# The Energy Path Not Taken

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ABSTRACT

This article reviews the past 15 years that Planning & Forecasting Consultants have spent trying to persuade the President of the United States to adopt a viable national energy policy. When President Reagan took office in 1981, the U.S. was 10 percent dependent on foreign energy. Today the country is 28 percent dependent on foreign energy. Clearly, the U.S. did not take the energy path we recommended.

In 1987, we formally asked the Reagan Administration to limit energy imports to 15 percent.

The day President Clinton took office in 1993, we formally asked his administration to limit energy imports to 20 percent. That proposal is more fully documented in the Spring 1993 edition of this journal, and is entitled: "Proposed: A National Policy to Distribute Petroleum Resources More Fairly."

Again in 1998, we asked the Clinton Administration to limit energy imports to 25 percent.

Today, the United States' energy dependency is about 28 percent, with little relief in sight to slow the increasing energy dependency. And oil itself is 58 percent dependent on foreign sources.

Many are calling for a comprehensive national energy policy. By comprehensive, most mean that their pet project be included in the funding. The United States does not need a comprehensive energy policy. All the U.S. needs is for the president to declare that energy imports are a threat to national security and implement a federal regulation limiting energy imports to whatever percentage he deems reasonable. The president currently has this statutory power under existing trade laws.

Now is the time for the U.S. government to **take another energy path**.

## UNITED STATES ENERGY DEPENDENCE HISTORY

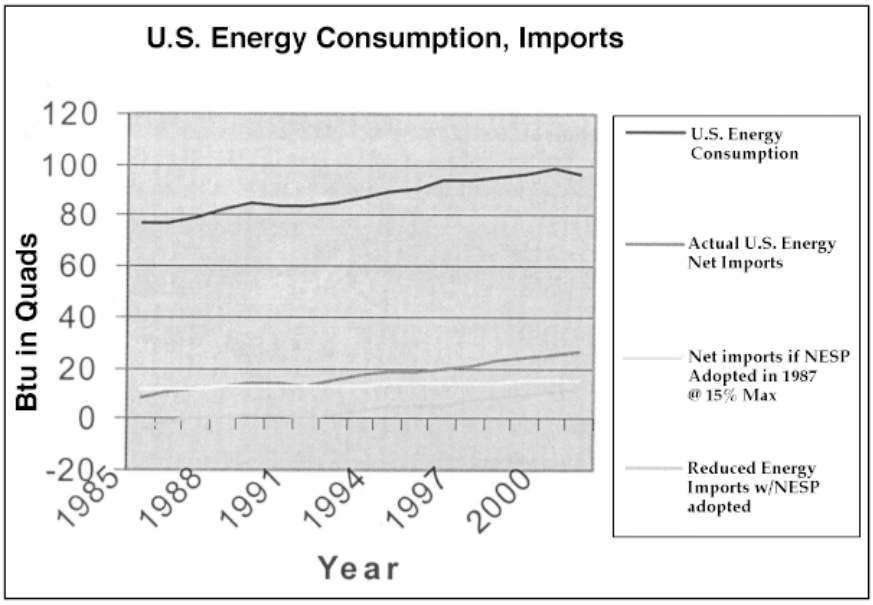
United States oil imports would have been 5.6 million barrels per day less in 2001 if our 1987 NESP proposal had been adopted.

In 1987, Planning & Forecasting Consultants proposed to the Reagan Administration that the United States implement our proposed national energy stability policy (NESP). We recommended at that time that U.S. energy imports be regulated by the government at a maximum of 15 percent of U.S. energy consumption, on a Btu basis. Fifteen percent was the percentage of energy imported in 1987.

Had our proposed NESP been implemented in 1987, U.S. energy imports would have been 14.5 quads of energy imported instead of the 26.6 quads of energy actually imported in the year 2001. This would have caused an energy import reduction of 12.1 quads for 2001. These data are shown in the graph below. One quad (quadrillion) of energy is a Btu with 15 zeros behind it. The U.S. consumed 96.3 quads of energy in 2001.

12.1 quads of annual energy equal 5.6 million barrels of oil per day. Venezuela and Iraq's combined oil production was 5.1 million barrels of oil per day in November 2002. The total world oil production averaged 76.7 million barrels of oil per day in 2001.

