

Mexico Will Amend Its Constitution, Allowing Foreign Companies To Invest In Its Energy Sector

By Paolo von Schirach

August 13, 2013

WASHINGTON – If I were Vladimir Putin or Ali al-Naimi, Saudi Minister of Petroleum, I would be really worried about the latest news from Mexico. President Enrique Pena Nieto is pushing forward an amendment to the Mexican Constitution that would eliminate or at least curtail existing barriers to foreign investments in the country's oil and gas sectors. 75 years ago President Lazaro Cardenas nationalized the Mexican oil industry. The sector became a monopoly managed by Pemex, a state-owned corporation.

Amending the Mexican Constitution

But now the Mexican leaders realize that Pemex is very inefficient. Its technologies are not up to date. However, given the constitutional barriers that prevent outside investments, it is almost impossible to find good ways to involve foreign firms in the energy sector. The push to amend the Constitution comes from the knowledge that Mexico has huge untapped resources, both conventional oil and gas as well as unconventional (mostly shale) gas. Mexico's official reserves are 115 bln barrels of oil equivalent, comparable to Kuwait. But the figure could be a lot higher.

US energy independence

It is obvious that with the active participation of major

American, European and other energy companies, Mexico could start developing all these reserves. Beyond the economic benefits for Mexico, from a geo-political stand point The United States of America would have the opportunity to get a larger share of its oil imports from Mexico. Combined with increased domestic production and greater reliance on Canadian oil, the US would reach "***Hemispheric Energy Independence***" even sooner than expected.

And this means no more OPEC oil for America.

More gas

Furthermore, Mexico has the fourth largest shale gas deposits in the world. As soon as this gas becomes available, this would further increase world supply. As America has plenty of its own shale gas, most the Mexican gas will be turned into LNG and exported to energy starved Europe, China and Japan.

Russia and OPEC will suffer

This is why Russia and Saudi Arabia should be worried. Their only valuable resource is likely to become less valuable on account of increased global supply. Look, even in a best case scenario it will take a while for Mexico to amend the Constitution and then enact the legislation and all the necessary regulations that will eventually enable foreign energy companies to participate in the exploitation of its vast energy resources. But this is going to happen, for sure.

A new energy map

As a result, in just a few years the world energy map will look entirely different. North America will become a net exporter of shale gas. Thanks to increased domestic output and more supplies from Canada and Mexico the US will get all the oil it needs from North America. As a result, Washington will no longer be obsessed with the danger of oil supplies disruptions originating in the Middle East. Consequently the

responsibility for ensuring the unhindered flow of oil through the Strait of Hormuz will shift from America to China and Japan –the major oil importers that rely on those supplies.

But, more than anything else, Russia and Saudi Arabia, countries that today make money because of high oil prices, will see their revenue flow go down and their influence diminished.

Cost Competitive Solar Power? Coming Soon, But Not Here Yet

By Paolo von Schirach

August 9, 2013

WASHINGTON – The FT published a big spread on solar power, (*A rising power*, August 9, 2013), accompanied by this intriguing subtitle: “*Plunging prices are finally making solar power competitive with conventional sources of energy...*” Now, if it were really so, this would be the announcement of a major breakthrough, both technological and economic. This would mean that finally a key component of the renewable energy sector can actually make it on its own, without mandates, rebates or other subsidies, that is.

Mostly subsidized

Well, reading the long article was rather disappointing. True enough, the cost of solar panels has gone down, in fact it has plummeted in the last decade –by 80% in the last five years alone. This is truly remarkable. And certainly, in specific markets where there is a lot of sun and high electricity

prices, solar power is becoming a viable alternative. But while this may be the case here and there, it is not true worldwide. Most of the installed solar power in place today is there only thanks to subsidies or mandates.

In fact, the very same FT story tells us that only 0.1% of total solar installations are unsubsidized. So what happened to the headline of solar power having finally become competitive? Well, we are moving in that direction; but we are not quite there, yet.

Solar technology will improve

Look, solar technology has improved and I have confidence that it will keep getting better. Costs have come down rapidly. And soon enough we shall get to a point in which people will place inexpensive solar panels on their roofs in order to generate their own low-cost electricity, because it is the smart thing to do. I am looking forward to this new era.

