Remarks of Frederick W. Smith
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Co-Chairman, Energy Security Leadership Council
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Thank you, Donna, for that kind introduction. *[National Press Club President Donna Leinwand]*

And thank you all for joining us here today.

Before I get started, I want to introduce the other members of the Energy Security Leadership Council who are with us:

- General Charles F. Wald, U.S. Air Force
- Adam M. Goldstein, President and CEO of Royal Caribbean International
- Eric S. Schwartz, former Co-CEO of Asset Management at Goldman Sachs

The business executives and retired military leaders who make up the Energy Security Leadership Council have gathered together for a single reason: it is our belief that after terrorism and the proliferation of weapons of mass destruction, our increased dependence on petroleum—most of it imported—represents the biggest single threat to our nation's economy and national security.

The U.S. consumes 20 million barrels of petroleum a day. In 2008, that oil cost the nation nearly three quarters of a trillion dollars. Worse, about 60 percent of the oil we use is imported. Last year, we sent 350 billion dollars overseas to pay for oil. Our oil and gas imports, in fact, account for a larger portion of our trade deficit than any single country or regional trade partner.

The consequences of our dependence are real. There can be little doubt that a major part of the financial crisis that led to the current recession was the 2007 and 2008 run-up in oil prices. We saw an explosion in home ownership, with many purchases being made by people who had heretofore not qualified for mortgages. When the price of oil and the price of gasoline began to rise, and inflation on commodities began to take hold, and interest rates began to increase, you had a tremendous diminution in purchasing power and cash flow, which contributed to people having to walk away from their mortgages.

We're all seeing the result of that economic damage today as it reverberates throughout the country and the world. The question is, what can we do about it?

In September, the Energy Security Leadership Council released *A National Strategy for Energy Security*, a comprehensive new plan that presents a long-term vision to confront our energy security threats. The *National Strategy* offers a pathway toward a transportation system that is no longer dependent on oil … an electrical grid that is flexible and robust … and an American research and development apparatus that sets the standard for the world.

The *National Strategy*'s centerpiece goal is the electrification of short-haul surface transportation. Ninety seven percent of all fuel used for transport is derived from oil. America's cars and SUVs consumed approximately 8 million barrels of oil per day in 2008—about 40 percent of our total oil consumption. Thus, we have built a transportation system that is nearly 100 percent reliant on a fuel that we are forced to import and whose highly volatile price is subject to geopolitical events far beyond our control.

Electrical power, in contrast, is generated from largely domestic sources whose prices are more stable and mostly disconnected from volatile world markets. It can be solar, it can be hydroelectric, it can be wind, it can and should be increasingly nuclear, it can be coal, it can be natural gas. So with cars powered by electricity, no one fuel source—or producer—would be able to hold our transportation system and our economy hostage the way a single nation can disrupt the flow of petroleum today.

Electrification would be a sea change. And the thing that makes it possible is the same technology that we all rely on every single day in our laptops and cellular phones: batteries. There's been remarkable progress in the last 25 years in battery technology. Today, a lithium ion battery in a plug-in hybrid or all-electric vehicle can give substantially more range and durability than was the case in the past. About 70 percent of all of the trips we make in our personal automobiles on a daily basis are less than 40 miles, so having a vehicle that has a 40 mile battery range, and then has a small gasoline engine that serves as a generator, can provide tremendous improvements in effective miles per gallon. Even more impressive are the possibilities inherent in all-electric cars, which are becoming more viable with every passing day.

But electrification will not be easy, and if it is not undertaken in the proper manner, it may make things worse, not better. We cannot substitute one threat for another. We cannot encourage the purchase of electric cars and then not have the generation capacity to power them, the transmission capacity to deliver that power to the consumers who need it, or the smart grid technology that will be required to handle those cars as we plug them in and out of the grid. These are all crucial issues, and we need to work on all of them in sync. Without one, the others are useless. And without all three, this entire venture could put us at greater risk.