Both Iraq and Venezuela are on the verge of a political trend dis-



continuity, which will likely affect their oil production and oil exports negatively, which in turn will likely affect the United States economy negatively. Nigeria is also experiencing turmoil.

The U.S. energy consumer's total energy bill and the amount of energy consumed would have been about the same over this 15-year time frame under this NESP. However, the money OPEC received for its oil exports would have been materially reduced. OPEC's oil revenues would have had **a double negative effect**, less volume at a less unit price.

And then quite possibly less money would have been available to the international terrorists from within the oil-rich exporting countries.

The United States president has the legal authority to limit oil imports if oil imports are judged to be harmful to the country. This is decreed under existing trade laws.

President Eisenhower implemented a similar oil import limitation rule in 1959. The oil limitation worked very well, but he made a mistake and distributed the economic benefits to the oil refiners. The oil refiners did not have a problem. The United States oil producers today have an economic disadvantage with low-cost oil production from the Middle East.

## THE U.S. ENERGY DEPENDENCE PROBLEM

The United States' oil dependence problem is that oil is very fungible on a world basis. There is one world oil price, with a small differential for logistics and quality. This one world oil price is always wrong: it is normally too low for U.S. oil producers and normally higher than necessary for most foreign producers. The world requires two oil prices, one for the United States and one for the rest of the world.

Our proposed national energy stability policy would provide this two-price scenario. For 1987, for every 85 Btu produced domestically, the producers would earn the right to import 15 Btu of cheaper foreign energy. That would subsidize domestic production and maintain the current cost for the required domestic energy consumption.

This two oil price world would remove one of the huge stumbling blocks for U.S. domestic oil producers: the continuous threat of $10 oil in the future. If OPEC overproduced and lowered the world oil price, the import subsidy transferred would be worth even more to domestic producers. Collectively, U.S. energy producers would have been assured

of 85 percent of the U.S. energy market.

We formally proposed this same policy to President Clinton the day he took office in 1993, but that proposal was to limit dependence at 20 percent, which was the import dependence level at that time.

Secretary General Subroto of OPEC responded in writing to our 1993 proposal and confirmed it would be harmful for OPEC. He was quick to realize the significance of the national energy stability policy.

We proposed our policy again in 1998, but this time at the 25 percent level because that was the dependence then. Today the U.S. is about 28 percent energy dependent and headed still higher unless something radical is adopted. The standard plan or policy rhetoric will not change much. A major share of energy dependence is oil dependence.

About every two years or so, for the last 15 years, the administration in power proclaims a national energy plan-policy-strategy-whatever-etc. that is to resolve our energy dependence. None of these has had any substance, as the U.S. level of energy dependence continues to increase. This includes the recent energy policy effort in May of 2001. Even *Business Week* (Feb. 24, 2003) came out with their version of a United States energy policy on the front page. It was very similar to the rest of the non-effective policies proposed over the past 15 years.

I am one of the few who acknowledges that President Carter's energy plan worked. When he took over, the United States was 23 percent dependent and when he left office, the U.S. was only 10 percent dependent. The petroleum industry may bad-mouth Carter, but there was no better time for the energy industry and Houston than the late seventies. When he took office, the producers' wellhead revenues for their oil and gas were about $78 billion. When he left office four years later, the wellhead revenues were $191 billion.

## OPERATION OF THE NESP

In our NESP proposal, we offered to operate the policy at no cost to the U.S. government. However, the government would maintain oversight and auditing authority.

Under this policy, the president would determine the level of energy dependence for the country. (Our recommendation today is to set it at the current level of 28 percent). This would stop the increasing energy dependence at that rate.

The way the policy works is that domestic producers report their monthly domestic energy production in Btus to the private energy stability commission. For every 72 Btus they produce, they would be given 28 Btus of import rights for the following month. To import energy into the United States would require an import ticket, which the producers earned and possess. The producer could either import cheaper energy on his own behalf or sell his import right to an importer. This would subsidize all domestic energy production.

There would quickly be a public market for energy import tickets. The value of the ticket would trend toward the differential between the fungible world oil price and the U.S. domestic oil price. This price differential in itself will become a valuable energy signal.

