort in history to make its economy energy efficient,' he said recently. 'We invented solar technology, but we've fallen behind countries like Germany and Japan in producing it. New plug-in hybrids roll off our assembly lines, but they will run on batteries made in Korea.' House Majority Leader Steny Hoyer put it even more pointedly: 'In the years to come, I hope that America will be selling clean technology to China and India and not the other way around.'

So no longer is the energy debate dominated by talk of peak oil, Russian gas cut-offs, or the machinations of OPEC. Increasingly, the ‘market and might’ of China, India, and the other new-energy tigers – with their more centralised economies, their vast R&D budgets, and their sway in the climate debate – are compelling the Obama administration to try to lean as far forward as possible in its energy policies.

All American energy companies face enormous challenges on the world stage, as the dynamic of global industry fundamentally changes. Chinese and Indian oil and gas companies can do things in the world today that a German or US company cannot. They combine the power of both the private and public sectors. If a Chinese company wants a stake in a Nigerian oil field, Beijing can contribute a few billion in foreign aid to sweeten the pot. Washington cannot. China has the domestic market, the foreign reach, and the currency reserves to be a formidable enabler for its energy industry.

In this context, the Obama administration has done as well as could be expected – though perhaps not as well as the biggest optimists hoped, which the Waxman bill underscored.

In the first six months of his administration, President Obama achieved what eluded his predecessors. He has put energy and environment policy at the heart of plans for America’s future. By arguing for a Green New Deal as the way to combat climate change and lead us out of the economic morass, the President seeks to transform a moment of profound crisis into one of generational opportunity. If he succeeds in marrying reform with recovery, the effort could fulfill an extraordinary triptych of goals:

- Build the foundation for a twenty first-century economy,
- Assert America’s global leadership, and
- Sharply increase the country’s national security.

But the President’s work has only just begun. In his first six months, he laid out an ambitious vision of *where* we need to go. In the next six months,

however, he must overcome political interests to prevail on precisely *how* we will get there.

To a significant degree, he can disarm opposition to his plans by underscoring that he will not play favourites on the new energy playing field – and that instead his goal is to set clear, transparent targets and allow all players to compete in meeting them. At its most basic level, his task is to set a price for carbon and then allow the market – not the government – to decide how to get there. And while he must be prepared to compromise, he should be unyielding in hewing to his guiding principle – using reform and recovery together for the future.

Within a month of taking office, and without even passing an energy bill, Obama had demonstrated his conviction. He did it through symbolism, by making fuel efficiency the subject of a presidential directive during his first week. He did it through staffing, by appointing ardent advocates of the environmental and climate change agenda to senior jobs. And he did it through spending. The more than \$70 billion allocated to energy and environment projects in the February economic stimulus bill made it ‘the biggest energy bill the country’s ever seen,’ as White House energy and climate czar Carol Browner said.

Obama put it simply: ‘It is time for America to lead again,’ he said in his address to Congress, referring specifically to energy and climate change policy.

Together with Obama’s 2010 budget, released shortly thereafter, the stimulus bill set out an ambitious series of energy goals. Specifically:

- Create five million green jobs by investing \$150 billion in renewable energy efforts over the next ten years (Congress authorised the development of 130 clean energy technologies)
- Double alternative energy production, to cover 10 percent of electricity needs, by 2012, and to 25 percent by 2025
- Implement a carbon-trading system that will reduce greenhouse gas emissions by 2050, while also

generating \$685 billion in ‘carbon revenues’ in the next decade alone

- Update and expand the nation’s energy infrastructure, focusing specifically on building an electricity grid that can better integrate renewable energy
- Promote energy efficiency by, among other measures, retrofitting buildings so they sip rather than chug energy, and upgrading public transport systems
- Invest heavily in energy R&D, with \$8.8 billion in the stimulus bill alone, including \$800 for clean coal, \$1.5 billion for industrial carbon capture, \$800 million for biomass, and \$400 for geothermal

Already, this is a huge list – but the President could add two more critical items to his agenda.

First, he will need to engage the American oil and gas industries. Until now, the administration has treated them almost like second-class citizens (or worse), invoking them only in the context of increasing their taxes and reducing their subsidies. Yet the USA cannot cross the bridge to a low-carbon future without mobilising the American oil and gas industries. To accelerate this process, all energy forms, including fossil fuels, should be allowed to compete within a framework set by the government. Also, the oil and gas industries generate hundreds of thousands of highly skilled, high paying jobs – jobs that America must keep at home. These are skills and positions that, once lost, are unlikely to return.

