

Center for American Progress



SPECIAL PRESENTATION:

“ENERGY SECURITY IN THE 21ST CENTURY: A NEW NATIONAL STRATEGY.”

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MR. JOHN PODESTA: Good morning, everyone. I am John Podesta. On behalf of the Center for American Progress I want to thank you all for coming here this morning and to present the report of the National Security Task Force on Energy, and we titled this report *Energy Security in the 21st Century*.

I want to start by thanking several people. First, Secretary Albright and Administrator Browner for joining me here this morning to present the report. We're going to each talk a little bit about it. I also want to thank Gayle Smith, who will be moderating the Q&A as soon as we get done with our presentations. And I want to thank Peter Ogden, who was standing here in someplace, who was instrumental – he's sitting in the front row – instrumental in putting the final report together.

Particularly I want to thank him for having to deal with these contentious people and take so many edits to his fine penmanship. I'm grateful to all the members of the task force, who are leading experts on national security and energy, who took the time to contribute with their ideas, their insight, and their intellect at producing this final report. As you could see from the names listed on the report that you have in front of you, this was quite a diverse group of people with a diverse background, but all with great expertise in the field of security and energy.

It included former Senator Tom Daschle and Senator Tim Wirth, Congressman Tom Downey, who's with us this morning. I might ask him to come up in a few minutes and say a few words; obviously, a former secretary of state and an EPA administrator, who are with me here this morning; a former national security adviser, a CIA director, people who held senior posts in DOD, in the Department of Energy, in the Department of State, and on the National Security Council.

I think as we got together and discussed energy from a national security perspective, we saw five key threats to the national security interests of the United States and no comprehensive strategy coming from this administration to deal with them.

First, America's oil addiction has worsened over the past several years. We're now importing oil at the rate of \$400,000 a minute and I think it's at the root of many of the conflicts we see around the world; it's certainly funding the conflicts that, as Jim Woolsey has famously said, we may be the first country in history to fund both sides of the war in regard to the war on terror. Madeleine, I think, is going to speak more about that.

Secondly, we saw proliferation threats posed by nuclear energy technology in rogue states that have not been successfully managed by this administration. We have some ideas about that.

Third, we saw the threat posed by catastrophic climate change as not just an environmental problem facing the world – the most profound environmental problem facing the world, but also a profound national security problem that could spark geopolitical instability, create millions of environmental refugees, defeat our efforts to reduce poverty and disease, and that threat continues to grow while we are faced with an administration that is still basically in complete denial.

Fourth, our global energy infrastructure and distribution channels have not been adequately protected or modernized. And finally, we have not done the work of building a cooperative energy security environment amongst our traditional allies and potential partners.

I want to highlight a few of the recommendations in the report and then turn it over to Secretary Albright for some remarks and then over to Carol Browner. But let me just outline a few of the key components. There are many recommendations in the final report. I just want to highlight a few of them.

First, to reduce America's dependence on foreign oil and gas, we set a goal of producing at least 25 percent of liquid fuels from renewables by 2025. To achieve this, we call on both government and industry to significantly boost their investment in biofuels, particularly in the research and development of cellulosic ethanol. That's the most promising path forward to getting us off of our addiction to oil and on a different path that can both help on the climate change side and also reduce our overall posture and dependency on oil. We've seen that happen in Brazil. It's time that the United States get on with that through the rapid turnover of our vehicle fleet to flex-fuel cars and a massive expansion of biofuels.

Second, to confront climate change, we propose a national greenhouse gas emissions cap and trade system, mandate that 10 to 25 percent of domestic electricity be produced from renewables until the cap and trade system can be fully implemented, and we propose to provide assistance to developing countries to build more environmentally efficient energy infrastructures and to begin the transition to low carbon based electricity generation system.

Third, to counter the proliferation threat posed by nuclear energy technology, we believe the U.S. must lead efforts to close the fuel-cycle loophole in the Nuclear Nonproliferation Treaty, to expand and accelerate the Cooperative Threat Reduction Program and to expand that program, and to increase and strengthen inspections of suspected illegal nuclear facilities and programs. Additionally, the United States must reject any proposal to change its longstanding policy of not reprocessing spent fuel from commercial nuclear reactors.

Fourth, to protect and reinforce our energy infrastructure, we propose the development of a smart grid electrical system, strengthening national regulations for security at the nuclear reactor sites; and developing new, diverse strategic gasoline and jet

fuel reserves within the United States in addition to promoting internationally new transit routes and pipelines.

And finally, in order to develop opportunities for strategic cooperation on energy security issues, the United States must promote the development of a global rules-based energy market. It must work to secure a formalized partnership between the IEA, which was created in the wake of the first oil shock in the early 1970s by adding China and India into a formal partnership. And it must utilize appropriate mechanisms to develop rules and regulations for international energy transactions and acquisitions amongst other measures so we have a more transparent energy system.

These are just some of the elements of our new strategy and we look forward to discussing these and other components in more detail with both our panel and through questions and answers.

It's now my pleasure to introduce our panelists and then after they give – as I said, after they give a short opening statement, I'm going to turn it over to Gayle Smith to moderate the remainder of the event.

