

**CENTER FOR  
STRATEGIC AND INTERNATIONAL STUDIES (CSIS)  
CSIS-BOB SCHIEFFER SCHOOL OF JOURNALISM DIALOGUE:  
IMPLICATIONS OF THE GULF SPILL**

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H. ANDREW SCHWARTZ: Good evening. Hi, welcome to the Center for Strategic and International Studies. I'm Andrew Schwartz, our vice president for external relations. Thank you for coming out on this beautiful evening in Washington. (Laughter.)

We have a terrific panel here today and, in just a minute, I'm going to throw this to our colleague, Bob Schieffer, but first I want to say thank you to United Technologies. And Greg Ward is here from United Technologies and I'd like to thank Greg specifically for everything and being our great sponsor and allowing us to do this series.

I'd also like to thank Texas Christian University and specifically the Schieffer School of Journalism. I don't know how many of you are baseball fans but TCU is in the College World Series tonight and it's a must-win game – (laughter) – so we're all pulling for the Frogs tonight. This is a great panel, a very timely issue and with that, I'll send it over to Bob Schieffer.

BOB SCHIEFFER: Thank you very much, Andrew. And thank you all for coming. It's a real pleasure for me because when I was a young reporter, my first assignment in Washington was to cover the Pentagon. And the first secretary of defense I covered was Mel Laird. And then Elliot Richardson came for about two months and then he went on to Commerce or some place.

And then along came James Schlesinger, and we became good friends and it was really fun. I learned a lot in those two years that I covered the Pentagon when you were there, Dr. Schlesinger, so it's nice to be back again. He was also our first secretary of energy. He took the oath one day after President Jimmy Carter signed the legislation creating the department; served in that position from August 1977 to 1979. In the previous year, the president-elect had asked Dr. Schlesinger to become assistant to the president, charged with the responsibility of drafting a plan for the establishment of the Department of Energy and a national energy policy. And he's gone on to have a distinguished career both in and out of government.

Since then, Phil Sharp became the president of Resources for the Future on September 1<sup>st</sup>, 2005. His career in public service includes 10 terms as a member of the House of Representatives from Indiana and a lengthy tenure on the faculty of the John F. Kennedy School of Government in the Institute of Politics at Harvard.

Frank – say your name, I'm –

FRANK VERRASTRO: Verrastro.

MR. SCHIEFFER: Verrastro. I apologize. He is the senior vice president and director of the energy and national security program here at CSIS; has extensive energy experience. He spent 30 years in energy policy and project management positions in the U.S. government and in the private sector. Government service includes staff positions at the White House on energy

policy and planning staff and at the Department of the Interior and also at the Energy Department.

And then Steve Mufson is The Washington Post's energy correspondent. Worked at the Post for 19 years, including as deputy editor of the Post's Outlook section for 3 years; been the Post's chief economics correspondent, its Beijing bureau chief and diplomatic correspondent. Before that, he worked at the Wall Street Journal. He has been a contributor to various publications, including the New Republic, Washington Monthly, Foreign Affairs and the Village Voice.

Steve, I want to just start with you because we all looked on the television sets today and the picture looked different. All of a sudden, it looked like a volcano down there at the bottom of the ocean. What happened?

STEVEN MUFSON: It's quite a gusher. But what happened was that they noticed some fluids coming up one of the pipes that weren't supposed to be there. They took a closer look, decided that one of the remotely operated vehicles – these subsea machines that are looking around and doing all the tasks down there – that had bumped into one of the pipes. And they moved the pipe that was catching the oil and gas coming up; they moved that off the well. And so what you're seeing is the full flow of that well coming up into the ocean.

MR. SCHIEFFER: So it's now just going at full strength again?

MR. MUFSON: It is.

MR. SCHIEFFER: Is there any idea when they're going to be able to bring it back to at least where it was?

MR. MUFSON: I think they may be trying something later today even. If you look at the video from the BOP site, you can see that there are pictures of the containment pipe and it looks like they're moving it back in that direction. But how long it will be, I'm not really sure.

JAMES R. SCHLESINGER: And now they have this sort of errorless basin. (Laughter.)

MR. SCHIEFFER: Dr. Schlesinger, we do reserve the right here at these symposiums that no matter what the subject, if there's a big news story and there's somebody that might have some – (laughter) – idea about it, that we always ask them. So I guess I've got to ask you before we get to anything else, what about the dismissal of Gen. McChrystal today and bringing on Gen. Petraeus?

MR. SCHLESINGER: It's all a cover to take attention away from the Gulf. (Laughter.)

MR. SCHIEFFER: Would you have done that, had you been secretary of defense, or I mean –

MR. SCHLESINGER: The president had to do this. Unlike Harry Truman, he didn't have to fly to Wake Island and dismiss MacArthur.

MR. SCHIEFFER: But you think it had to be done?

MR. SCHLESINGER: It would have been – it would have shown great weakness if he had failed to do so. This was insubordination. Whether deliberate or not is another question. In MacArthur's case, it was deliberate.