Second, and in a similar vein, the President must show his cards on nuclear energy, the proven carbon-free energy source that produces 21 percent of America’s electricity. How does it figure in his vision of America’s energy future? He cannot keep this industry, which must make investments with a 50-year or longer horizon, in limbo for much longer.

Another immediate priority of the next six months is for the administration to use all its political and diplomatic powers to ensure that the global climate change negotiations scheduled for December in Copenhagen succeed. The auguries thus far are

not good. The meltdown during the G8 Summit in Italy in July – when developing countries refused to sign onto the West’s ambitious goal of having them reduce emission 50 percent by 2050 (the West would cut by 80 percent) – is emblematic of the impasse that exists.

If the USA shows up in Copenhagen with signed legislation on a domestic carbon bill, this would be an excellent bargaining chip. The Waxman bill was a good start, but now the Senate must be brought along. Short of this, the administration will have to show determined leadership in designing a framework of ideas and principles on carbon that can attract the support of, especially, China and Canada. This is what the Chu–Locke visit to Beijing was partly about.

“the USA cannot cross the bridge to a low-carbon future without mobilising the American oil and gas industries”

American industry needs clarity on carbon. In the absence of federal legislation, industry does not know where to make investments. The business community, resigned to the fact that a price for carbon will be set, is now clamouring for finality. Says Browner: ‘Even in this down economy, it’s better for us to know what’s going to be expected in terms of how we use energy, in terms of greenhouse gas emissions, so as we come through the recovery we can plan for all that. Give us our marching orders.’

The Waxman bill offered a certain degree of clarity, although it delivered significantly less than the home run for which optimists had hoped. In order to secure a razor-thin, 7-vote margin, the bill’s sponsors had to make concessions to Congressional representatives from energy-producing (primarily coal) states. Thus cap-and-trade was watered down, among other measures. But this logrolling – natural in American politics, though perhaps

disappointing in a European context – produced a historical bill.

However, the Waxman bill is only half the picture; the Senate must now come on board. The administration can hardly be happy that the House barely passed a climate bill (219–212) even after weakening it with billions in handouts. The Senate fight is even tougher. The president will need to ensure the bill drives down emissions while spurring investments in clean technology that all nations can build on. Politically, the linchpin will be for the White House to continue to tie the climate bill to national security – and freeing America from dependence on the unreliable, or even dangerous, countries that now supply us with fossil fuels. Obama joined the Senate battle just days after Waxman passed. ‘My call to every senator, as well as to every American, is this: We cannot be afraid of the future. And we must not be prisoners of the past,’ he said. ‘Don’t believe the misinformation out there that suggests there is somehow a contradiction between investing in clean energy and economic growth. It’s just not true.’

The administration could use its willingness to promote carbon legislation, as well as a national renewable portfolio standard, to forge a climate consensus with China. President Obama’s summit in Beijing in the fall could be high noon in this regard. One key to this will be to send a clear signal to the developing world that the United States will lead in efforts to both develop and transfer clean energy technologies – including in legacy energy fields, especially coal (which is fundamental to China’s future).

Come September, the President’s efforts to enact his energy vision could be playing out on three legislative fronts, with a bill on carbon, another on renewal portfolio standards, and a third wide-ranging energy bill. As the administration plans for the inevitable autumn horse-trading, it must develop a strategy to protect its highest priorities, including:

- Carbon legislation, as discussed earlier
- An ambitious, national renewable portfolio standard

- The funding of basic and advanced research, and the training of college students in fields related to clean and renewable energy; the establishment of the Advanced Research Energy Agency with stimulus funds was an innovative move that should be built upon
- A ‘Clean Energy Bank’ that can overcome the mind-boggling bureaucratic hurdles that have prevented *available* funds from being distributed by the government either as loan guarantees or subsidies to help develop clean energy and efficiency technologies
- A prominent role for the legacy fossil fuel industries – oil, gas, and coal – with an emphasis on developing cleaner forms of these fuels
- The creation of a White House task force that can determine how best to create a new green energy ‘culture’ in America, starting with education at the primary level.

Above all, the administration should be guided by a fundamental three-part vision to:

- Create a set of goals with respect to carbon emissions;
- Establish clear and transparent rules of engagement; and then to
- Allow any and all players, including oil and gas, coal and nuclear, to compete for market share and funding.

This is an opportunity of a lifetime for America and for the world. But more than an opportunity, this transformation is a vital necessity. There will probably be more money spent in the energy sector in a broad sense in the next fifty years than has been invested in the past 100 years, if not in the history of mankind. We will have a complete transformation of our system in a fifty-year period. In doing so, we must aim to go from mutual misunderstanding – which dominates the world today – to mutual interdependence.