It's my great pleasure to introduce Secretary Madeleine Albright. Madeleine Albright is the founder of and principal at The Albright Group, a global strategy firm. She was the country's 64th secretary of state, confirmed by a 99-to-nothing vote in the United States Senate. She was the first woman secretary of state and in that capacity was the highest ranking woman in the history of the U.S. government. I'm not going to recite her legions of accomplishments and honors; suffice it to say that Madeleine is the rarest of combinations: a consummate diplomat and an unwavering progressive champion. She's been a great friend of the Center for American Progress since we have opened our doors. She has great optimism, she has a sharp intellect, and it's a pleasure that she joins with us today in releasing this report. She's really guided many of the discussions that we've had on this and so I turn it over to Secretary Albright.

SECRETARY MADELEINE ALBRIGHT: Thank you very much, John. And I have to say that John has done an incredible job of bringing us all together on these kinds of issues and having the opportunity to have a full discussion and to explore the progressive agenda. The short version of what we're saying here is that we are addicted to oil and the oil is in all the most dangerous places in the world, so what I thought I'd do is just make a few remarks about the geopolitics of energy.

In ancient times, when Egypt's pharaohs ran short of timber, no resource was more strategic than the cedars of Lebanon. And a century ago, our sea power depended on access to coaling stations established at key points across the ocean. In our era, the primary need is for oil and gas, and despite the advertising of BP, we are not yet beyond petroleum. We all know the basics: supplies are tight, prices are high, demand is increasing primarily because of this urging consumption in places such as India and China. And our own oil addiction, which has really been ignored for such a long time, has been acknowledged even by the White House.

So to analysts of world affair, several facts are clear about the present situation. First, countries with oil have more influence and more money. Second, countries needing oil have less leverage and less money. And third, the countries that need oil, but can't afford to buy it, are becoming even poorer and are further removed from the center stage of world affairs. The relationships between and among all these nations are also changing. For example, countries that have energy but think they need more weapons, and countries that have weapons but not enough energy are finding that they have a lot of business to conduct. And exhibits on this are – a, b, and c – are China's budding relationship with Iran, Sudan, and Venezuela.

Meanwhile, energy producing countries are more cooperators than competitors because they have a shared interest in keeping prices at a certain level, and that's really why OPEC came together in the '60s and why this new organization – the Shanghai Cooperation Agreement – has just had more visibility. It consists of China, Russia, and the four 'stans and just had a very important observer, Iran.

It's safe to say that when these governments get together, discussion about human rights and democracy is not at the top of their agenda. These alliances of convenience between energy consumers and sellers and the kind that really bear watching the most. They could evolve into a network of countries that are autocratic and hostile to the enforcement of any kind of international norms and therefore the question their long term stability. And it also obviously affects the votes within the United Nations Security Council. Examples to look at are Iran's nuclear program or genocide in Darfur, where China is loath to take action because they are dependant on Sudan, and you now see a real campaign to get Venezuela on the Security Council.

So for this reason the current trends are really not healthy for American foreign policy. The combination of high prices, tight supplies, and dependence on foreign resources hurts our economy and really does limit our freedom of action. It also creates dependencies that constrain the policies of our allies, so for example, Western Europe needs Russian gas, Italy buys energy from Libya and Algeria, and India wants a gas pipeline to Iran. Japan and Korea are heavily dependant on the Middle East and our friends in Latin America are being pressured by Hugo Chavez.

Historically, governments that are rich in oil have been prone to corruption and reluctant to share either power or wealth and many of them repress political dissent, and this generates a lot of very hard choices for U.S. policymakers. If we associate ourselves with such governments, we may alienate the people; and if we distance ourselves, the governments may make decisions that cost us. And as a result what we do is embrace the governments but at arm's length, which is awkward and satisfies nobody.

I think that one of our problems is since the 1970s we have been through several periods of energy crises interrupted by periods of complacency. The periods of complacency have been marked by a proliferation of SUVs. The periods of crisis have been marked by proliferation of speeches and where we see that is certainly from the

administration. I think nuclear power, which has barely been whispered about for the past two decades, is making it come back and it's good from the perspective of energy and environment, but obviously complicated from the perspective of security and safety. And it doesn't help, as John said and as we talk about it in the report, is that the international nonproliferation regime is under siege. There is an outlook for a continuation of these trends.

For the decades to come, the Middle East and the Persian Gulf will remain the most important sources of energy, with Russia, Central Asia, West Africa, and Latin America also contributing. And demand will continue to increase unless the emerging economies collapse, which is not actually something that we need to hope for. And conservation will be tried and new environmental technologies will be developed, but this will be slow and we have to be concerned about that.

I think we have a lot of very good and interesting suggestions, but we agree that there is no magic wand. We have to develop a comprehensive approach and I think here where we have a problem is that there is no attempt, from what I can see, to have a comprehensive international policy. We do one-offs – ad-hoc ways of dealing with things. It is not so much that this administration is unilateral, it is unidimensional. It is only focused on one thing – not so well – and it is also not looking at the interdependence on the oil market. We know oil and various forms of energy are fungible; therefore, it is one of those issues that cannot be dealt with alone. And what we are talking about here is the importance of a comprehensive policy that understands the fact that we are interdependent and that we have to deal with that on that basis. Those are the simplest geopolitics of the energy issue.

MR. PODESTA: Thank you, Madam Secretary.

