

NATIONAL PRESS CLUB LUNCHEON WITH FRED SMITH

SUBJECT: CONFRONTING THE ENERGY THREAT: ELECTRIFICATION OF  
TRANSPORTATION AS THE PATH TOWARD A STRONGER ECONOMY AND  
ENHANCED NATIONAL SECURITY

MODERATOR: DONNA LEINWAND, PRESIDENT, NATIONAL PRESS CLUB

LOCATION: NATIONAL PRESS CLUB BALLROOM, WASHINGTON, D.C.

TIME: 1:00 P.M. EDT

DATE: MONDAY, FEBRUARY 23, 2009

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**DONNA LEINWAND:** (Sounds gavel.) Good afternoon and welcome to  
the National Press Club for our speaker luncheon. My name is Donna Leinwand.  
I'm a reporter at *USA Today* and I'm president of the National Press Club.

We're the world's leading professional organization for journalists. And  
on behalf of our 3,500 members worldwide, I'd like to welcome our speaker and  
our guests in the audience today. I'd also like to welcome those of you who are  
watching us on C-Span.

We're celebrating our 100<sup>th</sup> anniversary this year, and we've rededicated  
ourselves to a commitment to a future of journalism through informative  
programming, journalism education, and fostering a free press worldwide. For  
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We're looking forward to today's speech, and afterwards, I'll ask as many  
questions from the audience as time permits. Please hold your applause during the  
speech so we have time for as many questions as possible.

For our broadcast audience, I'd like to explain that if you hear applause, it may be from the guests and members of the general public who attend our luncheon, and not necessarily from the working press.

I'd now like to introduce our head table guests and ask them to stand briefly when their names are called. From you're right, Chuck Lewis, senior editor, Hearst Washington bureau; Robert Yoon, political research director for CNN; Nikki Schwab, Washington Whispers reporter, *US News & World Report*; Jennifer Watts, senior marketing and communications manager, Electric Drive Transportation Association; Ambassador Susan Schwab, former U.S. trade representative, a guest of the speaker and a professor at the University of Maryland; Eric Schwartz, a member of the board of directors, Securing America's Future Energy.

Skipping over the podium, Angela Greiling-Keane, chair of the Speakers Committee and a reporter for Bloomberg News. Skipping over our speaker for just a minute, Melissa Charbonneau, News Hook Media and Speakers Committee vice chair who organized today's event. Thank you very much, Melissa. Lee Scott, chairman of Wal-Mart stores, and a guest of the speaker; Kelly Wright, anchor and reporter, Fox News; John Fales, a columnist for *The Washington Times*, known as Sergeant Shaft; Paul Page, editorial director, *The Journal of Commerce*; and Ed Hazelwood, *Aviation Week's* editor-in-chief of conferences. (Applause.)

Our speaker today was a very easy one to schedule. We knew he would not be late. In fact, when we booked him, we said that he'd absolutely, positively have to be here overnight. How would it look if the head of FedEx couldn't live up to his own slogan and get somewhere as fast as his packages?

Fred Smith founded Federal Express in 1971. Express delivery was an idea that Smith had written about as a college student for an economics paper. Today, Smith is the president, chairman, and CEO of the \$38 billion global transportation and delivery giant now known as the FedEx Corporation. *Fortune* magazine recently ranked FedEx on its 2009 list of 100 best companies to work for in the U.S. for the 11<sup>th</sup> time in 12 years.

But like other U.S. employers, FedEx is struggling with challenges of an economic crisis that Smith has called the most serious he can remember. The Memphis-based company has itself been wracked by drastic cost-cutting measures. This month, FedEx announced it would lay off 900 workers. It is freezing contributions to employee 401K accounts. It is docking executive salaries by 10%. And Smith is reportedly cutting his own pay by 20%.

Skyrocketing fuel prices last summer hit FedEx and other transportation companies hard. To make eight million deliveries a day, FedEx must fuel nearly 700 aircraft and more than 80,000 vehicles. According to Smith, the record \$147 dollar a barrel oil prices should signal to Americans that their dependence on imported oil is dangerous.

Smith considers this dependence a national security threat. He is not alone. The Yale graduate and decorated Marine for his service in Vietnam has teamed up with like-minded CEOs and retired generals. He is co-chairman of Securing America's Future Energy, or SAFE, a coalition advocating a set of new policies to reduce U.S. reliance on foreign oil. FedEx is among companies nationwide already experimenting with more fuel-efficient electric and hybrid vehicles.

Mr. Smith has come to Washington to explain SAFE's plan and how it would play out one of the key proposals, transforming the nation's transportation system through electrification. Please help me welcome the founder, president, chairman, and CEO of FedEx, Mr. Fred Smith. (Applause.)

