

US energy strategy and the Obama presidency: Not quite the expected U-turn

Based on President Barack Obama's campaign energy proposal, certain changes can be foreseen in US energy policy. There will also be important international repercussions as the policy aims at transitioning toward alternative fuel sources and efficiency in fuel usage. These hold promise for extricating the US economy from the crushing financial crisis and unprecedented economic recession it is in. Obama's energy policy announces a break with America's current practices and incorporates new elements that, together with security goals, will have a direct impact on the energy policies of its two neighbours, Canada and Mexico.

A SMART STRATEGY

Although the United States has historically made attempts at energy self-sufficiency, the proposals were difficult to put into practice. Energy policies proposed by previous administrations emphasized the diversification of the supply sources geographically, rather than a drastic reduction in energy consumption. Theoretically, these proposals relied on making a distinction between the idea of energy vulnerability and the idea of dependence—that is to say, “America can be dependent but not necessarily vulnerable.” This approach supported increased and diversified oil imports as the cheapest and, strategically, the best alternative, although it became one of the biggest items on the commercial trade balance and 3 percent of the national GDP.

As 2009 begins, one of the central objectives of Obama's energy proposal is to confront the problem of energy dependence by reducing, over the next ten years, the auto industry's consumption of oil imports from the Middle East and Venezuela. With the transportation sector comprising 69 percent of national consumption, improving gas efficiency

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in the auto industry will allow for a reduction in imports. Climate change is another key issue in Obama's energy proposal. The United States seeks to become the leader in the design and development of a post-Kyoto regime, which would come into effect in 2012 when the current protocol ends. Not only do these efforts respond to Obama's personal convictions about the environment, they also involve the consideration that it is important for the United States to be seen as a leader in this key policy domain.

The proposal advocates caps on US greenhouse gas emissions to ensure they are 80 percent lower than 1999 levels by 2050. It is strategically significant for Obama to take up the cause of climate change because this is now a central part of the energy security policies in many countries and is associated with the transition toward alternative energy sources. Taking a leadership role in this field will allow the United States to create the market opportunities that will position American technologies well in other

markets. Efforts in this field will be accomplished by linking up with the UN Framework Convention on Climate Change. Obama's proposal also seeks to improve efficiency and accelerate the advancement of low-carbon-content emissions technologies; so by attempting to construct a new international regime for climate change, the new president's proposal will have global repercussions.

THE STRATEGY IN THE DOMESTIC SPHERE

In a kind of neo-Keynesian proposal that supports auto and energy—two of the most important sectors of the economy—Obama's strategy will earmark US\$20 billion approved by the US Congress on February 18, 2009 to speed up the production and sale of hybrid cars, promote the development and commercialization of renewable fuels, encourage energy efficiency, reduce coal-powered electric plant emissions, stimulate the production of second-generation biofuels, and begin the transition to a digital electricity grid. Despite the fact that the size of the investment is small, given the magnitude of the effort required to transition toward other energy sources, the effort is commendable.

For the moment, the first steps have been taken on a legislative level. A large market is developing for renewable energy projects, starting with the emergence of requirements around renewable portfolio standards for electricity generation. Also, state and municipal governments, hospitals, and universities are offered tax breaks to encourage them to acquire renewable energy assets, and alternative public and private financing for this is being explored. On October 3, 2008, a law was passed giving a 30 percent federal tax credit to anyone investing in solar installations, with the

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aim of making the United States the world's largest market. On an international level, the impact of Obama's strategy and the efforts begun by the outgoing Bush administration together with the G8 will be important because they aim to place renewable energy technology mainly in developing nations using market criteria.

Unfortunately, in contrast to the Kyoto Protocol, the proposals being made now and the commitment to reduce emissions are voluntary, not mandatory. This raises an important concern: previous experience has shown that effective emissions reduction will fail if goals are not mandatory.

The efficient use of fuels is another option for reducing US oil dependency that at the same time contributes to support sectors in economic trouble like the auto industry. This will be achieved with the injection of approximately US\$4 billion in tax credits and guaranteed loans to ensure that the vehicles—one million electric hybrid vehicles by 2015—will be produced in the United States.

THE IMPACT ON NEIGHBOURS


Undoubtedly, these proposals will have important implications for the whole world and particularly for the United States' neighbours. Reducing US dependency on Mideast oil would certainly alter the strategic importance of this area to the West. Although the proposals do not outline a specific role for western hemisphere suppliers, and particularly Canada and Mexico, clearly their role will be fundamental because of geopolitics. They are "trustworthy" suppliers able to guarantee US energy security. Canada and Mexico can also further the United States' interest in reducing dependency on Venezuela, which is starting to move its crude to the Chinese market.

Canada contributes mightily to US energy security by the Alberta tar sands deposits and natural gas exports. Fifteen percent of US oil imports are sourced from Canada. Mexico will maximize oil

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production and, as a consequence, maintain its exportation levels to the US market under the Mexican energy reforms passed in October 2008 by incorporating multinational corporations and international service providers. Since little can be expected in the way of increased US oil production, given Obama's commitment to protect environmentally sensitive areas like the Arctic National Wildlife Refuge from productive activities, Canada and Mexico will continue to be strategically critical to the United States for increasing regional energy supply not only in fossil-based energy but in other areas as well.

Energy integration under US leadership will be broadened to include the enlargement of the Canadian and Ameri-

can electricity markets, the construction of re-gasification plants (NLG) in Mexico, the re-exportation of liquid natural gas to the US market from Canada, and the development of ethanol plants in Mexico, Central America, and the Caribbean to export to the United States. All this will happen in a regional context that promises a gradual transition to other sources of energy. In the case of Mexico, this will mean constant pressure to privatize and deregulate the state-owned companies (PEMEX and CFE) in order to create more space for multinational corporations, especially from Spain, Great Britain, and the United States, in renewable fuels, natural gas, and oil. Whether this will come to pass remains to be seen. 

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