And now it's my pleasure to introduce Madeleine's colleague, my former colleague and my friend, Carol Browner. Carol is currently a principal at The Albright Group. She served as the longest serving administrator of the Environmental Protection Agency – was in President Clinton's cabinet for eight years. She oversaw the implementation of the strongest-ever national air pollution standards, she created innovated and flexible alternatives to a traditional regulatory programs, and she successfully leveraged more than \$1 billion in public and private funds to clean up brownfields. I think it's fair to say that she is one of the leading advocates for the environment in our country and one of the foremost experts on environmental law and the energy posture of the United States. So with that, let me turn it over to Carol Browner.

MS. CAROL BROWNER: Thank you, John. It's a pleasure to be here with both you and Madeleine and to be a part of this effort – these sets of recommendations. What I would like to do is focus specifically on climate change. This report notes that climate change is not just an environmental issue: it is a security issue. It is likely that the first people to experience the impacts of climate change will be some of the world's poorest people – people who are least responsible for the problem.

Already in Africa, 14 countries are subject to water stress. That number is expected to double in the next 25 years. Crop yields in sub-Saharan Africa are projected to fall by 20 percent, and the projections go on and on. To suggest that this is just an environmental issue is really to miss the fact that large numbers of people will be impacted around the world; that instabilities will be created as we start to experience the consequences of climate change.

The report looks at a number of things that we believe can be done. Perhaps first and foremost would be for the United States to reengage in the international conversations – in the international discussions about what the world should be doing.

Secondly, we need to do our part domestically. We call for a cap and trade program, one that would be similar to what is already in place in Europe and similar to what the Northeast states are now recommending. A lot of this is built off of the cap and trade program that EPA built during the Clinton administration for the acid rain problem, which has been extremely successful.

We also go on to recognize that coal will more than likely continue to be a part of the fuel mix, but we want to be very clear that any new coal plants – any plants that come online should – it should be clear that they will be subject to carbon reduction requirements when those come into place. The reason for this is we want to avoid a situation where there is a rush to build. It may already be happening. There's reports of, I guess, 11 facilities – coal-fired power plants will be built in Texas. As we understand that that could more than double the carbon footprint of that particular company, so we think it is very important for the administration and for Congress to send a signal to companies that want to build new coal-fired power plants. If that's the case, you're still going to be subject to cap and trade, to carbon restrictions when those come into place.

Secondly, we think there should be significant demonstration projects looking at the opportunities for carbon dioxide capture and sequestration; again, recognizing that coal will probably continue to be a part of the energy mix. We also talk to the issue of nuclear. I think there was a lot of discussion, as you might imagine, and I think the report sort of captures the breadth of that discussion. For people who have looked at the climate change issues, we recognize that you're going to have to consider nuclear. Obviously, we want it considered within a certain parameter, within certain safeguards.

I think the report is extremely helpful in terms of providing a blueprint that takes into account all of the issues that are associated with energy independence from fuels to electricity, to carbon, and it was a real honor to be a part of it.

MR. PODESTA: Now I want to introduce to come to the podium, Gayle Smith. Gayle is a senior fellow – while I'm doing that, I'm going to do a little shout out. We're going to call an audible. One of our task force members, former Congressman Tom Downey, is with us today. I'm not going to make him say anything, but why don't you come up to the front of the room, Tom, maybe you want to add some thoughts or comments.

Tom served on the Energy Commerce Committee of the House of Representatives. He was a great congressman from New York. We are happy to have him on this task force and he contributed a good deal and he may have some thoughts where we did – I'm going to give it to Gayle and then ask you whether you want to just add a few things, Tom.

Gayle, as I said, is a senior fellow here at the center. She spearheads our International Rights and Responsibilities Program. She has been looking in depth at what the run-up in the price of oil has done to economies in the developing world, particularly those in Africa, which have had a tremendous impact on the ability of those countries to be able to deal with poverty reduction, providing the basic necessities of life to people in Africa. She served as a senior director for African affairs to the National Security Council. She won the National Security Council Samuel Nelson Drew Award for Distinguished Contribution in Pursuit of Global Peace for her successful negotiation of a peace agreement between Eritrea and Ethiopia. There's no one who knows more about particularly those places of conflict in Africa than Gayle. So with that, Gayle, I turn it over to you.

MS. GAYLE SMITH: Thank you, John. And what I would like to do from here on out is throw a question at each of our panelists and, Tom, give you a few minutes in case you want to – get ready, I'll come to you at the end and then we'll open it up for questions.

And Secretary Albright, if I could start with you and read a quote from your successor, Condoleezza Rice, who last April said that "Nothing has really taken me aback more as secretary of state than the way that the politics of energy is, I will use the word warping diplomacy around the world."

First of all, was this your experience and has this changed in the last six years? But most importantly, if indeed that is true, how do we need to think about international diplomacy in order to start changing that?

SECRETARY ALBRIGHT: I don't think she should have been surprised that energy policy had something to do with the U.S. diplomacy and I'm not sure that warping is the right word. I think that basically it is a statement of fact that a country such as the United States that is so dependant on foreign oil obviously has to consider what its energy policy is and how it mixes with other countries. And I think that clearly it is worse now than it was because most of the conflicts in the world are taking place in the oil richest countries and then ones that we are dependant upon the most, but it is something that I think has always had to be considered.