But we are not quite there yet. For the moment, amidst overcapacity, bankruptcies, industry consolidation, Chinese dumping, murky regulations, political pressures and what not, renewable energy is still not capable of making it on its own.

**Global Warming Is Real –
Still, Do Not Force The
Adoption Of Imperfect**

Renewable Energy, Put More Money into R&D

WASHINGTON – If we knew for sure that man-made global warming were accelerating at a dramatic pace, threatening an imminent global catastrophe and the very survival of the world, then the most desperate counter measures would be appropriate. But we are not there. We have a major problem that is progressively getting worse; but not a catastrophe. The environmentalists of course believe the opposite, and therefore believe that in order to save the earth it is appropriate to impose punitive taxes against carbon based energy, while at the same time forcing the immediate adoption of still imperfect renewable energy technologies.

Green tech not quite mature

The fact is, as Biorn Lomborg, Director of the Copenhagen Consensus Center, argues in a compelling [FT](#) piece (*Only cheaper “green” fuels will force changes in energy use*, July 30, 2013), that: A) while global warming is real and is a serious problem, we do not have an impending catastrophe; B) the early adoption of green technologies as they exist today would not do much to reverse global warming; C) this “solution” amounts to imposing an enormous cost on consumers forced to use electricity that is much more expensive, because it is produced by as yet immature renewable energy technologies.

To be clear, Lomborg does not dismiss global warming as a fantasy, nor does he believe that the pursuit of renewable energy is wasteful. He has no “pro-carbon” bias. His argument is against the early adoption of green technologies that, while promising, are still not cost-effective. His simple point is that when wind, solar or whatever else will be really

cost competitive, they will replace carbon based energy sources, as a matter of course, without any subsidies, special taxes or other ad hoc policy mandates.

Better technologies always displace older ones

As he points out, we did not get the world to adopt personal computers by subsidizing rudimentary electronics and by taxing typewriters, so that people would be forced to buy ineffective, primitive personal computers. Indeed, we had to wait for a certain level of technological development to allow innovators to come up with viable PCs that people really wanted to buy. When they became available and proved to be reliable, then typewriters became immediately obsolete.

By the same token, as soon as renewable energy will become truly competitive, it will not take much for the market to abandon fossil fuels, no matter how plentiful. If state of the art solar panels can provide reliable cheaper electricity, then it is good-bye to coal, natural gas and whatever else we have been using. As history demonstrates, when technologies become obsolete, they are tossed away, without even a second thought.

Promote green tech by spending a lot more on R&D

In order to get faster to our coveted "green tech" future, Lomborg proposed to subsidize R&D, as opposed to forcing the early adoption of the still imperfect technologies we have today. Of course spending a lot more on R&D is no guarantee of success. But it will create more opportunities for innovators to come up with real qualitative changes that may indeed create a new energy technology environment.

If we can produce electricity through solar at a fraction of what it costs to do so by using natural gas, you can bet that, just as the new cost-effective solar panels are rolled out, the gas wells will be closed down in no time. But to force people to abandon gas today, and use still imperfect

wind or solar is bad policy and bad economics. And it gets even worse if you need to convince reluctant taxpayers that they really have to swallow this –today–because we are cooking up the planet and soon enough there will be gigantic floods and other man-made catastrophes.

Global warming is a serious matter. But it is best addressed by producing something truly viable that will replace carbon based energy sources. Therefore let's redouble our research efforts in "green tech". Forcing the adoption of half backed technologies ahead of time translates into additional costs, political resistance and negligible improvements. All in all, a bad idea.

Obama's Speeches Not In Sync With America's Deep Concerns

By Paolo von Schirach

June 26, 2013

WASHINGTON – I notice a huge disconnect between the big concerns of the day in America –a slow economy that grew even less than we thought in the first quarter, stubborn unemployment, fears that we may have lost our innovation edge– and President Obama's major speeches. America worries about deficits, debt, about the forlorn army of the long term unemployed, while Barack Obama used a Berlin platform to make bold but essentially empty and frankly fatuous proposals about nuclear disarmament. He wanted to speak in Berlin on the anniversary of JFK's famous "Ich bin Ein Berliner" speech. So, a new "historic" speech to follow another? Hardly so. Obama spoke to a smallish crowd and made proposals that stirred very

few, were politely discussed (for about five minutes) by experts and a few politicians and then quickly forgotten.