The private energy stability commission (PESC) would collect the tickets for all energy imports and distribute the tickets to the domestic energy producers. There would be civil penalties for import cheating or false production reporting. The import tickets collected would be reconciled with the import tickets distributed. The private energy stability commission would issue and collect the tickets at no cost to the government. The PESC would receive/earn 10 percent of the import tickets for operating the NESP.

After a year or so of operations, a new energy equilibrium will be established. The president could change the import dependence a percentage or two up or down, depending on his view of the country's energy security needs.

This policy will work because **OPEC may own the supply, but the U.S. owns the demand**.

This energy policy can be compared to the effective "cap and trade" environmental solutions, where government sets the pollution limits and industry meets the requirements in the most economically way possible.

The government would set the maximum percentage of energy imports in Btus and then the various fuels (coal, oil, natural gas, hydroelectric, nuclear, and alternatives such as wind, solar, hydrogen) would compete to meet the consumer's energy demand. Whenever the demand changes, the supply will automatically be provided at the prescribed percentage between foreign and domestic.

How would this affect U.S. international competitiveness? Very little. In 1999, the composite cost of energy consumed in the United States was $5.41 per million Btu (the lowest) and Europe's consumed composite

cost was $7.98 per million Btu (the highest). Japan's was $7.42 per million Btu. Under our NESP, the U.S. energy cost would not increase, but Japan and Europe's energy cost could likely go down some, because their oil supply would be acquired at the cheaper world oil price.

The Bush Administration's state position on the current Iraq situation is that the conflict is not about oil or our control of Iraq's oil. However, many of our adversaries believe otherwise, and that makes it about oil in their minds. If the United States wanted to change that perception, they need to adopt this NESP policy, which by definition limits the oil imports into the U.S. That would go a long way to changing their perception that all we want is access to their oil.

The present conflict is probably not about oil, but the 1991 conflict was definitely about the control of oil supplies. The coalition did not want Iraq to gain control of Kuwait's oil fields.

## CONCLUSION

The energy industry in the United States has been so successful in providing cheaper and cheaper energy to fuel the economy that it seldom catches the public's attention. The public does not know or care where energy comes from, as long as it arrives when needed and is cheap. Energy is the world's greatest bargain. We have labeled the twentieth century as the "Age of Energy." The world's high level of development comes about mostly due to energy in the last century.

Now that there is a spike in current energy prices, the industry may have an opportunity to educate the public about energy and energy prices. (And the government is also in need of this education). What is more likely to happen is the government will accuse the industry of gouging the consumer, instead of accepting some of the blame for not forewarning the public.

While the Department of Energy may own the *energy dependency problem*, we believe Planning & Forecasting Consultants owns the *energy dependency solution*.

## PROPOSAL

We need additional funding to help sell this proposed national energy stability policy to the administration and the general public. We

propose to offer certificates of limited partnership in the national energy stability policy to raise the necessary promotional funding.

This is an opportunity to help the United States limit its energy dependency and at the same time earn an exceptional economic return.

An investor in the NESP can expect to centuplicate their investment. (Centuplicate means 100 times or just add two zeros). A $100,000 (hundred thousand) investment would earn a maximum return of $10,000,000 (ten million).

We believe now is time for the administration to **take the stable energy path**.

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ABOUT THE AUTHOR

**Dale Steffes** is a 30-year independent veteran energy planner and forecaster, based in the world energy capital of Houston, with a proven track record. In Dec. of 1985, with oil in the near $27, Steffes forecast that the oil price would be $15 per barrel for 15 years. That radical forecast has now been proven very accurate. (See *SPEE* Summer 2002 article: "SPEE's Resident Prophet Vindicated After 17 Years.") His firm, Planning & Forecasting Consultants, assists public entities and private companies with their master energy plans. He designed a *world oil stability policy* for OPEC and IEA. His next major project is hosting the *Virtual 8.5 Energy Producer Consumer Seminar* in Houston in August, 2003. We are soliciting interns to input into this seminar. It is being held between the eighth producer consumer conference in Osaka in 2002 and the ninth producer consumer conference in Amsterdam in 2004. He can be reached at

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