Case in point I think is North Korea. If we go back to trying to figure out one of the reasons of the North Korean conflict started, it was because as awful as Kim Jong-Il is – and he is all the things that we have said about him – he does have an energy problem and part of the issue was how was he going to get energy into North Korea, which led

into the issue of light water reactors and our providing heavy crude and various issues just as an example of the fact that in a non-Middle Eastern country the issue of energy policy did in fact become a part of what we were doing. It is also obvious in current relationships with Latin America and issues, as you pointed out, where in fact it was a matter with developing countries.

I went to Angola. It was evident that they were already drilling off the coast of Angola in a place near Kabinda, and the question was whether it was possible to drill deeper off the coast of West Africa in a way that would provide funds for the West African countries – not exploitation, but to help them with some of their budget issues. So I think – while we clearly didn't have all the answers, I think we did begin to look at a comprehensive approach and one cannot be surprised that energy played a role as did, actually, fighting terrorism.

MS. SMITH: Thank you.

Carol, if I can turn to you, there's obviously some debate about whether fossil fuels can ever become an environmentally sound piece of our energy puzzle, but there are also questions about an alternative energy future and the environmental soundness there; for example, with coal and even the mass production of alternatives like ethanol. Can you talk briefly about what the environmental risks are there and how as we move forward we might protect the environment against some of those?

MS. BROWNER: Well, I think first of all, when it comes to coal there are really two issues: one is the issue of carbon sequestration and the report speaks to the need to really develop some demonstration projects there to figure out how we can go about doing this. I think there is an immediate issue which is the old coal-fired power plants and what can be done to make those cleaner. And some of you may be aware that will actually be an issue before the United States Supreme Court later this year. But to continue to rely on coal I think is somewhat inevitable, but we should do it in ways that are environmentally sound and that is with technologies that are readily available in terms of the immediate emissions. Obviously the carbon is something we're going to have to work on.

I think in terms of other issues and specifically the ethanol issue, obviously in the short term the ethanol that we are now producing is going to be a pretty important part, for a number of reasons, of our fuel mix. But I think most people who understand this issue and have looked at it believe that we cannot rely solely on corn-based ethanol, that we have to move to cellulosic ethanol and to – I think it's conceivable that at some point you will have more cellulosic ethanol than you will actually have corn-based ethanol. Corn-based ethanol has some environmental issues. I think those can be managed, but it just has some other issues in terms of distribution and where it's actually manufactured that pose some problems, so moving away from the corn-based to cellulosic makes more sense.

MS. SMITH: Let me turn to John, who is my boss, but that's not why I'm going to say what I'm about to say, which is that many of you know him as the head of the Center for American Progress and the former chief of staff to the president.

John is also in his own right quite an expert and an activist on energy issues and has been from his time in the government throughout his tenure at the Center. And, John, if we look at the crisis that we're facing and the report, it seems that fuel is the issue that links our environmental security or economic security and international security. And I wonder if you could just briefly share with us some of the key recommendations of the report on how we move forward on the fuel issue, given that it represents the lion's share of our energy consumption.

MR. PODESTA: Well, I think by that question you're talking about liquid fuel and the fuel transportation system, and as Carol noted I think that United States is poised to, I think, make a very rapid turnover from an oil based economy to one that's based on biomass and renewable fuel sources.

I mentioned in my opening comments that Brazil has created quite an achievement by reducing their dependency. They are now not an oil importer between the production of offshore resources of petroleum off the coast of Brazil and a massive investment in a sugar cane-based ethanol system. About 40 percent of the liquid fuel in Brazil is now done through the use of ethanol that's built out of sugar cane, which has more environmental benefit because there's less fossil fuel-based inputs per unit of output that comes from that. It's also (added?) a tremendous economic boost to Brazil because they're not paying all that money and sending it overseas to – it's about a third of our balance of trade deficit goes to the importation of oil. I could just give you some example by comparison.

The United States is poised to do that. There is not a major infrastructure turnover that accompanies that. If that's combined with more efficient vehicles, with the kind of research and demonstration and production of the cellulosic-based ethanol that Carol talked about, we could do that in a very, very rapid fashion. There's a lot of interest in the business community and in investing in this sector. Most of that has gone into the production of new corn-based ethanol, again as Carol mentioned, but I think that the future arise in more efficient production of ethanol and biodiesel; biodiesel from (oil seeds?) and ethanol from crop waste – from dedicated energy crops like switchgrass and others.

That could back up most of our oil petroleum import needs. The NRDC did a report – Natural Resources Defense Council did a report that suggested that at least by well into the mid-term of this century we could be essentially off of oil and onto biobased fuels through the introduction of cellulosic ethanol and an improved efficiency of our vehicle through hybrids and plug-in hybrids and other vehicle choices.

In the short term, again, we need to do both through market forces and I think through a legislative effort we need to see more of what I call flexible fuel vehicles out

on the road. There are already five to six million of them on the road, but there are no fueling stations that permit a car to run on anything from zero based ethanol to up to 85 percent based ethanol in the fuel mix.

Again, that's the path that Brazil took. Now virtually every vehicle on the road there is a flex-fuel vehicle and I think that's where we need to get to. It will mean something in consumers' pocket books because the price of that fuel will be cheaper than what we see today with oil hovering in the \$70 price range, and it will mean something I think to our environment. But most importantly I think it goes back to the most profound issues I think in this report, which are the ones that Madeleine talked about and that Condoleezza Rice was surprised by, which is the way that our dependency on oil distorts our foreign policy around the world.

