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March/April 2009

# The MARITIME EXECUTIVE

INTELLECTUAL CAPITAL FOR EXECUTIVES

Harry  
Vafias

CEO

Wafias  
Group

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# The MARITIME EXECUTIVE

INTELLECTUAL CAPITAL FOR EXECUTIVES



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Written by Larry Kiern,  
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# Washington Insider

## President Obama's Energy Agenda

### CHANGE COMES TO BOTH WASHINGTON AND NATIONAL ENERGY POLICY

A YEAR AGO, this column reported change in America's national energy policy. By March 2008, Senator McCain was the Republican nominee. His maverick energy policy contrasted sharply with that of the former Texas oil men who oversaw energy policy for eight years. Along with the positions of the leading Democratic party candidates, Senators Obama and Clinton, the selection of Senator McCain signaled a likely change in energy policy by emphasizing the development of renewable and alternative energy sources. The inauguration of President Obama confirmed that change.

From 2001–2008, the Bush Administration emphasized domestic fossil-fuel development as the primary path to energy independence. By contrast, the Obama Administration elevates renewable and alternative energy sources above fossil fuels. This shift has caused domestic fossil-fuel producers, including offshore oil and gas producers, to stress the compatibility of their output with the Administration's energy, environmental, and economic goals.

Today, a heightened sense of environmental concern arising from increased sensitivity to global warming influences the American electorate's views on energy. Recognizing the changed political climate, the new Administration delayed the last-minute Bush Administration proposal to reopen offshore drilling. On February 10, 2009, Secretary of the Interior Ken Salazar announced a six-month extension of the March 2009 deadline for public comment provided by the Bush Administration. He explained that the offshore drilling plan deserved greater input from the public. Energy industry representatives swiftly criticized the decision and advocated expedited offshore drilling to spur job growth and energy independence. The next six months will likely witness diverse interests, including coastal states and environmental groups,

providing additional input to the process of deciding how offshore drilling will occur.

Despite this delay, the Obama Administration will likely not ban offshore drilling. Presidential candidate Obama signaled that it makes no sense to lock up America's vast fossil-fuel reserves. What the nation needs is a responsible program of development of the most productive fields that represent the least environmental risk to the nation. This will require careful planning, which Secretary Salazar's decision seeks to produce.

Additionally, Secretary Salazar announced that the Department of the Interior will issue an overdue final rule regulating the development of offshore renewable energy resources, i.e., wind, wave and tidal energy. Although Congress enacted legislation in 2005 mandating the department to issue the regulations within nine months, the Bush Administration failed to do so over the intervening three years. Thus, Secretary Salazar's actions signal a new emphasis on the development of renewable energy sources while acknowledging the practical reality that existing fossil-fuel resources should not be sequestered.

On March 3, 2009, President Obama issued a memorandum returning the federal government to the traditional vetting procedure under the Endangered Species Act, which the Bush Administration had halted on December 16, 2008. Once again, federal agencies must consult with the Fish and Wildlife Service or the National Oceanic and Atmospheric Administration about impacts on endangered species. The U.S. Chamber of Commerce decried the memorandum as frustrating job growth. The new Administration's actions manifest a determination to more fully integrate environmental considerations in energy decisions despite the nation's economic crisis.

### Stimulus Sparks Investments in Renewables and Conservation

President Obama and the Democratic Congress quickly used the national economic crisis to implement programs to promote new energy sources and spur investments in energy-saving measures. The recently enacted American Recovery and Reinvestment Act aims to reduce America's dependence on foreign energy resources principally by promoting the development of domestic renewable and alternative sources – biofuels, solar, wind, wave and tidal energy – and encouraging energy conservation.

Overall, the legislation provides approximately \$80 billion in spending and tax cuts for renewable energy and thereby triples the amount of spending on clean-energy programs. It extends for three years the tax credit for wind energy and until 2013 the credit for geothermal and biomass energy projects. It appropriates \$4.5 billion in direct spending to modernize America's electricity grid; over \$10 billion to improve energy efficiency for government facilities and operations; \$6 billion in loan guarantees for renewable energy projects; \$2 billion for advanced-technology batteries for automobiles; \$5 billion to weatherize homes for low-income Americans, and \$3.4 billion for clean-energy fossil fuel research.

The legislation manifests the policy priorities of the new Democratic leadership, which is now responsible for implementing it. In the end, rhetoric only goes so far, and the real test of government is, "Does it work?" Americans will measure the success of the new leadership on the results. Will Americans take advantage of these programs to cut their energy consumption? Will renewable energy sources replace fossil fuels? And more immediately, will these programs improve America's economy?