Revamped green agenda

Back on the home front, Obama tried to reassert his green credentials by announcing a barrage of new regulations aimed at curbing US emissions. Here there will be some political traction, because Obama spoke to a significant section of the Democratic base, so that they will not lose heart on the seriousness of this president's anti-global warming, green agenda.

Still, even if we understand the politics of this speech, are coal fired plants emissions at the top of America's concerns these days? Again, there is dissonance here between the average Americans' worries about jobs and unemployment and new Obama-backed policies that as a minimum will threaten the near term viability of the gigantic US coal industry. Whatever the long term environmental benefits of phasing out coal –and they will be real– in the near term closing down coal fired plants will have a cascading negative effect on industrial users that rely on coal produced electricity, utilities, freight rail companies that transport the coal, mining companies and the actual coal miners.

Bad timing

In politics, timing is almost always more important than “being right” on the issues. Is this time of economic uncertainty the best opportunity to launch a new initiative that is most likely to hurt before it brings tangible benefits? Look, we know that it will take years to implement what Obama just announced. And most of his measures will be opposed and fought over in the courts. So, do not expect immediate dramatic consequences. However, there was enough there to create worries at a time in which the country needs hope. (If you were a coal miner in West Virginia, how would

you feel after listening to this speech?)

Out of place

And here is my basic point. Besieged by a rather hostile Washington political environment, (the conservative Republicans are certainly not doing America any favors by opposing this President mostly on ideological grounds), Obama took refuge in grandiose but in the end bland pronouncements that make him look out of place. In a world dominated by endless turmoil in Arab countries, with Syria in flames, China about to surpass us economically, Iran and North Korea acting as the usual trouble-makers, Obama launched nuclear disarmament, as if this were a truly pressing matter.

Power of persuasion?

Likewise, while America suffers because of slow economic growth, Obama re-launched anti-emission regulations that are likely to hurt economically before they bring about real benefits. To me this looks like disconnect. Does the President know what is really going on? Or, worse, does he believe that the power of his convictions and his eloquence will move mountains? Does he believe that, because of his Berlin offer, Putin will rush to sit down with him and quickly come to an agreement about strategic nuclear weapons cuts? Does he really believe that with his steady regulatory hand at the helm he will redirect America's energy consumption from evil carbon to benign renewables? I wonder...

If Carbon Energy Will Continue To Be Dominant, Why Not Mention Added Supplies That Can Come To the US From Canada?

By Paolo von Schirach

June 2, 2013

WASHINGTON – The high brow The Atlantic news magazine devoted 12 long pages to its May 2013 cover story titled *We Will Never Run Out Of Oil*, by Charles C. Mann. This interesting piece discusses in a sober manner the wider implications of a US-led carbon revolution. It talks intelligently about the impact of more US produced oil and natural gas (thanks to “hydraulic fracturing”, or “fracking”), on carbon emissions, climate change and on the still struggling renewable energy technologies. (Yes, despite all, wind and solar are still a bit too expensive and less reliable than conventional carbon based fuels). Furthermore, Mann goes at great length to explain that the new “dark horse” within the family of carbon energy products is methane hydrate, essentially gas blended with water that one day could be extracted profitably by drilling ocean floors. He also discusses the real long term potential of shale oil and shale gas, and a lot more.

Is there any oil in Canada?

Still, in such an erudite and comprehensive piece delineating the future prospects of carbon based energy there are only a few, and quite dismissive, words devoted to Canada, America’s key ally, neighbor and most significant oil supplier. The author does not say clearly that the US, even with the net

addition of shale oil now developed in Texas and North Dakota, can reach “Hemispheric Energy Independence” –that is no more oil from OPEC– only with the help of substantial additional oil imports from Canada.

True enough, thanks to shale oil, North Dakota went from zero oil just a few years ago to almost 1 million barrel a day in 2013. This is most remarkable. But North Dakota will not go to 5 or 6 million. The simple point is that America, while its oil reserves outlook has improved quite substantially, assuming current levels of consumption simply cannot produce all the oil it needs.

Energy independence

Now, if you believe, as I do, that enhanced US energy security is an extremely valuable objective, then the opportunity to combine increased American oil and gas production with increased oil imports from Canada, this way displacing imports from Africa, Venezuela and the Persian Gulf, should be discussed and given its proper relevance in the context of a very long piece on the future of fossil fuels.