**FRED SMITH:** Well, thank you very much, Donna, for that kind introduction. I regret that I've been instructed not to introduce all of the friends and associates in the audience in the interest of time. But let me say, I'm very appreciative of all of you attending today. Normally when I speak, I'm representing the 300,000 people that make their living at FedEx and our operating companies. But today, I'm here as the co-chairman of the Energy Security Leadership Council, which is an offshoot of SAFE, as Donna mentioned.

And we very much appreciate all of you joining us here today. I would like to introduce the other members of the Energy Security Leadership Council who are with us today: General Charles F. Wald, United States Air Force, retired, Adam M. Goldstein, president and CEO of Royal Caribbean International, and Eric S. Schwartz, former co-CEO of Asset Management at Goldman-Sachs.

The business executives and retired military leaders who make up the Energy Security Leadership Council have gathered together for a single reason. It is our belief that after terrorism and the proliferation of weapons of mass destruction, our increased dependence on petroleum, most of it imported, represents the biggest single threat to our nation's economy and national security.

The U.S. consumes about 20 million barrels of petroleum a day. In 2008, that oil cost this nation nearly three-quarters of a trillion dollars. Worse, about 60% of the oil we use is imported. Last year, we sent \$350 billion dollars overseas to pay for oil. Our oil and gas imports, in fact, account for a larger portion of our trade deficit than any single country or regional trade partner.

The consequences of this dependence are very real. There can be little doubt among anyone in retrospect that a major part of the financial crisis that led to the current recession was the 2007 and 2008 substantial run-up in the price of oil. We saw an explosion in home ownership with many purchases being made by people who had heretofore not qualified for mortgages. When the price of oil and the price of gasoline began to rise, and inflation on commodities began to take hold, and interest rates began to increase, you had a tremendous diminution in purchasing power and cash flow, which contributed to people having to walk away from their mortgages.

We're all seeing the result of that economic damage today as it reverberates throughout the country and the world. The question is, what can we do about it? In September, the Energy Security Leadership Council released a national strategy for energy security, this report. It is a comprehensive new plan that presents a long-term vision to confront our energy security threats. The national strategy offers a pathway towards a transportation system that is no longer dependent on oil, an electrical grid that is flexible and robust, and an American research and development apparatus that sets the standards for the world in these sectors.

The national strategy's centerpiece, the essence, the main goal is the electrification of short haul surface transportation. Ninety-seven percent of all fuel used for transport is derived from oil. America's cars and SUVs consumed approximately eight million barrels of oil per day in 2008, about 40% of our total oil consumption. Thus, we built a transportation system that is nearly 100% reliant on a fuel that we are forced to import and whose highly volatile price is subject to geopolitical events far beyond our control.

Electrical power in contrast is generated from largely domestic sources whose prices are more stable and mostly disconnected from these fluctuating world markets. It can be solar. It can be hydroelectric. It can be wind. It can and should be increasingly nuclear. It can be clean coal. It can be natural gas. So with cars powered by electricity, no one fuel source or producer would be able to hold our transportation system and our economy hostage the way a single nation can disrupt the flow of petroleum today.

Electrification would, of course, be a sea change. And the thing that makes it possible is the same technology that we all rely on every single day in our laptops and cellular phones – batteries. There has been remarkable progress in the last 25 years in battery technology. Today, a lithium ion battery in a plug-in hybrid or an all-electric vehicle can give substantially more range and durability was the case in the past. About seventy percent of all the trips we make in our personal automobiles on any given day are less than 40 miles. So having a vehicle

that has a 40-mile battery range and a small gasoline engine that serves as a generator can provide tremendous improvements in effective miles per gallon.

Even more impressive are the possibilities inherent in all electric cars. This technology is becoming more viable with every passing day. Electrification, make no mistake about it, will not be easy. And if it is not undertaken in the proper manner, it could make things worse, not better. We cannot substitute one threat for another. We cannot encourage the purchase of electric cars and then not have the generation capacity to power them, the transmission capacity to deliver that power to the consumers who need it, or the smart grid technology that will be required to handle those cars as we plug them in and out of the grid. These are all crucial issues, and we need to work on all of them in sync. Without one, the others are useless. And without all three, this entire venture could put us at greater risk.

Luckily, we're not starting from scratch. One of the great advantages of our long-term goal of electrification is that we already have the basis for a distribution system in place. This is not the case for other possible alternatives to petroleum such as natural gas or alcohol-based fuels for which entirely new, purpose-built nationwide infrastructures would have to be designed and constructed from scratch.

Electrical wires cross this country, reaching into every home and building. So we need to take that base and build upon it. We must improve the siting process for interstate transmission lines, increase the rate of return on investments in modernizing the grid, implement time-of-day pricing, require utilities to install smart meters over a fixed period, and put policies in place to ensure that companies can build the generating capacity that an electrified transportation system will require.