## More Battles Ahead Over Energy Policy

As a candidate, Senator Obama expressed strong support for a new international treaty to reduce global warming. He also supported a sharp cut in carbon dioxide emissions in the United States and adoption of a cap-and-trade system. With the publication of his first budget proposal, President Obama elevated these goals to the top of his domestic policy agenda. His budget proposes a cap-and-trade system modeled on the Clean Air Act of 1990, which adopted a similar system for sulfur emissions from power plants. The proposal aims to reduce carbon emissions while raising over \$600 billion in revenues by auctioning emission permits over the next decade. It also proposes more than \$30 billion over ten years in new excise taxes on the offshore oil and gas industry and increased fees for energy production from federal lands.

Opponents of these measures quickly emphasized the additional burden on the American economy that such taxes impose. They also questioned the wisdom of increasing taxes on one of America's most important domestic employment engines, fossil-fuel production. In response, the Administration pointed out that the tax increases

would not start until 2011, when the economy is expected to have recovered.

In recent decades, carbon taxes of various forms have proven politically unpopular in the United States. President Clinton's 1993 proposal of a modest increase in the gasoline tax to fund infrastructure spending failed. Recently, the proposal by the Governor of Massachusetts, Deval Patrick, to increase that state's gasoline tax by a mere 19 cents proved controversial even though its average weekly cost to taxpayers is the equivalent of a large cup of coffee. It remains to be seen if the fossil-fuel taxes proposed by the Obama Administration will be enacted into law and whether they will have their intended effect or produce unintended consequences by reducing domestic production, stalling employment growth, and leaving America more vulnerable.

Despite these risks, the Obama Administration concluded that the most effective way to curb the nation's appetite for fossil fuels is to increase their cost. European nations adopted this approach decades ago and increased the cost of fossil fuels to foster conservation and the development of alternative energy sources. They also embarked on more ambitious nuclear energy programs to cushion the volatility of the world oil market. By contrast, the

United States has found implementing carbon taxes and expanding nuclear power more difficult.

The United States built its far-flung suburban communities and continental transportation systems on a foundation of cheap fossil fuels. The challenge for the United States remains whether it will learn the painful lessons of the Arab oil embargo of the 1970s and the \$147-per-barrel-oil crisis of 2008 and be willing to incur the costs of an energy policy that lessens dependence on foreign fossil fuels.

## Will the Obama Administration Support Domestic Fossil-Fuel Development?

With the new Democratic leadership's preference for renewable and alternative energy sources manifest, what remains unclear is precisely how energetically and effectively it will promote the major private initiatives already underway domestically to develop untapped fossil-fuel resources. During the presidential campaign, candidate Obama expressed support for development of America's fossil-fuel reserves as part of a comprehensive energy strategy. He recognized that even with strong government incentives it will take many years for renewable energy to supply a substantial portion of America's energy needs.

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There appears to be little appetite among the Democratic leadership on Capitol Hill to challenge President Obama's position. The recent introduction in the House of Representatives of the Omnibus Appropriations Act of 2009, which contained express legislative provisions designed to reverse certain Bush Administration environmental rules, notably lacked any proposal to reinstate the moratorium on offshore drilling that lapsed last fall.

It appears the Administration will support environmentally responsible development. For example, Alaska's proven natural gas reserves alone already are sufficient to supply Americans with over 4 billion cubic feet of gas per day for approximately 15 years. Moreover, the Minerals Management Service (MMS) has estimated that an additional 165 trillion cubic feet of natural gas reserves likely will be discovered in Alaska. The national interest demands that the Administration bridge the gap that has separated disparate interests for years and stalled the development of these enormously valuable national energy resources.

Beyond natural gas in Alaska, the Democratic leadership should recognize, as did the Bush Administration, that environmentally responsible development of the nation's offshore oil and gas re-

serves is warranted. Even with the new preference for renewable energy, fossil fuels will remain the principal source of energy in America for decades. The key is for the Administration to conduct thorough environmental impact analyses that satisfy the requirements of the National Environmental Policy Act. When proper analyses are conducted, courts permit development.

The recent experience of MMS and Shell Oil Company in Alaska's Beaufort Sea highlights the risks of less-than-thorough environmental vetting. Shell's plan to start exploring in 2007 has effectively been stalled indefinitely by court challenges because of alleged shortcuts by MMS in the permitting process. The better approach is for the Administration to conduct full environmental analyses that will withstand the inevitable court challenges and move these important domestic energy development projects forward. Responsible environmental stewardship and fossil-fuel energy development are not incompatible. Moreover, in this time of national economic crisis, fossil-fuel development creates high-paying American jobs.

## Outlook

The political impetus for change has moved

decidedly toward protecting the environment by promoting renewable and alternative energy sources and requiring strong environmental protections for fossil-fuel development and consumption. America's national energy policy is now first and foremost an environmental protection policy. Only by embracing the compatibility of these two goals will the American people achieve real progress in implementing a national energy policy that also strengthens the American economy.

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