MS. SMITH: Thank you.

Would you like to add anything, Congressman?

MR. TOM DOWNEY: If I can add, just add maybe a historic perspective to this from a congressional point of view. Every president since Nixon has declared war on our dependence on oil; some of them got to it a little sooner than others. President Carter did in one of his early speeches. In February of 1977, he gave a speech from the library in a sweater and he talked about the need to change not only her attitude, but to recognize that this dependence couldn't last. This president has come to it later than all the others and with the least amount of resolve. And in the past when there had been oil spikes, there had been a market response that eventually allowed for oil prices to come down, and it seems to me that the urgency of the situation is mitigated by four factors that make this different than what other presidents have faced.

One, the global climate crisis is real and it is clear that it is happening while we talk about this issue. Secondly, the demand for petroleum is not going to diminish, nor is the price, because the Chinese and the Indians and other global competitors need it and will keep that price high. Thirdly, the non proliferation regime, which both parties over the years while we would argue recognized the seriousness of paying attention to the nuclear fuel cycle, this administration has not.

So there is an urgency here that this report addresses, and the irony is that the tools to solve this problem are at hand. The question is, do we have the political will to solve the problem?

MS. SMITH: Thank you. Let me just try to sum up the panel briefly and then we'll open up. I did a Google search the other day of energy security and the thing that was striking is that what came up in huge numbers were references to governments around the world notably with the exception of our own looking at putting out energy security strategies and policies. Now, this ranged from the UK, who will be moving soon to announce their own, to India, to countries in Southern Africa, all of whom are focused on this as a pressing and looming crisis.

I think, however, it's also an opportunity. In the secretary's words, clearly this is something that has for centuries driven our foreign policy. It is not at present driving it in a very positive direction. As Carol suggests, climate change is by its very nature something that requires we step up to the plate. And as John referenced, the whole issue of global poverty – as Brazil has shown – can be transformed significantly if indeed energy security becomes part of the mix. The opportunity for the United States here is to play a leadership role at home and abroad by pursuing a comprehensive energy security strategy that quite frankly frees us from our dependence, but also does much to free the rest of the world and move us all forward.

With that, let me open up to questions. We would like to start first with members of the press if you all have any questions. And if I could ask that you please identify yourselves first and wait for – we have a hand held microphone. Go ahead, please.

Q: Yes. Thank you. My name is Alexander Panov (ph). I'm from Russian Television. Company is called RTI. Let me stress, this is the only TV channel that is independent from the Kremlin, and I have a couple of questions to Secretary Albright.

The first, how could you characterize at present Russia's energy policy? It seems to me that President Putin calmly and very directly uses energy as a political weapon. And my second question: maybe you know that your name was for second day in Russian news headlines. Yes, Russian press, maybe you know, is fully controlled by the Kremlin and the information is that you rejected a (gift?) from the candidate of the opposition, Mr. Kasyanov, to be his political adviser during the presidential campaign. Is it true? (Laughter.) And if it is true, why? Thank you.

SECRETARY ALBRIGHT: First, on Mr. Putin. I have been very troubled by the energy policy of Russia. Clearly, Russia is in a very strong position because it now has vast oil resources and has a budget that has been helped a lot by the fact that the oil prices are high and that many countries are dependant upon energy from Russia. I was very critical of what happened vis-à-vis Ukraine as a matter of trying to control the political agenda in Ukraine and I think troubling also were some aspects of the energy policy towards Europe. I think that the G-8 meeting was somewhat diverted from its agenda and I think that would have been a larger issue had Hezbollah not attacked Israel.

So I think that I am very concerned about the energy policy of Russia and I think it's very important that a country of Russia's vast size and importance have a responsible energy policy and that oil power not be used politically.

I've had better offers. I was offered to run for the presidency of the Czech Republic, where I was born actually. I don't know where this comes from, but there is one thing that it might be linked to and that is that I am chairman of the board of the National Democratic Institute, an organization that supports democracy, not impose democracy, and we have had a nongovernmental organization in Russia and the people there are being harassed by the new laws in Russia that are requiring very peculiar

registration and things, but I think it would be mighty strange if I showed up in the Russian political system.

MS. SMITH: Thank you. Other questions from the press? Yeah, please second row.

Q: Ben Lander (ph), United Press International. How does addressing our foreign – the U.S. dependence on foreign oil and gas through these task force's report and recommendations – how does that may change or lead the way in investing in the global energy scenarios that you already mentioned: security, environment, poverty?

MR. PODESTA: Well, I think that again if you transpose or think about what we were talking about earlier, I think that there's great benefit globally from a movement to dependence on oil-based liquid fuel system to one that's based on biofuels and biomass-based fuels. Again, I defer to Gayle, but Gayle said this in some depth with respect to Africa. Every \$10 rise in the price of oil causes about a 3-percent loss of GDP in the poorest countries in Africa, which are highly dependent on importing oil for almost all their energy needs.

So moving the whole world onto a different system, one that more players could participate in, that actually benefits local farmers and local businesses to be able to produce those energy needs rather than continuing our dependence only on pumping oil and what has been described as the resource curse for those countries through corruption and other things that comes from those oil-based systems is one that not only, I think, will benefit the United States from the perspective of its own economy and its own environmental footprint in the world, but, as is in the case of Brazil, increasingly in the case of the Caribbean, holds great promise from the perspective of the rest of the world.