It is also crucial that our dependence on imported petroleum does not transform into a dependence on imported technology. The investments, both private and public, involved in electrification could have a tremendous positive effect on the American economy. If we do everything in our power to encourage the creation of new manufacturing capacity and jobs here at home, we will not face that prospect.

Now this means, among other things, reducing, in our opinion, the corporate tax rate and changing the tax code to allow the expensing of capital equipment and software. If we're going to drive battery operated cars, we need to make sure that as many of them as possible are built here in The United States. Much of the technology we need to make the leap to electrification is already here today. And even greater advances to improve on this technology are just around the corner.

But to make sure it gets to the consumer rather than later, our national energy research, development, demonstration, and deployment apparatus must be both enhanced and reformed. After the energy crisis of 1973, U.S. energy research and development soared to nearly \$14 billion dollars with public sector investment peaking at just under \$8 billion dollars and private sector investment topping out at about \$6 billion.

By 2004, however, private sector energy R&D funding had fallen below \$2 billion dollars and government funding had dropped to roughly \$3 billion. The Department of Energy's current applied research and development budget is about \$3.1 billion dollars. That's less than one-half of its level in the late 1970s. This trend simply must be reversed.

But it's not just about more money. We also need to reform the existing R&D structure to streamline spending and create new institutions that will leverage market-based incentives to accelerate commercialization of critical energy technologies. Last week's stimulus legislation includes \$38 billion dollars in direct spending for energy projects. That's 50% more in one fell swoop than the Department of Energy's entire annual budget. With these kinds of numbers, it is more important than ever that the Department of Energy has effective, efficient, and transparent methods of making sure the money they manage is doing the most good.

Ultimately, electrification of short-haul transport will require a decades-long effort. To meet our long-term goals, it is important that we start today. But it is equally important that we take more immediate tactical steps to safeguard our economy and improve our national security as we work towards electrification.

For this reason, the national strategy also includes crucial policies, including increased domestic supply of oil and natural gas, raising the blend law for conventional ethanol, incentivizing advanced biofuels, and the robust implementation of fuel economy standards for all on-board transport, including medium- and heavy-duty trucks. All of these will help us reach our long-term goal while keeping our nation strong and secure in the interim years.

Ours is a comprehensive plan with ambitious goals. And it would not be unreasonable for policymakers and taxpayers alike to ask, "Is it worth it?" To answer that question, first we have to recognize that the crisis we are facing is not a business or an economic issue alone. It is one of the greatest national security and national economic threats confronting our nation, and it has got to be approached that way. I don't think anybody needs a handout. But there does need

to be a Federal commitment, just as there would be to any dire threat to our safety and prosperity.

The members of the council, both business and military, including our co-chair, General P.X. Kelley, former commandant in the Marine Corps who unfortunately couldn't be here today because of illnesses in his family, believe firmly that the national security benefits alone would be enough to justify the investments we're proposing.

But we also believe that purely in economic terms, this set of policies will pay off over the long-term. These policies will enrich our nation, create jobs, and steady and strengthen our economy. And we turned to the very best to make sure we were right.

Shortly after developing the national strategy, the Energy Security Leadership Council commissioned the Inter-Industry Forecasting Project at the University of Maryland and Keybridge Research to study the long-term economic effects of our policy proposals. This expert modeling team collectively has decades of experience building and performing simulation studies with large-scale, econometric models and conducting public policy research on energy and macroeconomic issues.

Our goal was to produce a detailed sober analysis based on conservative, realistic assumptions stretching out over the next four decades. Today, we are releasing the results of that analysis in this report. In short, it finds that the policy proposals we have put forward would result in dramatic benefits for the American economy. Specifically, by 2050, the typical U.S. household would have (and these are all in constant 2008 dollars) \$4,046 dollars more in annual income with our energy policy package than without it. That represents an increase of nearly 2.1%.

Cumulatively, during the four-decade period modeled, households would experience an increase of \$13.9 trillion dollars in aggregate income because of these policies. What's more, by 2050, the last year of the period modeled, the typical U.S. household would be spending less per year directly on energy for transportation. In fact, the combination of higher income and less spending on energy means that the average household would be able to enjoy about \$5,000 dollars more every year, whether for consumption of consumer goods and services, or for personal savings.

The United States would experience a significant reduction in our oil imports under our policy package. By 2050, oil imports would be lower by 6.6 million barrels. Cumulatively, in-between now and then, The United States would import nearly 60 billion fewer barrels of foreign oil. As a result, The United States trade balance would improve by about \$275 billion dollars by 2050.

Because of higher levels of income and GDP, net U.S. Federal revenue would be a cumulative \$1.46 trillion dollars high than they would be without the ESLC policy package. By 2050, the study estimates total employment would have increased by three million more jobs under these policies than without them. There would be about 225,000 more manufacturing jobs, about half a million more jobs in travel and tourism, a little over 100,000 more jobs in professional services, and about 44,000 more jobs estimated in agriculture than if these policies were not enacted.