Luckily, we are not starting from scratch. One of the great advantages of our long-term goal of electrification is that we already have the basis for a distribution system in place. That is not the case for other possible alternatives to petroleum, such as natural gas or alcohol-based fuels, for which entirely new purpose-built, nationwide infrastructures would have to be designed and constructed from scratch. Electrical wires cross this country, reaching into every home and building. So we need to take that base and build upon it. We must improve the siting process for interstate transmission lines … increase the rate of return on investments in modernizing the grid … implement time-of-day pricing … require utilities to install smart meters over a fixed period … and put policies in place to ensure that companies can build the generating capacity that an electrified transportation system will require.

It is also crucial that our dependence on imported petroleum does not transform into a dependence

on imported technology. The investments, private and public, involved in electrification could have a tremendous positive effect on the American economy—if we do everything in our power to encourage the creation of new manufacturing capacity and jobs here at home. That means, among other things, reducing the corporate tax rate and changing the tax code to allow the expensing of capital equipment. If we are going to drive battery-operated cars, let's make sure that as many of them as possible are built here in the United States.

Much of the technology we need to make the leap to electrification is already here today, and even greater advances to improve on this technology are just around the corner. But to make sure it gets to the consumer sooner rather than later, our national energy research, development, demonstration and deployment apparatus must be both enhanced and reformed.

After the energy crisis of 1973, U.S. energy R&D soared to nearly 14 billion dollars, with public-sector investment peaking at just under 8 billion and private-sector investment topping out at nearly 6 billion. By 2004, however, private-sector energy R&D funding was below 2 billion dollars and government funding had dropped to roughly 3 billion. The Department of Energy's current applied research and development budget is about 3.1 billion, less than one half its level in the late 1970s. This trend must be reversed.

But it is not just about more money. We also need to reform the existing R&D structure to streamline spending, and create new institutions that will leverage market-based incentives to accelerate commercialization of critical energy technologies. Last week's stimulus legislation includes 38 billion dollars in direct spending for energy projects—50 percent more in one fell swoop than the Department of Energy's entire annual budget. With these kinds of numbers, it is more important than ever that the Department of Energy has effective, efficient, and transparent methods of making sure the money they manage is doing the most good.

Ultimately, electrification of short-haul transport will require a decades-long effort. To meet our long-term goals, it is important that we start today. But it is equally important that we take more immediate, tactical steps to safeguard our economy and improve our national security as we work toward electrification. For this reason the *National Strategy* also includes crucial policies—including increased domestic supply of oil and natural gas … raising the blend wall for conventional ethanol … incentivizing advanced biofuels … and the robust implementation of fuel economy standards for all on-road transport, including medium- and heavy-duty trucks—that will help us reach our long-term goal while keeping our nation strong and secure in the interim years.

This is a comprehensive plan, and an ambitious goal. And it would not be unreasonable for policymakers and taxpayers alike to ask, is it worth it?

To answer that question, first we have to recognize that the crisis we are facing is not a business

issue alone. It is one of the greatest national security and national economic threats confronting our nation, and it has got to be approached that way. I don't think anybody needs a handout. But there needs to be a federal commitment, just as there would be to any dire threat to our safety and prosperity. The members of the Council believe that the national security benefits alone would be enough to justify this investment.

But we also believe that, purely in economic terms, this set of policies will pay off over the long term … that they will enrich our nation, create jobs, and steady and strengthen our economy.

And we turned to the very best to make sure we were right.

Shortly after developing the *National Strategy*, the Energy Security Leadership Council commissioned the Interindustry Forecasting Project at the University of Maryland and Keybridge Research to study the long-term economic effects of our policy proposals. This expert modeling team collectively has decades of experience building and performing simulation studies with large-scale econometric models and conducting public policy research on energy and macroeconomic issues. Our goal was to produce a detailed, sober analysis based on conservative, realistic assumptions stretching out over the next four decades.

