

Background

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Twelve Principles to Guide U.S. Energy Policy

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Americans are growing increasingly concerned about energy. Their demand for energy is increasing faster than secure supplies. Much of the world's supply of oil is delivered in a restrictive market dominated by unstable or hostile nations, some of which are using energy as a tool to frustrate U.S. national security and foreign policy objectives.

Meanwhile, many Americans harbor misunderstandings and myths about energy and market forces. They want low energy prices and plentiful supply but resist the steps that energy companies must take to achieve these goals. This confusion leads their representatives in Congress to enact conflicting policies that harm America's ability to meet its energy needs. This has to change.

Sound national energy policies must enable America to obtain energy supplies from a wide range of sources in a way that is best for the economy and at the same time addresses homeland and national security considerations. An abundant, diverse energy supply is central to America's freedom and prosperity.

The guiding principles for an energy strategy that advances freedom and prosperity should emphasize three themes:

- Unleashing free enterprise,
- Protecting America's energy interests, and
- Advancing free global energy markets.

Unleashing Free Enterprise

U.S. energy policy should recognize that the creativity of free enterprise is best suited to building the

Talking Points

- There are big and growing problems with America's energy supplies, complicated by myths and misunderstandings about energy that have led Congress to enact policies that actually harm America's ability to meet its energy needs. This has to change.
- Washington can adopt policies that clear away the red tape obstructing energy production and innovation while protecting infrastructure and assuring safety and appropriate environmental protection, but it must also be willing to engage internationally to create the conditions for free enterprise to prosper.
- The best way to facilitate access to oil and gas and foster new alternatives that work for the U.S. economy while addressing homeland and national security concerns is to focus on policies that adhere to 12 key principles.
- These principles will help America to achieve three overarching goals: unleashing the power of free enterprise, protecting the nation's energy interests, and advancing free global energy markets.

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infrastructure that is needed for exploration and distribution, producing domestic supplies safely, and developing viable new energy sources.

To unleash American entrepreneurship, Congress and the Administration should let the free market do its job. Central planning frustrates the functioning of markets and undermines security by limiting opportunities to adapt and innovate. Washington must clear away the red tape that obstructs energy production and innovation while also assuring safety and appropriate environmental protection.

Specifically, Congress and the Administration should:

1. **Avoid costly environmental regulatory mandates that will achieve little environmental gain.** Numerous costly regulations have been proposed or implemented to address various environmental goals, from water quality to global warming. However, past experience—such as with the morass of gasoline regulations that push up the price at the pump and the requirements that have stopped construction of any new coal-fired power plants for the past 15 years—shows that mandates can be expensive and economically harmful while making only marginal progress toward environmental goals. The full cost of current and proposed regulations and mandates, including the economic and security impact, should be evaluated and compared with the likely environmental gain.
2. **Rely on the private sector's research and development capabilities.** The competitive private sector is best able to improve fuel efficiency and develop the next generation of fuels. There are many guesses as to what the "new oil" might be, but no one knows for certain—least of all the federal government. We do know, however, that finding and commercializing these new fuels is crucially important to our economic future. The best way to secure abundant energy sources in the future is to encourage entrepreneurs to discover them, not for agencies and congressional committees to try to pick winners with directed research, regulations, mandates, and subsidies. Entrepreneurs need a regulatory, trade, and tax system that creates the best climate for private-sector innovation.
3. **Urge government agencies to learn from the private sector.** The U.S. government is one of the world's largest consumers of energy. In particular, the Department of Defense is one of the world's biggest customers for petroleum products, but it does a poor job of thinking about long-term energy costs. It relies heavily on legacy equipment that is very energy inefficient, assumes that it will always have plentiful supplies of petroleum products to support operations at reasonable prices, and does not adequately consider the life-cycle energy costs associated with developing, procuring, and maintaining new military capabilities. The military and the rest of government should adopt the best practices of the private sector to enable them to make smart buying decisions.

Protecting America's Energy Interests

In today's dangerous world, policymakers must take steps to secure America's energy sources and protect the nation's energy infrastructure. However, they also need to keep down the economic cost of achieving security by enabling the energy production and distribution market to operate as efficiently as possible. Markets function most efficiently when they are transparent and predictable and when businesses can respond to market incentives.

Therefore, while pursuing the goal of security, government should:

4. **Make all sources of energy within U.S. borders accessible.** The federal government has placed too many restrictions on domestic oil and natural gas production. Failure to make full use of these domestic energy resources exacerbates the security and cost problems caused by geopolitical events and makes America more vulnerable to supply disruptions and price increases. All U.S. lands and waters should be made accessible for appropriate exploration and production, which could be done using technologies that are far safer and more efficient than those that were available in the past.
5. **Remove artificial constraints on the domestic energy infrastructure, including unnecessarily severe environmental regulations.** Red tape has restrained the expansion of refineries,

construction of new pipelines and electricity transmission lines, and construction of new power plants. Several key domestic energy sources, particularly coal and nuclear power, can fulfill their potential and thus help to achieve energy security only if costly regulations and procedural requirements are revised or eliminated. Thus, new legislative initiatives such as streamlining requirements under the Clean Air Act and rethinking requirements for reprocessing nuclear fuel and the storage of nuclear waste should be considered.