But perhaps more important than any one of these is what the ESL policy package will do to help our economy withstand future oil shocks. \$147 dollar per barrel oil and four and five dollar per gallon gasoline are less than a year behind us. And if there is one thing I can absolutely guarantee you today it is this — that was not the last oil shock we will ever see. Far from it.

We cannot prevent oil shocks. Events across the world, from terrorist attacks and cartel collusion, to accidents and natural disasters will continue to affect global petroleum prices, sometimes dramatically. In the past, that has been a recipe for economic disaster. We have seen five economic recessions since the early 1970s. And each one of them was preceded by or occurred concurrent with a significant spike in oil prices.

What we can do is insulate ourselves from the effects of these future shocks. And that is precisely what this policy package does. According to our modeling results, the reduced dependence on imported oil that results from these actions will act as a \$400 billion dollar insurance policy for The United States economy, saving 1.8 million jobs in the event of a severe oil shock. The difference in national disposable income, the real money that American families rely upon to pay their bills, would be \$448 billion dollars estimated if an oil shock were to occur in 2040 when most of the policies we have recommended have taken hold.

Now, these are not small differences. This is a massive cushion against what we have already seen can be a crushing economic blow. This is why we have to act. Last fall when we released the national strategy, we said it was bold and that the math worked. It is certainly still a bold plan, and now with the study we're releasing today, the math does indeed work, and the entire nation will benefit if these policies are enacted.

I speak for every business and military leader on the Energy Security Leadership Council when I say that the Council is unanimously and unambiguously committed to this cause. The proposal we have put forward is, in some respects, controversial. It does not fall into any of Washington's typical



ideological categories and it does not follow party lines. We have no illusions about that. But we are confident that our nation can and must do this.

We can end our transportation systems' over-reliance on petroleum. We can ensure the robustness of our electric power sector by promoting a diverse range of technologies. We can expand the research, development, and deployment of critical new technologies. We can produce more domestic oil and natural gas safely.

What we need is the national will and the commitment to secure our own future. If we as a nation fail to meet this challenge, the American economy will remain vulnerable to debilitating shocks driven by geopolitical events outside our control. Our national security will continue to be imperiled by a weakened foreign policy that is forced to tread lightly when dealing with those who wish us harm.

We cannot continue to react to events as they happen, risking our economy every time an insurgent attacks a pipeline or a hurricane threatens the Gulf. Continued delay carries unacceptable risks. Our challenges are certainly great. But so are our opportunities. It's time for America to act. Thank you very much. (Applause.)

**MS. LEINWAND:** Thank you very much, sir. You mentioned that this is something that doesn't fall into ideological categories. And I know that you had a meeting at The White House this morning. How would you propose we get past partisan politics and find common ground to solve energy issues?

**MR. SMITH:** Well, I actually believe that in this particular area, there is a lot of common ground, and there is a growing belief on both sides of the aisle that we must take action similar to the proposals that we enacted today. I think the people at The White House feel that way. I think the members of our staff certainly feel that way. And I have had that sentiment expressed to me by several of our key elected officials that are in charge of our energy policy on both the House and the Senate side, and both Democratic and Republican. So I'm optimistic in that respect.

**MS. LEINWAND:** Are high oil prices a good thing or a bad thing for advancing your electrification package?

**MR. SMITH:** Well, I would answer that question this way. The modern industrial society, at its core, is dependent on energy. I mean, it's the perhaps major distinguishing feature of the industrialized economy from the economies of several hundred years ago, obviously great technological in development, but without energy, we would enjoy none of the standards of living that the modern world enjoys today.

So it is as necessary for modern productive life as oxygen is for us to breathe. So you simply cannot underestimate the criticality of this feature of our life. One of the things that has always struck me after becoming involved with the ESLC and looking at the history of this, President Eisenhower, who, as everyone knows, was a great military officer before being elected President, in 1954, had his Cabinet look at the issue. And they felt if the nation imported more than 20% of its petroleum, we would be unnecessarily putting at risk our national security.

Now, at the height of the petroleum crisis, we were pushing 70% of imported petroleum in this country. It's still well above 60%. So that's why you have this coalition of CEOs, which obviously are very familiar with the price of oil, like ourselves, Royal Caribbean, Southwest Airlines, and so forth, and distinguished military leaders coming together saying, "This is a significant problem."

So is it a good thing for people to have to pay high fuel prices? Of course not. It is a bad thing because you take disposable income from people. And as I said, the run-up in oil prices wasn't the cause of the financial tinderbox going up, but it was the match that lit it off. So the key is, is to recognize this problem, not as what the price of oil is at any one given moment, but instead to recognize it as the national security issue and the national economic issue that it is.