Worthless “tar sands” oil

Well, not so. Mann talks briefly and dismissively about Alberta’s “tar sands”, (choosing this deliberately pejorative term, as opposed to the more neutral “oil sands”). He says that extracting this type of oil is a mess. The process requires untold amounts of water. It is way too expensive; therefore not cost effective. (Then how come that they keep going at it?) Besides, the Canadians will not be able to export this low grade oil extracted from the “tar sands” because internal opposition will stop the construction of the necessary pipelines. Likewise, the US State Department may not grant permission to build another north to south, Canada-US, pipeline that would link producers in Alberta to the refineries located in Texas. End of story. On to the next

subject.

US-Canada relations?

This is rather amazing. No discussion of Canada's enormous oil reserves. (Yes, call them "tar sands" or "oil sands"; but all that "stuff" amounts to huge oil reserves). No discussion of the positive implications of an enhanced strategic US-Canada energy partnership, keeping in mind that the TransCanada Keystone XL pipeline, if built, would carry daily into the US about the same amount of oil produced by North Dakota. No discussion of the geopolitical significance of displacing imports of OPEC oil, this way insulating America from the impact of possible Middle Eastern crises. No discussion of the economic advantages of increasing our energy related commerce with Canada, our ally and major trading partner.

Canadian oil today, or methane hydrate some day?

I am not suggesting here that importing more oil from Canada all by itself would provide the final solution to all of America's present and future energy supply problems. Far from it. But Canada's oil is abundant, real and tangible; and we could get a lot more of it today, (if the long delayed TransCanada pipeline had been authorized and built).

I submit that humble Canadian oil is a more realistic addition to America's (and world) energy supplies than counting on the future (and costly) development of ocean floor based methane hydrate the author describes to us in such minute details.

Washington Now Dominated By Not So Great Scandals – Too Much Focus On Benghazi and The IRS Because There Is Nothing Interesting Coming Out Of The Obama White House – No Major Initiative, No Reform Plan

By Paolo von Schirach

May 17, 2013

WASHINGTON – The most telling evidence of Obama's weakness is that B or C category "scandals" have monopolized the attention of most media and commentators. We have the resurfacing of the once dead Benghazi terror attack story. This is something that seemed to have legs during the political campaign last year. Then Romney failed to press it and the Republicans essentially let it go. Now there are new testimonies that have exposed at least one fact: the Obama administration was less than candid in telling the real story as it was unfolding.

Benghazi, IRS stories dominate

Still, all these embarrassing details do not amount to criminal acts. And yet the Obama administration is visibly on the defensive. Add to Benghazi the more recent story of the Internal Revenue Service denying tax free privileges to conservative organizations. We still do not know how bad this is; but the IRS story is dominating the news cycles. And then

there is the story of the Justice Department using a very heavy hand against the Associated Press as it investigates a leak of classified information regarding terror activities in Yemen.

Nothing else to talk about

This stuff is serious. But these are not the mega scandals that can signal political death or worse for a sitting President. So why do they dominate the news cycle? Very simple. Because there is nothing else to report. President Obama has lost the initiative. There is absolutely nothing worth talking about coming from the White House. Of course, it is not Obama's fault that Washington is now paralyzed due to divided government. And yet Obama is the incumbent President. There is only one President. And the President is supposed to lead, even when the going is tough. In fact, he is supposed to lead especially when the going is tough.

No Big Idea

And what could Obama do? Well, he could and should articulate a most compelling plan to reform public spending (yes, that would have to include Social Security, Medicare and Medicaid) and taxes. He could elaborate a national energy strategy. He could articulate a new vision of America's role in world affairs in a multi-polar world. All this is tough, especially in this politically poisonous environment. Yet, who said that being President should be easy? We call "Great" the Presidents that accomplished difficult tasks. All the others get a foot note.

But, so far at least, the President has not even tried to be Great. He proposed nothing major. He has smallish ideas here and there. But, quite frankly, it looks as if the country tuned out. Hence the exaggerated space devoted to the "scandals". There is excessive coverage because there is nothing else to cover.

Obama soon to become irrelevant

As things stand today, probably the only big new legislation coming out of Washington in the next few months will be comprehensive immigration reform. And on this truly important issue President Obama is a follower rather than a leader. The whole idea was launched by a bipartisan group of Senators.

