



## McCain's Energy Plan: Correct Diagnosis, Killer Prescription

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With gas topping \$4 per gallon and oil prices seemingly reaching new highs every week, more pain at the pump is certain in the foreseeable future, and energy policy is rightfully claiming its place as a major topic of the 2008 election. Indeed, John McCain gave a major campaign speech earlier this week in Houston specifically on energy (the full transcript [can be found here](#)) and addresses the issue again this week in [Santa Barbara](#). It is worth looking in more detail at how he describes the current situation, and what he is proposing.

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The first thing to note is that his description of the current situation is largely correct. While he probably overemphasizes the role of speculation in recent price rises, he does point out that this is correct only as far as it represents a fundamental shift between growing demand from places like China and India and supply which has had trouble keeping up lately. He also rightly points out that US dependency on imported oil has been growing, and that the amounts of money paid out to often hostile oil-exporting countries are reaching record levels. He also pointedly reminds us that the policies of the past 40 years have done little to change this trend.

And his first policy recommendation is most appropriate: "energy conservation is no longer just a moral luxury or a personal virtue. Conservation serves a critical national goal." This is, of course, an obvious dig to the current occupants of the White House, and in particular to [Dick Cheney](#) who famously said that "conservation may be a sign of personal virtue, but it is not a sufficient basis for a sound, comprehensive energy policy." Putting conservation and energy efficiency, i.e., action towards demand reduction, at the forefront of his policy proposals is a good thing and would be a real change from earlier policies.

In his Santa Barbara speech, he also emphasizes energy efficiency, and he fleshes out some sensible proposals in that respect, including direct action to make government offices and vehicle fleets energy stingy. He also suggests to set up a kind of "X-Prize": a \$300 million prize for a highly efficient car battery system. These prizes have shown their effectiveness to motivate inventors and entrepreneurs in other fields, and while this may be criticized like a gimmick given the scale of the challenge, it's certainly focusing on the right things.

Further, McCain acknowledges systematic climate change, and the widely-supported theory that fossil fuels play a significant role in fostering it. He specifically argues that energy policy must include measures to curb carbon emissions, via cap-and-trade mechanisms. This is another politically-savvy change from the current administration, given that overwhelming [majorities of Americans](#) agree with him on this.

But when one moves to his recommendations, the gap is suddenly yawning with this diagnosis. His concrete proposals include more drilling in the USA, more nuclear energy, and, in an apparent nod to standard Republican economic fare, less regulation (for refineries) and lower taxes (on gas). "Apparent" because the targets seem wrongheaded: if no refinery has been built in the US over the past 31 years, as McCain asserts, that does not mean that "refining capacity" and runs has not increased in the past 15 years via investments on existing sites, and it does not mean that

In fact, [refining margins](#) are [significantly lower](#) than last year, making the increase in gas prices much less than the increase in oil price would have warranted. And lowering gas taxes can only bring results in direct contradiction to his stated goals. By reducing prices at the pump, it will increase demand (or stop demand reduction efforts); more likely, it will lead to higher margins for oil companies — which probably don't need the help. Either way, it will not help moving away from the addiction to oil, as diagnosed by President Bush in his [2006 State of the Union](#) address.

With his proposals to open currently closed off areas of the USA for oil production, John McCain seems to think that the problem is addiction to *foreign* oil rather than to oil per se. But a country that controls 3% of world oil reserves while consuming 24% of world demand cannot seriously expect to be self-sufficient for very long. Indeed, the 21 billion barrels of inaccessible reserves that McCain wants to open to production represent barely 3 years of total US consumption. Even if they were brought to the market rapidly, their impact would be temporary. In fact, the Energy Information Agency, in a [report](#) published in 2007, concluded that "access to the Pacific, Atlantic, and eastern Gulf regions would not have a significant impact on domestic crude oil and natural gas production or prices before 2030" and that "any impact on average wellhead prices is expected to be insignificant." Authorising drilling in currently closed areas will not bring more oil to the market, and will not bring prices down. Pushing it as energy policy perpetuates the hope that it is somehow possible to come back to worry-free times of cheap and plentiful oil. But this is by no means a distinguishing feature of John McCain: this is the real "third rail" of US politics, and no politician has dared touch it so far.

Similarly, his policies with respect to coal and nuclear are focused on the supply side rather than the demand side; but at least, in that case, his prescriptions can be implemented. Nuclear energy has become endlessly controversial, as arguments about what to do with the waste or about vulnerability to terrorist attacks are brought against those that point out, as McCain does, that it is an essentially carbon-free, relatively cheap power source. However, it is certainly possible to move towards a significant share of electricity generation coming from nuclear: after all, it took France less than 15 years to go from no nukes to 80% of its consumption coming from 58 nuclear plants - all using an identical US design provided by Westinghouse. On the coal front, US reserves are also sufficient to ensure plentiful power generation for some decades; however such a policy would go against McCain's professed goal to reduce carbon emissions, as carbon capture and storage is still a theory rather than an industrial reality and is likely to remain that way for many years. Moreover, nukes and coal are not - yet - substitutes for the main use of oil: transportation. Until plug-in hybrids or other electric vehicles become dominant, or people move massively to light rail, electricity will not be a meaningful substitute for oil. And coal to liquids technology is unlikely to ever be scaled to the current needs of US motorists, given the need for vast volumes of water in the process.

So, despite his claims to provide a break from the past, McCain's proposals are stuck in the very same mindset he criticizes - the one that drove Hillary Clinton to push for lower gas taxes, Bush to call for renewed offshore drilling, or Obama to support coal production in the Appalachians: the fundamentally American notion that there is no limit to what one can do, and that solutions will be found by going for more, or bigger, rather than doing less or smaller. But as the global scarcity of oil, that incredible, irreplaceable gift of nature, which packs energy in a dense, easily transportable form, becomes more obvious, and as we need to increasingly fight with the Chinese and others for it, a revolution in our minds will be necessary to no longer take it for granted. It is a pity that McCain, whose description of today's crisis is spot on, cannot take that jump yet beyond that minimalist \$300 million reward for better batteries. That would make him a maverick - and a much needed one.

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