We have thousands of troops in the Middle East today. No one is naïve enough to think that our involvement in the Middle East is not driven by our dependence in great measure on imported oil from that part of the world. Some estimates put our entire military budget at being at least half driven by our need to protect the oil trades. We have some of the greatest four-star military leaders this country has produced in recent times whose jobs were to, in part, protect this trade.

So I think the nation fails to heed their advice that goes directly back to President and General of the Armies, Dwight Eisenhower some 55 years ago. We have to focus on those aspects of it, and not focus on what the price of oil is at any one moment.

**MS. LEINWAND:** What is it that most concerns the military leadership who back your plan regarding the U.S. resources used to protect oil supplies worldwide?

**MR. SMITH:** Well, I think the thing, unfortunately one of them's not up here. They would speak more expertly than I. But I think it gets to the central point of the significant risk that we have of engaging in a major military confrontation over oil. For those of you who know your history, when the first oil

rumblings began back in the early 1970s, President Nixon actually commissioned the Pentagon to prepare a war plan to take over the oil fields in Saudi Arabia. That's how far back this goes.

So when you get 90% of the oil today is not owned by our great oil companies, it is owned by nationalized oil companies, many of whom are in turn the exclusive property of nations who have inimical interest to those of The United States at best, and in some cases, hostile attitudes towards The United States-- So I think the major issue that the military officers have with this, is this is putting an enormous burden on our national defense. And it has a high degree of likelihood to wobble out of control at some point into a major military confrontation.

**MS. LEINWAND:** General Jim Jones, now National Security Advisor, was involved in energy security issues with the Chamber of Commerce. What would you like to say to him now?

**MR. SMITH:** Well, I think General Jones, whom I know very well and respect greatly, is of a very-- I don't want to speak for him. But I think he's of a very similar mind to the other four-star military officers that are on the Energy Security Leadership Council. He clearly understands that this is a major national security risk.

**MS. LEINWAND:** A Federal transportation commission on Thursday will recommend that the U.S. move to a vehicle miles traveled tax to fund highways as opposed to the current gas tax. What do you think of a VMT tax?

**MR. SMITH:** Well, this is not the position of the Energy Security Leadership Council. I can only give you my own personal view on it. I would think it'd be ill-advised because I think it unfairly penalizes parts of the country, Montana, Wyoming, and places like that, or people that have long commutes. And it doesn't get to the heart of the problem, which is to reduce petroleum.

So it may be fair or unfair. If you want to reduce your amount of petroleum, you have to do it through incentives or through cost signals. And I think that that particular cost signal would be disproportionately borne by people who have to use their vehicles to travel a long way.

**MS. LEINWAND:** A case that we're going to ask you to weigh in on: foreign affairs now. As President Obama mentioned last week in his meeting with the Prime Minister of Canada, the U.S.'s largest source of gas, oil, and uranium is Canada. What is your view of the prospect of Canadian oil sands to help satisfy U.S. energy demands?

**MR. SMITH:** Well, thank goodness for Canada is the only thing I can say. They are our largest trading entity in energy. Absent our wonderful relation with our neighbor to the north and also our neighbor to the south, we would have a much more serious national security problem than we do.

Despite the recommendations that we have made in general today, let me point out again that the industrial world, regardless of how much people wish this issue away, will continue to be powered largely by petroleum for decades. The petroleum market, the fossil fuel markets is a global market. One barrel of oil produced off the coast of Virginia or a barrel of oil produced in Alberta displaces a barrel of oil that would be produced in the Middle East or wherever.

Oil produced in this part of the world is more secure. It is recycling our economies because of the integration of Canada, Mexico, and The United States with the NAFTA treaty. The issue is, to make sure that the oil is produced in an environmentally sensitive way. And my guess is that we will be able to produce oil with more environmental protections in the Western world than other places around the world take. And CO2 does not stay within national borders. And if it's produced in Latin America or Russia or the Middle East, it affects the environment as a whole.

So I hope that we have the ability to produce more oil and gas, which is one of the major recommendations we make in the ESLC's report to produce as much fossil fuel as we can in The United States. And I would broaden that a bit to say Canada and Mexico as well, because it's a more secure source.

**MS. LEINWAND:** Well, I think your photo just went up in the Canada Trade Office. So in light of your comments about keep oil production in this part of the world, do you think Cuban oil should be added to the mix?

**MR. SMITH:** Do they have oil in Cuba? I'm not familiar with the specifics of Cuban oil. I would just say this to reiterate what I mentioned a moment ago — the oil market is a worldwide market. And oil produced in this country displaces oil that is produced elsewhere. A very big part of this (and this comes full circle back into the economic crisis) is the huge strain on our balance of payments issue. Ambassador Schwab and Lee Scott have dealt with this issue as we have in FedEx. We operate in 220 countries around the world. We have a huge operation in China. They're a great trading partner. They produce wonderful low-cost goods for us to buy in this country. And yet they tend to be often identified as some source of our problem, when by far the bigger issue is the balance of payments problems engendered by importation of foreign petroleum.