6. **Ensure that any effort to reduce reliance on foreign oil is grounded in policies that are best for the economy.** Reducing oil imports from unstable or unfriendly regimes should be done in a way that minimizes the economic cost to Americans. Policies such as raising taxes on gasoline while mandating or subsidizing expensive or unproven alternative fuels and vehicles lead to large costs with marginal—or even negative—results. The first steps in reducing reliance on foreign oil are to make full use of domestic petroleum reserves and to remove disincentives to investment in oil production from friendly nations. These should be coupled with efforts to encourage diversification away from petroleum, which will be best achieved not by government fiat, but by the private sector–led development of alternatives that can compete in their own right. Domestically, the federal role should be limited to conducting basic research and removing regulatory and tax barriers that impede private-sector innovation. In addition, restrictions on international growth in alternatives, such as the tariffs that limit ethanol imports into the United States, should be eliminated.
7. **Manage risks to critical energy infrastructure as a responsibility shared jointly by the government and the private sector.** Assessing the risks to critical infrastructure is a task that should be shared jointly by government, which best represents the national interest, and the private sector, which best understands how to deliver goods and services efficiently and effectively. Government can best understand threats

and take steps to reduce them, while businesses can best assess their own vulnerabilities and address them effectively. Government should establish reasonable due-diligence standards for safety, security, and environmental concerns. This will require a high degree of transparency and effective information-sharing between government and industry, a mechanism to assess compliance and performance, and a non-bureaucratic way to enforce regulations. Optimal requirements would be performance-based (i.e., setting clear standards and allowing the private sector to determine how best to achieve them).

8. **Establish effective risk communications for energy issues.** Educating Americans on the facts is essential. In particular, Americans should be better educated about energy policy and the changes likely in the pattern of energy supply and prices before disruptions or crises occur. In the event of a crisis, information that is credible, understandable, and actionable should be provided to Americans so that they can make the best-informed decisions.
9. **Develop foreign policies that thwart the capacity of coercive regimes to employ energy supplies as an economic weapon.** America should be concerned not only about the dependability of its own energy, but also about that of its friends and allies. Regimes that withhold or restrict energy supplies as an instrument of national policy threaten not only regional stability and prosperity, but also the economy and national interests of the United States. The United States should develop strong bilateral measures to deal with efforts by coercive regimes to wage economic warfare. These might include joint contingency planning, public–private initiatives, and research and development initiatives.

Advancing Free Global Energy Markets

America cannot ensure freedom solely from within its own borders. It must be willing to engage internationally to create the conditions for free enterprise to prosper.

This means that the government must act to:

10. Sustain access to the global marketplace.

Remaining an integral part of the global economy is vital to long-term U.S. national security and the country's continuing economic competitiveness. Rather than attempting to defend, protect, or secure any means of domestic or global production, the greatest degree of security comes from having access to the global marketplace and obtaining goods, resources, and services based on market decisions from friendly suppliers. It is in the vital interest of the United States to uphold the principle of freedom of the seas and to promote and protect the ways and means of free trade among nations acting in accordance with the rule of law. To accomplish this, the United States should retain the capability to use all of the instruments of national power—including military, diplomatic, law enforcement, intelligence, economic, and informational power—in any theater where U.S. interests could be at risk.

11. Discourage restrictive international regimes.

OPEC and non-OPEC countries with restrictive foreign investment laws, state monopolies, and excessive government intervention undermine the U.S. effort to promote free markets. U.S. economic and foreign policy should seek to discourage these practices.

12. Recognize that not all trading partners are equal. Free people have the right to decide

with whom to conduct business, but trade in critical but vulnerable goods and services is best conducted with other free peoples. America's closest friends and allies should be viewed as the most reliable trading partners for supplying oil and other energy supplies. Geostategic military and economic alliances will change, of course, and the U.S. should be prepared to adapt, but Americans should seek to conduct energy business with countries that respect the rule of law, combat corruption and terrorism, and foster economic opportunity, democracy, and justice.

Conclusion

Americans clearly understand that freedom, opportunity, and their very quality of life suffer when abundant, affordable energy supplies are threatened. They expect Washington to enact policies that protect their interests. Congress and the Administration would do this best by following these 12 principles to unleash the power of free enterprise, protect America's energy interests, and advance freedom in energy markets not just at home, but worldwide.

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