Of course, it is too early to call Obama an inconsequential President. Still, here he is, at the beginning of his second term, and it seems as if he has already run out of gas. Unless he puts forward an ambitious, intelligently crafted agenda that will captivate and energize the Nation, as 2016 approaches, Obama will be less and less relevant.

Once America, With Canada's Help, Becomes Energy Self-Sufficient, Expect Major Geopolitical Changes

By Paolo von Schirach

May 2, 2013

WASHINGTON – Imagine this brand new scenario for world energy. America will start producing at home a lot more of the oil it needs. Besides, it will import even less because many of its heavy vehicles will be converted to cheap and abundant Compressed or Liquefied Natural Gas (CNG/LNG) now produced in America, this way further diminishing the need to import

crude. As consumption will still be larger than domestic production, the US will continue to be a net oil importer. However, increased imports from Canada and soon Brazil will guarantee "Hemispheric Oil Independence". This means that for the first time in recent history the Western Hemisphere, through a combination of US production, plus larger imports from friendly neighbors, will have all the energy it needs to fuel the world's largest economy.

US will no longer rely on OPEC oil

A fantasy? Not really. Many reputable projections indicate that America is well on its way to reach this goal. In just a few years America will stop importing oil from the Persian Gulf, Africa and hopefully Venezuela. This is a game changer, with obvious geopolitical repercussions. You can bet that a "semi-energy independent America" will downgrade its interests in Middle East issues. You can bet that Arab Israeli matters, including a final solution to the eternal Palestinian mess, will no longer be regarded as important. By the same token, the US navy presence in the Persian Gulf will be diminished and eventually eliminated.

Japan to take a more active role in securing oil flows

The world sees these new developments. Indeed, Japanese Prime Minister Shinzo Abe, during a recent visit to Saudi Arabia, discussed issues related to Persian Gulf oil flow security with his Saudi hosts. The hint is that Japan in the future may take a more active role in protecting, possibly with navy deployments, the unhindered flow of the Gulf oil its economy is totally dependent on. Having seen the proverbial writing on the wall, Japan is already planning for a not so distant future in which the US 5th Fleet, now anchored in Bahrain, will no longer be policing the sea lanes for America's own benefit but also for the benefit of all other major oil importers, first and foremost Japan.

So, here is the brand new scenario. Once America will no longer depend on OPEC oil, the free flow of Middle Eastern oil will become the responsibility of the heavy users: Japan, China and India. Therefore, expect major diplomatic, political and security rearrangements between the Gulf Region and Asia.

The end of OPEC?

On a different level, if the Western Hemisphere becomes indeed a major oil producer satisfying America's entire energy needs, expect the OPEC cartel to suffer greatly. OPEC's ability to control world oil prices is predicated on an environment of increasing demand and tight supplies in which only OPEC has significant spare capacity. But if this changes dramatically, if Canada and Brazil have enough oil to supply America and then quite a bit in excess to sell to others, then OPEC's ability to impose its own prices will, mercifully, end. OPEC will keep selling oil, but not at the prices it sets (by manipulating supply) based on its own convenience.

The Saudis apparently are already adjusting to this new situation. They have announced that they will stop investing in added capacity. Which is to say that they have determined that in the next few years there will be no significant additional world demand to justify added production. The Saudis certainly do not want to flood the market with excessive crude oil supplies, this way causing prices to collapse.

Russia will suffer: end of the oil rent

By the same token, in a world with plenty of spare oil, expect Russia to suffer as well. As of now, its major source of economic strength comes from oil and gas exports. A lot more oil and gas in North America changes the global market outlook. As America no longer needs foreign gas, European importers can find alternatives to Russian gas. And plentiful oil will mean lower prices. Good for all importing nations but

bad news for Russia and other large exporters that have used the rent provided by inflated oil prices as the major driver of their economic development. They better start looking for other ways to sustain their fragile economies.

T. Boone Pickens Still Pushing His Plan To Adopt US Produced Natural Gas As Transportation Fuel – A Great Idea Whose Time Has Come

By Paolo von Schirach

February 22, 2013

WASHINGTON – T. Boone Pickens keeps pushing forward his plan to convert American vehicles to US produced (inexpensive and cleaner) natural gas. His purpose is to help the US economy by promoting the use of a now abundant US resource, while lessening US dependence on oil; as oil prices, unlike domestic natural gas, are still determined by the OPEC cartel, no matter how much more oil America is getting now from North Dakota.