So in our view, on the Energy Security Leadership Council, the diminution of our need to import petroleum also affects our balance of payments,

the strength of the dollar, as well as our national security and economic security interests.

**MS. LEINWAND:** What role do you see for the traditional oil and gas industry in the years ahead? What advice would you give them?

**MR. SMITH:** Well, the reality is-- And I know they take a lot of heat when the prices of oil are up. And there was a wonderful tongue in cheek editorial (I can't remember where it was; I read it this weekend) about Ben Stein who tends to get to the heart of these issues, where he wonders if now the oil companies should be commended in Washington because of the great tax relief that they brought to the American public by lowering oil prices to the extent that they have.

And of course the reality is, they were not responsible, either for the run-up in oil prices, nor are they responsible for the significant decrease here. But the reality is, our oil companies are expertly run. They are very, very good at what they do. They have shown over and over again that they can produce fossil fuels in an environmentally efficient way. So again, part of our recommendations is to promote the production of as much fossil fuels in The United States. And I would expect our oil companies would do a great job of doing just that if we turn them loose to do it.

**MS. LEINWAND:** Do you think the U.S. should impose a major Federal tax increase on gasoline at the pump?

**MR. SMITH:** Well, the Energy Security Leadership Council has taken no position on that, per se. If our recommendations were followed, there are huge environmental benefits. I think the study shows almost a 20% reduction in CO2 emissions if these policies were enacted.

Now, there's a lot of talk, as you know, here in the Capitol about some sort of legislation on the energy front, and some sort on the environmental front. I personally believe that one of the few things that is unarguable in economics, if you want more of something, you incentivize it. And if you want less of something, you tax it. So if there's a consensus in the Congress that we need to reduce CO2 emissions, I think the most efficient way to do that is through the taxation of carbon, far more efficient than a cap and trade system which gets gamed and can have perverse effects.

In Europe at the moment for instance, the cap and trade system is very ineffectual because the reduction in demand for energy has made the permits or the credits that you buy, you know, very low price. So again, going back to your question about the mileage driven scenario, if the Congress wants to do this, I would recommend a very easy way to do it is to put a tax on carbon. The

important thing (and I think former Vice President Al Gore mentioned this) if we're going to do it, take the money and give it back to the people and let them spend it. And perhaps the government keeps a little bit of it for R&D. But if we need more jobs, I'd recommend we take-- if you want to put a tax on carbon, tax carbon and lower the payroll tax.

**MS. LEINWAND:** So with regard to the gas taxes, what's your opinion as FedEx's CEO? What kind of impact would that have on you?

**MR. SMITH:** Well, we don't try to speculate in the oil markets. We have a base barrel of petroleum in our rates. If it goes above that level each month on the Internet, we adjust it with a fuel surcharge. So it's really irrelevant to us, except to the extent that it affects the overall economy and the macroeconomic issues.

When fuel prices run up, we're a little bit behind the power curve because the fuel surcharge doesn't keep up with the run-up. And the reverse is true on the way down. So we would be neutral in that area, except to say, as I did, if it's the consensus of the Congress that it wants to reduce carbon utilization, in my opinion, the easiest way to do that is a direct tax on it.

**MS. LEINWAND:** Okay, moving on from oil and gas, we have wind, solar, and nuclear. T. Boone Pickens is pushing for wind energy and alternative energies. What are your comments about that? Actually the questioner asks, what are your comments about the hot air here in Washington?

**MR. SMITH:** Well first of all, I would like to commend Mr. Pickens. I think he's done the nation a great service by talking about many of the themes that we in the ESLC have talked about. I watched him this morning on TV giving an interview. And he made many of the same points I did in my remarks, that we're importing almost 70% of our petroleum. We're going to have future oil crises if we don't act.

Churchill, when he was in charge of the British Admiralty and converted them from coal to oil, famously remarked that the only security, energy security is the diversity of supplies. And the same is true today. And one of the things that the recommendations at the ESLC has made is that it is much easier to deal with whatever issue — the environment or fuel supplies — at a relatively small number of electrical power generating stations than in tens of millions of automobiles.

So if we can effectively produce energy at the power station level by solar, by wind, geothermal-- Of course we already produce a great deal by hydroelectric, clean coal, natural gas. Clearly we ought to do that. And that's one

of the benefits of our proposal, is we can then diversify our supply of fuel for short-haul transportation.

**MS. LEINWAND:** Should the government pursue a policy that highly incentivizes people and industries to install modern solar collectors and plug that electrical energy into the smart grid?