I think you'll see in Europe a similar movement towards biobased fuels. In Germany in particular you see more of that moving into biodiesel rather than ethanol because of the vehicle mix that they have in their current fleet. But all that will kind of reduce the pressure and the stranglehold that a few suppliers on the current system and that a high-price commodity that can fluctuate and spike up in price can have on the world.

And lastly, I think we also – as we noted, I think if we don't do something about climate change, about the amount of CO₂ we're putting in the air, which again move away from oil towards about mass based liquid fuel system will improve. The people who are least able – as Carol noted, the least responsible for the problem are the most devastated by the result.

Q: (Off mike) – I think setting an example for the world?

MR. PODESTA: Well, I was – it's not just setting an example. I just came back from Africa and met with the prime minister of Ethiopia and basically they are trying to develop an ethanol-based system for export. They are trying to develop a biodiesel-

based system for their own internal use through planting (unintelligible), which is a plant that's been developed and that grows in poor soils and is drought resistant. But he basically said to me, look, if the United States doesn't get on with this, none of the rest of us will either.

The whole system, the whole world economy turns on what the United States does. And if the United States doesn't move towards flex-fuel based vehicles, if it doesn't move towards more biomass-based fuels, then the export markets won't develop, the whole system won't turn over. And if there was one thing rather than just investment in our countries on that, what you could do is get your own policy right and get the United States economy moving in that direction.

Q: I'm John Cochran with Congressional Quarterly. I am curious to hear about the idea of putting a floor on the price of oil, which I think the task force is getting out with kind of cyclical tax on liquid fuels. I'd like to hear a bit more about both how you envision that working and also how you would address concerns that would make the U.S. economy less competitive?

MR. PODESTA: Let me take that, and maybe Tom wants to talk about it as well. I think that the one thing you've seen, again, since the oil price spikes in the 1970s is that OPEC has had the ability to both discourage investment in alternative fuel sources and they have been able to drop the price of oil and therefore the price of gasoline; again, to discourage any competition through new means and new sources of fuels. And I think one of the things that we suggest in this report is in order to encourage investment in these new fuel sourcing areas, providing some stability in the marketplace by having a countercyclical tax that would be able to create essentially an investment floor so that people would invest in these new technologies and turn the system over would be one way to ensure that the market would be there and produce the fuel that we're suggesting would be – would both enhance our own security and address these environmental problems.

I think there are different mechanisms to do that or encourage that. Vinod Khosla, who's been around town promoting biofuels has suggested altering the subsidy, if you will, the tax credit on ethanol to make that variable to the price of oil by providing more incentive on the ethanol side. As the price of oil goes down, the price of the incentive would go up. That's a different mechanism. It's sort of aimed at the same issue, which is to give some marketplace assurance over the course of the next decade or so that OPEC can't manipulate the price to drive the price down and (strand?) the investment that people are making in these new technologies.

MS. BROWNER: We also – in the report we suggest that in addition to putting the funds into research and development, also into funding (unintelligible), so there be a dedicated funding stream for (unintelligible).

Q: (Off mike.)

MR. PODESTA: Well, I think that this recommendation is really in that spirit.

MS. SMITH: In the back.

Q: Kevin Hall with McClatchy Newspapers. Question for – separate questions for each one of you. For Mr. Podesta, what are the underlying assumptions of the supply pattern right now? Only one of our seven top suppliers actually in the Middle East, Mexico and Canada – Canada and Mexico are the top two. Is your underlying assumption that these two trading partners will decrease in importance and in the future we'll be more reliant on Middle East oil than now?

For Secretary Browner, question on OCS. There's no mention in your report of OCS. Is there any – any of you guys envision OCS oil shale? And on a regulatory standpoint, you mentioned LNG. LNG has been prevented for ten years here. Is the current approach being considered by Congress for streamlining the permitting process acceptable?

And lastly for Secretary Albright, the question has nothing to do with oil. Should the Syrians – should we be engaging the Syrians now?

MR. PODESTA: Let me take – while the secretary thinks about that one, let me start by saying I think that the – if we stay on a business-as-usual path, I think you'll see – you know, oil is a world traded commodity so that whether or not the oil that's actually entering the U.S. marketing is coming from Middle East or coming from Mexico or coming from Canada or coming from Venezuela matters a little bit less than the question of what the overall price is and what the supply and demand curve look like.

But having said that, I think that most of the anticipated proven reserves are actually in the Middle East, so to the extent that the world is increasing its use of oil, to the extent that the United States increases its use of oil on a business-as-usual path, we're going to see more and more dependency on the Middle East, not less, and that's troubling. So I think we're suggesting that there needs to be a diversity of supply and western hemisphere oil will continue to play an important role in the short term or maybe mid-term in the United States, but over the – but we see the possibility of a much more rapid turnover towards a different liquid fuel source, less dependency on oil in general, and therefore less dependency on Middle East oil.

MS. BROWNER: On the offshore oil leasing, I think it's – whether it's Alaska or it's the Gulf of Mexico, the idea that some way or another we're going to drill our way out of these problems is simply not true. I am a native Floridian, so I have some personal issues about the OCS proposals. I think what the House does and even what the Senate does takes away protections we currently have in Florida, and so in that way it would be troubling to me. But I'm not sure, even if you were able to find a way that would be acceptable to the people of Florida, to the people of California, that a proposal that has the sort of budget impact that the Senate proposal has is something that is ultimately going to be acceptable for a large number of people.