Use US natural gas to avoid OPEC controlled oil

In other words, we determine our own (very low) price of gas. OPEC still controls oil prices. Hence the advantage in economic, geo-political and environmental terms of choosing US produced natural gas as transportation fuel. Gas is plentiful,

domestic, cheaper and cleaner than gasoline or diesel.

In Pickens' own words:

"This morning [February 21] I also co-hosted a SquawkBox on CNBC where we talked about our nation's dependence on foreign oil and how the U.S. can fuel domestic energy production.

Key points of the interview:

– Despite great strides in domestic energy production, U.S. consumers are seeing no relief in gasoline prices because oil is a global commodity and Saudi Arabia is the swing producer.

– OPEC is a cartel, and the best way to break the cartel and address rising fuel costs is to inject competing transportation fuels into the mix.

– Taking advantage of our expanding supplies of natural gas, particularly in the heavy duty truck and fleet market, is the most realistic way to solve the national security and economic threat tied to OPEC oil/diesel/gasoline."

There is long road ahead before we convert our vehicles, beginning with heavy trucks, to natural gas, but it well worth the effort.

**Electric Cars Do Not Sell –
Just Like Renewable Energy, A**

Good Idea Whose Time Has Yet To Come – Innovation Will Replace Carbon Based Energy, But Not Today

[the-subtitle]

By Paolo von Schirach

February 4, 2013

WASHINGTON – The New Green Economy that would have created tens of thousands of new and highly paid jobs was one of Obama's first term promises. It sounded good, and it seemed to be in step with the unfolding new era of expensive (and scarce) oil and global warming. Going green appeared both smart and virtuous.

Steven Chu to the rescue

America would finally shake off its dependence on oil, while creating new, sustainable and at the same time highly profitable sectors. To make all this happen, Obama called upon Steven Chu, eminent scientist and Nobel Prize recipient, to run the Department of Energy. The mandate was clear: Washington would deliberately push forward the development and the adoption of the best renewable energy solutions.

Bad timing

Great plan, at least in principle. But horrible timing. As Chu was providing credits and grants to renewables, the US shale oil and gas revolution was unfolding, with zero Washington backing and zero US Government appreciation of its enormous consequences. Shale oil and gas represent a real game changer. At least for a few decades, America will have much more carbon

based energy reserves than any estimates had previously envisaged. The US has now the cheapest gas in the developed world. These reserves will last for about a century. So much for shortages and sky high prices for imported natural gas.

This shale revolution undercut at least part of the rationale for the quick adoption of renewable energy sources. Especially when it comes to power generation, hard to beat current prices for US natural gas.

Electric cars doing poorly

And what about the revamped and re-engineered electric cars, (EVs)? Well, the millions of anti-carbon US environmentalists looking for truly green alternatives apparently do not like them enough. Nobody is buying them. Worldwide sales are pitiful. In the US only 14,687 EVs sold in 2012. This is 0.1% of total US auto sales of 14.5 million, well below all auto makers projections.

At some point some kind of vehicle not relying on internal combustion will be developed. But we are not there yet. The unresolved issues plaguing EVs are the cost of batteries, the still limited distance you can travel with one charge, the long time required to recharge, and the lack of a national infrastructure of recharging stations.

There will be new technologies

All these problems may be resolved at some point. Or we may be surprised by some totally unexpected and different breakthrough that will transform the auto industry. Still, for the moment, auto companies do well with more fuel efficient gasoline engines, while hybrids also do well.

Lesson: Government should not try to time innovation

The lesson of all this is that it is unwise for public policy to try and time the level and pace of innovation deployments.

Common sense tells us that “at some point” we shall have to move away from limited and environmentally unfriendly carbon energy sources. (In this respect please note that abundant US natural gas is also the cleanest hydrocarbon). But only when we have something better that really works.

Departing Secretary Chu should reflect on this

Forced adoption of renewables via subsidies and mandates to utilities often resulted in sub optimal choices and waste of money. As Secretary Chu is getting ready to leave office, he may want to reflect on this. Broadly speaking, the Green Tech plan was good; its timing unfortunately was not.