**MR. SMITH:** Well, I think the importance of our focus has been on the national security risks and the economic risks of imported petroleum, and our continued dependence on that. The use of solar-- And, by the way, FedEx has put in three major solar installations in California. And there's no question that solar is heading on a price performance curve which hopefully will make it economically viable. There was a big development at MIT where they believe they've come up with a way to store solar generated power in homes overnight.

So I think that that is, in general, something that the country needs to support. But it is not part of our specific policy mix. I would point out, however, the important thing about electricity is that it, in the main, cannot be stored at night. So we are generating with our hydroelectric plants, our nuclear plants. And I failed to mention nuclear. That should be a huge part of the solution to this problem.

So one of the advantage of electrifying short-haul transportation is great numbers of these vehicles can be refueled, if you will, or re-charged. And the re-charging cycles, I think within a few years, with the proper type of plug in your home, will be down to less than an hour for a re-charge cycle. And the great news about it is we can charge millions of these vehicles at virtually no additional cost in terms of electrical power generation.

Now, you get to a point, if you don't have the electrical power grid, you don't have time-of-day pricing, and you don't have the smart meter, that that's no longer true. But that's one of the great attractions of electrifying short-haul transportation, is we have so much electrical power that's simply not used today.

**MS. LEINWAND:** You just mentioned nuclear energy. What can be done to break the stalemate on expanding nuclear energy usage in the U.S.?

**MR. SMITH:** Well, I think you'd have to talk to the elected members of Congress. I would just say this — FedEx's largest hub in Europe is at Charles de Gaulle Airport in France. France produces 83% of its power from nuclear. They have a very robust nuclear industry, which is exporting their technology and their products. Hopefully we will be able to solve the waste problem. And I think there's a lot of nuclear technology on the horizon that-- smaller nuclear generators and so forth that offer real promise without the same level of waste. So

I would hope that however it happens, our elected leaders are able to resolve these problems. And nuclear power is clearly-- has to be part of the mix because it produces electricity, obviously in great abundance. And it is environmentally clean. It does not produce emissions.

And I would just point out that the safety aspects of nuclear power in this country are as close to perfect as you can get with a couple of well celebrated near misses perhaps as exceptions, far less than in other power-generating regimes. I mean, I think today or yesterday a tragic coal mine incident in China — far more lives have been lost in producing that kind of power than in producing nuclear power.

**MS. LEINWAND:** The Department of Energy says wind and solar on tribal lands could deliver 100% of current electric grid needs. Have you factored in tribal wind and solar contributions?

**MR. SMITH:** Not per se. But again, as part of the overall recommendations, again, is the fact that electrical power can be produced by a diverse number of technologies, including wind. And presumably that would include wind that could be produced on tribal lands.

**MS. LEINWAND:** What is your assessment of the stimulus package? And what type of project eligible for the stimulus package funding would benefit FedEx the most?

**MR. SMITH:** Well, I gave a couple of speeches out on the West Coast. We recommended three things. One, and probably most important to all of us, is we must remain a free trade nation. There are about 300 million folks here. There are five and a half billion people elsewhere. American industry will not be successful in the years to come if we try to exclude those 5.5 trillion potential customers for our goods and products. We export one and a quarter trillion dollars, I think, Susan, in services, which you never hear much about. We have a \$480 billion dollar trading system in The United States. We have a surplus of \$140 billion dollars.

Again, if you take out the importation of foreign petroleum from our trade statistics, we have a very manageable trade situation. So that was recommendation number one, that we're heavily involved in the international trade. As I mentioned, we serve 220 countries. We have scores of flights across the Pacific, Atlantic, down to Latin America. So that's a big thing.

The second thing is the recommendations we have here today, of the Energy Security Leadership Council — we must reduce our dependence on imported petroleum from unstable and hostile areas of the world. And the third



recommendation we made was to permit businesses to expense capital in software. The problem is, the nation has become far too dependent on financial services for part of our GDP. In 1983, it was a little over 15% of our economic activity. By 2007, before the meltdown, it had grown to 32%.

In the celebrated hearings before Congress, with the CEOs of the major banks, at least two of them pointed out that finance is not a primary function. It's a supporting function. Part of the reason that that has happened is because interest is deductible. So it lends itself to leveraging up and speculation in the financial sector. The industrial sector, where we live at FedEx, and where Wal-Mart operates and where healthcare providers and manufacturing and agriculture and mining operates, the one thing that could be done that would change the calculus is to allow industrial companies to expense capital investment in software when it's put into service. Because today, the depreciation rules make it such that every boardroom in America, when things start turning down, even if they're capital expenditures that would improve productivity and enhance the wellbeing of the enterprise, the board and the management says, "Put it off. Make do. Cash is king."