On the streamlining of permitting, these types of facilities are very contentious without a doubt. We believe that LNG provides an opportunity and we need to explore that opportunity, but to suggest that denying public engagement and public participation in the government's decision-making process about deciding as the way to go is something I simply don't agree with. The best way to make sure that the public can feel comfortable with these types of sites is to invite them into the process, to give them access to information; not to narrow the process down, but rather to expand it.

SECRETARY ALBRIGHT: Well, I'll put my answer within the context of my overall belief is that we should talk to everybody generally; that we don't manage to deliver tough diplomatic messages if we don't have contact, and therefore I still have the rather dubious honor of being highest level American official to talk to Kim Jong-II.

I met with Hafez Assad and Bashar Assad, and I wanted to talk to the Iranians, so I do believe that contact is important. I think the Syrians are playing, clearly, a very important role in the turmoil in the Middle East and I think it's great that they are out of Lebanon, but they clearly play a role there and I think it would be useful to have diplomatic contact to try to separate this new alliance of Iran and Syria.

So I think there are a number of reasons to have contact without in any way blessing the kinds of actions that the Syrians are taking. Having diplomatic contact is a way to deliver tough messages.

Q: Steven Dolly (sp) with *Platts Nuclear Publications*. Turning to the task force recommendations on nuclear power, three interrelated questions, first being, where does the spent fuel go if all of the task force's recommendations are accepted? The task force wants the U.S. to continue its 30-year policy of not reprocessing spent fuel and hopes other countries will follow that as well and would like to see a proposal whereby the spent fuel from certain countries is provided by and then taken back to nations that have I think the term is full fuel cycle capabilities. Does that mean the stuff comes here? The Russians have just said they are not going to accept non-Russian origin spent fuel, so where does this spent fuel go?

Secondly, does the task force's recommendations call for the elimination of the Department of Energy's Global Nuclear Energy Partnership, which is designed to develop advanced reprocessing technologies?

And third, does the task force support the Yucca Mountain repository project in the United States, and if so, do you believe that should be opened up to non-U.S. spent fuel because presumably this material needs to go somewhere?

MS. SMITH: Well, who would like to start?

MR. PODESTA: Why don't I take that one? I think that with respect to spent fuel – and this relates back to Yucca, although you put a twist on it, which is to take it

from other countries – I think what our conclusions were at the end of the deliberations of the task force was that a permanent repository still seems questionable that whether Yucca will actually meet the standards that are imposed under the statute. They're still questionable and therefore we need to get on with the process of more robust inland storage possibilities, including, obviously, the U.S. taking title to the fuel and also over the course of the mid-term again, if you will, that we need to explore interim storage possibilities and dry cask storage.

With respect to accepting fuel from other countries, I think Yucca would prove to be – Yucca probably is – I don't see that as an option. For one reason, I think you'd fill Yucca up quite rapidly under than scenario, which – to reply to your last specific question – I think that we don't see any real advantage in reprocessing. We see a lot of problems from a proliferation perspective, from an environmental perspective, from a class perspective on reprocessing. And I think that most of the people, particularly those who are experts on nuclear matters – particularly John Deutsch, who served as the undersecretary of energy now is at MIT – just did the MIT study on nuclear power – was influential in guiding this work – are highly skeptical about the administration's proposal on the advanced fuel cycle and reprocessing, both in terms of signaling the goal of reprocessing as well as providing the kind of technical know-how. And there's a proliferation threat in terms of spreading both the capacity and the intellectual capacity to reprocess spent plutonium.

Q: (Off mike.)

MR. PODESTA: Well, I think that Russia has a role to play and I think that people who are building and envision building new nuclear facilities, like China, will have their own issues with regard to long-term storage and I think that what we need now is to move on towards an international program, which is I think the direction that this points in – towards trying to think about that over the course of the next century or so.

MS. SMITH: Please.

Q: Thank you. (Unintelligible) with China Press. Secretary Albright and Mr. John, would you please elaborate more detailed strategy that would establish a more effective cooperation with China and how to avoid the possible conflict between the two big countries because of the energy issue? You know, I believe Chinese people didn't believe America will allow China to get the energy supply from normal markets because of the Unocal case. So would you please talk more about that?

MR. PODESTA: Let me start. I think that that it is a problem – that case – and I think what we're calling for is a more open, transparent marketplace so that China can rely on an open market mechanisms rather than relying on state-to-state arrangements with countries that I think are a security problem from the United States perspective. We've seen that in Sudan. We're seeing it in Iran.

I think that if China doesn't feel like it has access to an open and transparent market, it's likely to make state-to-state arrangements, which from a security perspective in particular are problematic from the United States' perspective.

With respect to how do you build greater ties, I think that obviously China is the kind of linchpin to dealing with climate change overall. I think that both the robust growth in the economy, the robust growth in energy production – they're building a coal-fired based power plant virtually every week now in China. If we're going to get on with dealing from a global perspective with the problems of climate change in particular, and global warming in particular, we have to have a more cooperative arrangement with the Chinese. There is some work that goes on between the Europeans and the Chinese now on a new generation of coal-fired power plants that are using gasification and sequestration technology. It's important, I think, for the United States to get in that game. Specifically, I think we are talking – we have suggested that China and India be brought into some formal arrangement with the IEA.