Today, we are releasing the results of that analysis.

In short, the study finds that the policy proposals we have put forward would result in dramatic benefits for the American economy. Specifically:

By 2050, the typical U.S. household would have—and these are all in constant 2008 dollars—4,046 dollars more in annual income with our energy policy package than without it. That represents an increase of nearly 2.1 percent.

Cumulatively, during the four-decade period modeled, households would experience an increase of 13.9 trillion dollars in aggregate income because of our policies.

What's more, by 2050—the last year of the period modeled—the typical U.S. household would be spending less per year directly on energy for transportation. In fact, the combination of higher income and less spending on energy means that the average household would be able to enjoy 5,025 more dollars every year, whether for consumption of consumer goods and services or for personal savings.

The U.S. would experience a significant reduction in oil imports under our policy package. By 2050, oil imports would be lower by 6.6 million barrels. Cumulatively, in between now and then, the U.S. would import nearly 60 billion fewer barrels of foreign oil.

As a result, the U.S. trade balance would improve by about 275 billion dollars by 2050.

Because of higher levels of income and GDP, net U.S. federal revenue would be a cumulative 1.46 trillion dollars higher than they would be without the ESLC policy package.

By 2050, total employment would have increased by 3 million more jobs under our policy than it would without. There would be 225,000 more manufacturing jobs, 514,000 more jobs in travel and tourism, 108,000 more jobs in professional services and 44,000 more jobs in agriculture than if these policies were not enacted.

But perhaps more important than any one of these is what the ESLC policy package will do to help our economy withstand future oil shocks.

147 dollar oil—and four and five dollar gasoline—are less than a year behind us. And if there is one thing I can absolutely guarantee you today, it is this: that was not the last oil shock we will ever see. Far from it.

We cannot prevent oil price shocks. Events across the world, from terrorist attacks and cartel collusion to accidents and natural disasters, will continue to affect global petroleum prices, sometimes dramatically. In the past, that has been a recipe for economic disaster. We have seen five economic recessions since the early 1970s—and each one of them was preceded by or occurred concurrent with a significant spike in oil prices.

What we <u>can</u> do is insulate ourselves from the effects of future shocks. And that is precisely what our policy package does.

According to our modeling results, the reduced dependence on imported oil that results from our policy will act as a 400 billion dollar insurance policy for the U.S. economy, saving 1.8 million jobs in the event of a severe oil shock. The difference in national disposable income—the real money that American families rely upon to pay their bills—would be 448 billion dollars if an oil shock were to occur in 2040, when most of the policies we recommend have taken hold.

These are not small differences. This is a massive cushion against what we have already seen can be a crushing economic blow. This is why we have to act.

Last fall, when we released the *National Strategy*, I said it was bold, and that the math worked.

I still think this is a bold plan. And now, we have further proof: the math does indeed work, and the entire nation will benefit.

I can speak for every business and military leader on the Energy Security Leadership Council when I say that the Council is unanimously, unambiguously committed to this cause. The proposal we have put forward is controversial. It does not fall into any of Washington's typical ideological categories, and it does not follow party lines. We have no illusions about that. But we are confident that our nation can do this. We can end our transportation system's reliance on petroleum. We can ensure the robustness of our electric power sector by promoting a diverse range of technologies. We can expand the research, development, and deployment of critical new technologies. We can produce more domestic oil and natural gas safely. What we need is the national will and the commitment to secure our own future.

If we as a nation fail to meet this challenge, the American economy will remain vulnerable to debilitating shocks driven by geopolitical events outside of our control. Our national security will be imperiled by a weakened foreign policy that is forced to tread lightly when dealing with those who wish us harm.

We cannot continue to react to events as they happen, risking our economy every time an insurgent attacks a pipeline or a hurricane threatens the Gulf. Continued delay carries unacceptable risks.

Our challenges are great, but so are our opportunities. It is time for America to act.