In An Uncertain Energy Environment, The Best Policy To Encourage Innovation Is To Increase The Federal Gasoline Tax – Clear Long Term Prices For Oil Based Products Will Tell Innovators What They Are Up Against

[the-subtitle]

By Paolo von Schirach

October 1, 2012

WASHINGTON – New generation electric vehicles (EVs) are not living up to their promise. The GM Volt is not selling, high end electric car maker Tesla Motors is struggling, while Coda Automotive, another EV start up, is also doing poorly, despite its sophisticated backers. Are electric vehicles simply a bad idea? Or is it that the technology still needs to grow and mature a lot more in order to find market acceptance?

Energy uncertainty

At a different end of the energy spectrum, are more stringent CAFE standards the best tool to optimize the efficiency of traditional gasoline burning internal combustion engines?

And finally, should there be a major effort to make and sell heavy trucks that burn liquefied natural gas (LNG) instead of diesel, on account of the extremely low price of domestic natural gas, as opposed to (mostly imported) oil derived fuels?

Impossible to know the correct answer to these critical questions. The picture regarding energy supplies and new technologies keeps changing. And this is problematic because enormous investments affecting entire industries and the behavior of hundreds of millions of consumers in the USA and worldwide are and will be affected.

Conventional wisdom proved to be wrong

Unfortunately, the energy outlook does not provide any clear leads. Until not too long ago, the emerging conventional wisdom was that major oil consumers would have to quickly find new energy supplies. It was predicted that oil would become more scarce and more expensive, while its environmental impact was worse than previously assumed. The future had to be in renewables and that was supposed to include nuclear energy, notwithstanding fears about accidents and the still unresolved issue of waste disposal. Biofuels, solar and wind would be the new clean energy frontiers. America would lead the world in

green technologies. This was the picture in 2009.

More oil and shale gas

But now, just a few years later, it all looks different. New technologies have increased oil reserves and supplies worldwide, and in the US in particular. While oil prices are still high, we are not going to run out of crude any time soon. In the US the outlook is much better: more domestic supplies, (think North Dakota, now the second most important oil producing state), and increased imports from Canada indicate quasi oil self-sufficiency within a decade.

Beyond that, the US shale gas revolution has had and will have enormous ripple effects. Because of the shale gas revolution, natural gas will displace coal as the major power supply for electricity. But shale gas has also displaced renewables. Natural gas is abundant and cheap. It does not need subsidies.

Looking forward, in light of its low cost, should natural gas be adopted as transportation fuel, starting with heavy vehicles? Probably yes; yet more easily said than done, as this shift would entail huge up front costs for manufacturers that would need to retool plants and fleet operators that would need to buy new trucks. Not to mention the need to construct a national network of natural gas refueling stations.

Electric cars?

Finally, electric cars have a long way to go. It was assumed that high gasoline prices, combined with fears about the negative impact of fossil fuels emissions, (climate change), would be enough to make a case for clean vehicles that can be refueled at a minimum cost. But, while this may indeed be the future, we are not there yet. EVs are too expensive. Batteries are heavy and still too costly. Finally, the range is limited, and we have no national network of recharging stations.

Increase the federal gasoline tax

So, given rapid changes in our energy supply outlook and no sure indications about clear technology winners, the best approach would be to increase the US federal gasoline tax. By world standards US gasoline prices are still very low. It is possible to gradually increase gasoline taxes and it is possible to do so in a revenue neutral way, by lowering taxes elsewhere.

The signal to the market place would be: ***“We favor energy conservation and/or viable alternatives to oil, much of it imported. If you make conventional cars, focus on truly energy efficient models. If you work on EVs, higher gasoline prices will give you a benchmark of what you need to do to be competitive. Likewise, if you want to introduce trucks that burn natural gas, a clear understanding of where diesel prices are and are going to be will give you a sense of what you need to do to provide a cost effective LNG based alternative”.***

Tax better than subsidies

Eventually the world will have to find alternatives to carbon based fuels. Still, instead of betting on evolving technologies whose long term viability is still unproven, US public policy should provide incentives to innovators by telling them what the price of carbon based fuel is and is going to be.

This way innovators and entrepreneurs will have an understanding of what they are up against, if they want to introduce competitive products. Providing *ad hoc* incentives and subsidies to this or that technology or fuel, depending on political pressures and favors, is not a better strategy.