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Oil-Price Drop Threatens to Undercut Obama’s Clean-Energy Legacy

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(Bloomberg) -- The benefits of cheap oil may come at a steep price for President Barack Obama’s climate-change initiatives.

Some of Obama’s most cherished achievements -- cars on the road that burn less gasoline, reductions in greenhouse gases and a plan to cut emissions from power plants -- are at risk as plummeting energy prices thwart policies meant to force the nation to think greener.

Last year’s 33 percent drop in gasoline prices already has automakers laying the groundwork to challenge more stringent fuel economy targets for new cars. The oil industry says a decline in its oil revenue means it can’t afford new climate regulations. Even solar-equipment makers are seeing share prices fall on fears inexpensive natural gas will erode demand.

“We are awash in cheap fossil fuels in a way that was unimaginable five years ago,” said Michael Greenstone, an economics professor at the University of Chicago who was once the chief economist for Obama’s Council of Economic Advisers. “That’s going to make the president’s climate plan -- and anyone’s climate plan -- more difficult to achieve.”

Data show consumers gravitating back to the pickup trucks, minivans and sport utility vehicles they shunned when gasoline was $3 or more a gallon. Automakers had been counting on sustained demand for fuel-efficient cars such as hybrid and electric models to meet Obama’s mandate for a nationwide average fuel economy of 54.5 miles per gallon.

‘Additional Challenge’

Cheap gas “adds an additional challenge to what is already an aggressive standard,” said Ed Cohen, vice president of government and industry relations for Honda Motor Co.’s North American unit.
The same can be said for renewable fuels. The Bloomberg Global Large Solar Index of 21 companies that sell solar-energy products -- which are now competing against falling electricity rates -- has sunk 39 percent in the 12 months through Jan. 27.

The Environmental Protection Agency’s plan to cut carbon emissions from power plants by pushing the companies to embrace renewable and other “clean” energy sources would now be a more expensive undertaking relative to using traditional fossil fuels, said Philip Wallach, a fellow at the Brookings Institution in Washington.

In fact, the Energy Information Administration has already begun backtracking on predictions that U.S. carbon emissions would fall this year and next, saying Jan. 13 that it now expects to see an increase in the pollutants, citing a drop in prices that will spur greater use.

**Industrial Resurgence**

Perry Lindstrom, an EIA analyst, singled out natural gas as one reason, where futures prices in New York are the lowest since 2012.

“It is driving a lot of the industrial sector resurgence,” Lindstrom said in an e-mail. That in turn is driving increases in energy use.

There is at least one silver lining. The drop in natural gas prices makes it easier for power plants to replace coal, the most carbon-intensive fuel, with the relatively cleaner gas.

The good-news, bad-news contradictions of lower energy prices were on full display in Michigan this month. Obama used a Ford Motor Co. factory as a backdrop Jan. 6, saying the U.S. economic revival is real.

A week later, at the North American International Auto Show in Detroit, General Motors Co. unveiled a 640-horsepower Cadillac CTS-V.

**Pickups, SUVs**

The sedan would be the most powerful car ever sold by the Cadillac luxury brand. That won’t help GM to meet the terms of a 2012 deal the industry struck with the Obama administration to gradually boost the overall average fuel economy of their vehicle fleets to 54.5 miles per gallon by 2025.

Emphasizing pickups and more powerful vehicles risks remaking the mistakes of the past decade, said Daniel Becker, director of the Safe Climate Campaign, a proponent of regulations requiring higher-mileage cars. When gas prices shot up then, truck-heavy GM and Chrysler Group were forced to restructure under government-financed bankruptcies after being stuck with too many unsold gas guzzlers as consumers shifted to more fuel-efficient cars.

“It’s both a bad business strategy and poor return on the taxpayers’ investment,” Becker said.
Gasoline Prices

When the automakers agreed to the new fuel economy requirements, the average price of a gallon of gasoline was about $3.97 in the U.S., according to data compiled by Bloomberg.

The price for regular gasoline fell below $2.10 this month for the first time since May 2009, according to the automobile-travel association known as AAA.

“Thanks to lower gas prices and higher fuel standards, the typical family this year should save about $750 at the pump,” Obama said to applause at his State of the Union speech to Congress a week ago.

For Obama, climate change is among the issues that defined his two successful runs for the White House. In 2013, he pledged the first regulations limiting greenhouse gases from power plants, a cut in U.S. government financing for overseas coal plants and accelerated progress on efficiency standards for everything from microwave ovens to walk-in freezers.

His administration also has allocated billions of dollars for clean energy and green-lighted renewable-energy projects on public land. A combination of federal and state policies, not oil or gas prices, may hold the key to whether those cleaner sources continue to gain market share.

Midyear Review

The turnabout in energy prices makes Obama’s plans to address climate change all the more important, said EPA Administrator Gina McCarthy. The president has pledged that the nation would cut greenhouse emissions 17 percent by 2020.

The administration isn’t willing to ease off the fuel economy standards and sees the situation “as a long-term investment” for the industry, she said.

“Everybody is cognizant that oil prices fluctuate,” McCarthy told reporters Jan. 16 in Washington. “We don’t think the low fuel price is going to be the basis of significant changes going forward.”

U.S. benchmark West Texas Intermediate crude for March delivery closed at $46.23 Tuesday in New York Mercantile Exchange trading, near its lowest level since 2009.

The oil and gas industry may also seek some relief from emissions targets. Falling prices were cited as a reason why the oil industry won’t be able to comply with new mandates from the EPA to reduce methane emissions.

‘Serious Concerns’

“The fact that there is no price tag associated with the administration’s proposal is cause for serious concerns, at a time where America’s oil and natural gas production industry is

Automakers, too, who agreed to fuel economy standards in 2012, may mount a challenge during a midyear review of the program’s assumptions for 2017, according to Adam Jonas, a Morgan Stanley analyst.

“If gasoline prices were to stay anywhere remotely near a $2 to $3 range, consumers will have little economic urgency to purchase expensive technologies required,” Jonas wrote in a Jan. 7 research note.

**Project Review**

Toyota Motor Corp. is focused on the midyear review, and expects a re-evaluation of some projections for alternative fuel infrastructure, electric-vehicle sales, improvements in battery technology and engine improvements, said Rick Gezelle, a Toyota national manager for technical and regulatory affairs based in Washington.

Companies will want a robust conversation about all of the assumptions made in 2011 and 2012 about what the world would look like in 2025, Gezelle said.

“Consumers are going to want economic payback,” Gezelle said. “It’s harder to achieve that with low fuel prices.”

Ford said it remains committed to small cars because no one can predict how long gas will remain cheap. In 2008, the Focus sedan was so popular, it sold out.

“Consumers believe gas prices will rise over time, and so do we,” Joseph Hinrichs, a Ford executive vice president, said at the Automotive News World Congress in Detroit Jan. 14.

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