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“Let’s Be Energy Self-Sufficient!”

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In January, support for one of President Bush’s most important domestic policies came from an unexpected place. Hugo Chavez and Mahmoud Ahmadi Nezhad, the Venezuelan and Iranian presidents known as “oil price hawks” among OPEC leaders, expressed common interest in seeking OPEC production cuts in an effort to reverse the present downward trend in world oil prices.

“We know today there is too much crude in the market”, Chavez said as he warmly welcomed the Iranian leader to Caracas. “We have agreed to join our forces within OPEC ... to support a production cut and save the price of oil.”

How, you may ask, does this support Bush’s domestic energy agenda?

Admittedly, it’s an unorthodox (and tongue-in-cheek) view, but if Chavez and Ahmadi Nezhad were successful, one could say that such a move would play right into the hands of those who think America needs to be energy self-sufficient. This includes President Bush, who on many occasions has said that America needs to become less dependent on foreign oil. If that is truly a national objective, then higher oil prices would be a good thing, because we are not going to become less dependent on foreign oil as long as gasoline sells at the pump for \$2.50 a gallon.

Most Americans don’t realize how unrealistic a goal of energy self-sufficiency is. At current prices America consumes 21 million barrels of oil a day and produces about 9 million barrels domestically. We import the difference, with most of it coming from Canada, Mexico, Saudi Arabia, Venezuela, and Nigeria. Anyone who seriously thinks that we will become energy self sufficient needs to acknowledge that in order to do so prices will need to be a whole lot higher before producers and consumers close that gap by supplying more and demanding less.

The truth is that becoming energy self sufficient will not be painless. It will take much higher oil prices to get Americans thinking seriously about conservation. Even when gasoline topped \$3 per gallon as it briefly

did last summer, not many Americans seriously considered trading in their SUVs for more efficient modes of transportation. Nor did they seriously consider changing their lifestyles in ways that significantly reduce the miles they have to drive each day.

This was probably because they assumed – correctly for now – that such prices were a temporary aberration. But after breathing a sigh of relief as gasoline fell back into the more familiar \$2 range, Americans are getting nervous again now that the price at the pump is back up to \$2.50. But not nervous enough to get serious about conservation.

Apart from conservation, the path to energy self sufficiency probably will involve the development of new fuels and production technologies, many of which aren’t really economically viable as substitutes to present fuels and technologies as long as oil sells for \$60 per barrel. As long as it remains more profitable to run our economy on oil, that’s what profit-seeking firms will do. As higher-priced alternative fuels and technologies become profitable relative to oil and oil-driven technologies, the private sector will begin supplying them.

Some of this is already occurring, as evidenced by the market euphoria surrounding ethanol, although government provided tax incentives are probably moving that market along faster than it would move without such incentives. But even that market illustrates that moving toward energy self-sufficiency is not painless. As demand for ethanol drives up the price of corn, the price of other products that use corn will go up as well. Think about that with your next bowl of Corn Flakes.

I believe that once Americans begin to fully comprehend how drastically our living patterns would have to change in order to attain energy self-sufficiency, we might begin to realize how naïve it is to think it is a realistic goal. Even if oil price hawks such as Chavez and Ahmadi Nezhad were successful in their stated goal – and by the way there is little evidence that they will be – they might merely end up pushing us against our will in a direction that we only say we want to go. As we really begin to understand the kind of changes that energy self-sufficiency would entail, we might end up deciding that we really don’t want to go there after all.