SECRETARY ALBRIGHT: I think it is very important to develop a cooperative, transparent relationship on a whole host of issues and I think that it's not without its difficulties when in China it looks to many people as specifically seeking out relationships with countries that have some problem with the United States, or in fact are involved in repressing the people. And the fact that the Chinese then in various fora, especially the United Nations, then protects those countries when there are questions about Darfur I think is one of the major issues, as well as obviously Iran.

I also do think that it is essential that the U.S. – and we say this in the report – that more be done to try to help in resolving the Chinese-Japanese dispute over drilling rights in the East China Sea as an example of the kind of thing where the U.S. could be helpful in resolving disputes. But the main thing, I think, is we have a very complicated relationship with China, which I have now heard described as that between a drug addict and a pusher. It's just that we don't know which is which. We are totally dependant on each other in a whole host of issues and the energy is just one example of it.

MS. BROWNER: If I might just on the carbon issue, obviously China's carbon emissions are growing and growing dramatically. If the United States were to develop a cap and trade program, you could eventually move towards some sort of global opportunity which will allow for some investments in China towards some cleaner energy technologies. You could use some program, perhaps, between the United States and the existing European program. But when we think about a cap and trade program – a domestic cap and trade program, one of the things I think will be important is we think about how it ultimately can play in the global arena, particularly with China and India.

MS. SMITH: I think we've got time for one more question. Please, sir, go ahead.

Q: Thanks. Gary Mitchell from the *Mitchell Report*. I want to direct this question to Congressman Downey and perhaps John would comment on it also, but looking at this report, we could clearly say that it is both thoughtful and comprehensive,

and those are two characteristics that encounter a lot of trouble up on Capitol Hill. (Laughter.) And my question is what – from a legislative strategy point of view, from an implementation point of view, what would have to happen over the next two years and four years with respect of the Congress for a program of this sort to make its way through Congress. And as a sort of an add on to that question, is the best strategy to move this as a comprehensive package? Is the best strategy to try to unbundle it? Could you talk a little bit about that?

MR. DOWNEY: Members of Congress for the most part who don't serve on the particular committees – either the Ways and Means Committee or the Commerce Committee and House and Senate Finance Committee don't spend a lot of time – they spend a lot of time talking about energy; they don't do a whole lot of thinking about it, so it's useful to have a comprehensive set of ideas to think about the problem.

I believe that the only way that major elements of this will ever become law or become part of our energy strategy is when you have presidential leadership and you attempt to – and I would assume that a Republican president or a Democratic president will understand that next time in '09 what they have to do, and you need to also have a system that draws both Democrats and Republicans to the table because one party is not going to impose their will on the other when it comes to this issue. And I see very reluctantly from the Republicans, but very incrementally, them moving to a recognition that this crisis is really, that it has to be dealt with, and they want to be led in a way that will attempt to resolve it. And these are a number of very comprehensive and very good ideas, but I think that the first step really will be a president who is prepared to lead and it will lead in a bipartisan way.

MS. BROWNER: Let me just note one – Congress frequently responds to things that occur out in front of the Congress and we will have a decision by the United States Supreme Court in the next term as to whether or not the 1990 Clean Air Act actually allows EPA to regulate carbon. We took the position and developed the legal analysis that it does. The Bush administration says it does not and those competing or different points of view are now going to the Supreme Court.

I think if the court is to embrace our interpretation of the Clean Air Act, you will see a lot of debate and activity in the Congress on this issue.

MR. PODESTA: Well, it reminds me that the administration produced a comprehensive policy under Vice President Cheney's leadership in 2001. It was comprehensive; it was just wrong. It largely went backwards, made all these problems worse, and was more or less a giant giveaway to the existing energy companies and energy infrastructure.

I think things have changed. I think that the president stood up in the state of the union and said America was addicted to oil. I thought maybe he was the last man in America to notice that fact, but I think things have changed. There is movement on the Hill. I think there's quite bit of bipartisan support for this movement towards a biobased

liquid fuel system for America – more investment in ethanol, more investment in biodiesel. I think there is some movement on the overall question of a cap and trade system to begin to deal with the CO₂ problem globally. We see it comes in fits and starts, but I think the pressure that's coming from the states in the Northeast, on the West Coast, in the Southwest towards moving in that direction is putting some pressure on Congress.

But I fundamentally agree with the others that it's going to take leadership at the presidential level, bipartisan leadership in both houses of Congress. I think there was a comprehensive bill put in by the Senate Democratic leadership last June, which contains many of the elements that are contained in this strategy and it has some other features as well. It doesn't embrace – the one thing that's not in that bill is the cap and trade system I just mentioned, but there is quite a bit of a forward leaning of proposals in that bill. But, again, you see Senator Lugar, Senator Obama coming together on some of the biofuels, so I think there's some space for bipartisanship on this question in particular – maybe uniquely in this Congress a space for bipartisanship, but I think it's going to take national leadership to make that happen.

MS. SMITH: Thank you, John, and let me thank all of our panelists on behalf of the Center and the other members of the task force that put this report together and thank you all for coming. Thank you very much.

(Applause.)

(END)