So if you allowed the expensing of that capital, it would have a very stimulative effect. And if you track business capital investment, which is the locomotive that pulls this train, it is 100% correlated with jobs. So expensing capital, particularly in a downturn-- But I'm talking about permanently doing that. It's a little bit like what the Cardinal said to Don Corleone in *Godfather III* when he told him he ought to go to confession: "What have you got to lose?" There's nothing to be lost at the Federal level by letting industrial companies expense capital in software. If the investment were not going to be made-- and again, every board has pushed out capital investment, exactly what should be happening. If you allow the expensing of that capital when it's put into service, you change that risk proposition completely. You agree with that, Lee?

**MS. LEINWAND:** Is the economy showing any signs of getting worse or bottoming out?

**MR. SMITH:** You know, if I could answer that question, I'd probably move to Wall Street and be-- engage a little bit of Wall Street speculation myself. I would just say this much. I think what you have underway in The United States today is a massive de-leveraging. You have financial banks de-leveraging at a rapid rate, to some degree, driven by the new mark-to-market accounting, which probably isn't in our best interest. That accounting rule has probably exacerbated the financial situation we have today.

You've had consumers in many sectors — automobiles, housing, and all — draw back to re-liquefy and increase their savings. I believe that when you get

into the summer period and you get into the fall, you may see that some of the spending comes back and inventories get to be-- people start replenishing their supplies. Wal-Mart, of course, has done a great job providing low-cost products. And it is doing reasonably well in these economic downturns.

So I am not a pessimist about The United States. I think that the entrepreneurship and the innovation and invention that has made this country prosperous did not end last year. I was in Los Angeles and San Francisco, and now in Washington. And one thing I can assure you, none of these three great cities have solved their congestion problems. So there is a fair amount of economic activity still going on.

And I am optimistic overall. That doesn't mean that we're not-- You know, whether we've hit the exact bottom of this thing and so forth, I don't know. But I think our economy's very strong fundamentally.

**MS. LEINWAND:** What will FedEx do to produce the infrastructure for the electric car fleet?

**MR. SMITH:** Well, that's the good thing about our proposal. All we have to do is order a couple of meters and we're there. You don't have any of the infrastructure problems with some of the other proposals. We do recommend very much on the biofuels that we try to develop biofuels that could just be blended in with regular fuel so you don't have this infrastructure problem.

Now, unless you think that's pie in the sky, as very well reported by *Aviation Week* and other more general publications, there have been four separate demonstration events over the last year where biofuels have been successfully blended with jet fuel — camelina, jatropha, algae, which is a very prolific plant, has about 30% more oil molecules in it than corn products made into fuel. So I think there is a very real possibility over the foreseeable timeframe that this report covers, you'll see aviation move in large measure to biofuel-base, at least 50%.

The United States Air Force has taken the leadership in this area. And the Air Force has set as a goal that by 2016, I believe, General Wald, that there'll be 50% powered by alternative fuels. So as long as there's no-- you can mix biofuels in with regular fuel-- We already have the infrastructure, both in our diesel storage locations and in our jet fuel locations. You just blend it in. And I believe I'm correct that some of the biofuels actually had a higher BTU. In other words, they were more productive than the jet fuel. And then on the electrical side, we have electrical wires going to every one of our facilities.

**MS. LEINWAND:** We are really almost out of time. So before asking the last question, I have a couple of matters to announce. First of all, let me

remind our members of future speakers. On March 2nd, we have Vivian Schiller, the CEO of NPR, who will discuss, local is the new global, the multi-platform evolution of public radio. On April 7th, we have the Honorable Martii Ahtisaari, former President of Finland and the 2008 Nobel Peace Prize winner. On April 13th, Douglas Shulman, commissioner of the Internal Revenue Service.

Second, I'd like to present our guest with the traditional NPC mug.

**MR. SMITH:** Thank you very much.

**MS. LEINWAND:** There you go. (Applause.) And for our last question, we know you had a brief appearance in the movie *Cast Away*. We were wondering if you have any future film plans.

**MR. SMITH:** The movie *Cast Away* was written by a friend of mine from the Marine Corps, a brilliant man by the name of Bill Broyles. To this day, I regret him talking me into playing myself in that movie. My original part was supposed to be a three-minute welcome home speech to Tom Hanks. And as you who've seen the movie saw, my acting ability was such, it was diminished to 18 seconds on a TV screen. So that should answer whether I have any aspirations for future acting gigs.

**MS. LEINWAND:** Thank you very much, sir. (Applause.) I'd like to thank you for coming today. I'd also like to thank National Press Club staff members, Melinda Cooke, Pat Nelson, JoAnn Booz and Howard Rothman for organizing today's lunch. Also thanks to the NPC Library for its research.

The video archive of today's luncheon is provided by the National Press Club's Broadcast Operations Center. Our events are available for free download on iTunes, as well as on our website. Non-members may purchase transcripts, audio and videotapes by calling 202.662.7598 or emailing, [archives@Press.org](mailto:archives@Press.org).

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Thank you and we are adjourned. (Gavel sounds.)

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