MR. SCHIEFFER: All right. Well let's get back to what we all came here for then. (Laughter.)

If you were the secretary of energy today, what would be your advice to the White House about what to do about this? And I'm talking about this situation in the Gulf. And what is government's role in here?

MR. SCHLESINGER: We have a regulatory mechanism. The problem for BP was its failure to follow a checklist. You've got to go down that list. And it was human error just as it was in the Three Mile Island episode. Unfortunately, this was not as well-handled politically as the Three Mile Island episode, in which Gov. Thornburgh very carefully discouraged the Washington community from getting too involved. And that meant that he just ignored the suggestion from Washington that the whole damn community around Three Mile Island be evacuated.

MR. SCHIEFFER: All right. Phil, what would you tell the president right now?

PHIL SHARP: Well, looking forward, I think there are several things that they might be doing with industry and they probably will have legislation to back it up. And that is for the future, finding the better technique for industry cooperation in terms of both prevention and in terms of cleanup.

Out of the Exxon Valdez, there was a system that grew up of – a modest system which now is being used. The booms are in place and those kinds of things because there was a collective industry action required at that time. It obviously is insufficient to the task. That can be upgraded.

But if you look at what happened after Three Mile Island, we had the creation of something called INPO, which is a self-regulator. And admittedly, that was an easier industry to do that with than in the competitive oil industry. But there are some lessons that we could take from that and we could clearly do. One of those is making sure that the expertise is available instantaneously from other companies on this score. And as I – what we have at this point is scuttlebutt, but certainly, some of the things we've heard is that, in fact, they did bring in – or tried to bring in – people from other companies but the lawyers were right in there with them and the lawyers said, whoa, don't you give any advice unless we're cleared of any liability for what happens if you take our advice.

And so, there was that minimum delay if not lost opportunity, in some cases. One story has it, it took three days and the expert went back to his company and said, I give up; I'm not even going to mess with it. Now, I don't know what the truth of that is but it shows you a problem that needs to be solved again.

The third part of coordination is something that happens – if, today, in a nuclear power plant, a plant has trouble with a valve – not necessarily a big deal; has trouble with a valve – it will have by e-mail, a very short order: Who else in the industry has that valve? Who repairs that valve? Have they had any trouble with that valve? They can know that within minutes from other members of the companies. That, I dare say, is not happening in this instance. And part of that, I suspect, is it's intensively competitive. Now, I don't know how much cooperation does go on, so there may be more than I'm aware of. But we certainly could get a formal thing to help do that. And obviously, given the massive clean-up, there needs to be an incredibly coordinated, advanced preparation on that score.

MR. SCHLESINGER: Three Mile Island killed nuclear power for 30 years. And what this will do will be to reduce the domestic supply of oil for the foreseeable future, which means higher import bills and higher imports.

MR. SHARP: And the part we don't know, Jim, is what it's going to do to other governments and other political movements elsewhere in the world in which some of them are clearly going to look at how far they're willing to go. I have no doubt drilling is going to continue both in this country and abroad, but the question is, at what additional cost? And what additional delay is going to happen elsewhere because other governments are going to be under pressure to say, ooh, wait a minute, are you going to do that here in the Amazon?

MR. SCHIEFFER: Frank, what would be your advice right now?

MR. VERRASTRO: Well, I would echo Phil's sentiments to start with but I think that one of the problems with the administration coming in was demonizing industry, right. And the U.S. government doesn't have the capability to cap a well. So when Secretary Salazar said, look, if this isn't done tomorrow, we're going to do it, Cmdr. Allen (sic) said, we can't. I was surprised that the president actually took on the notion of capping the well when his real Katrina is clean-up and containment at that point. So that's the responsibility of the U.S. government.

I do think this collaboration is occurring a little bit. I know the service companies and a lot of the other majors are onsite and providing expertise. I think the administration understands the loss of production from the Gulf and actually tanker accidents are responsible for more spills than production – platform accidents. But the question is, how do you walk back from it in a responsible manner?

MR. SCHIEFFER: Well, this latest thing that's happened here, I mean, what does this mean? I mean, how significant is this?

MR. MUFSON: Well, by itself, it's not significant. But I think it's just a sign that this situation is not under control. There's a long way to go here. I mean, one of the big unknowns is

the weather. A hurricane comes through and they're going to have to evacuate all these platforms and all these ships that are trying to contain this damaged well. That could mean stopping operations for anywhere from three to seven days.

And during that entire time, they're going to have to disconnect the pipe that's attached to the containment pipe and the oil will be flowing freely into the Gulf during that time period. So if we have a few hurricanes or even hurricane warnings, there's going to be a lot more oil in the Gulf and more delaying before getting this under control.

MR. SCHIEFFER: What – go ahead.

MR. SHARP: Well, I was going to say also, we're all assuming at the moment – another one of those big assumptions – that those relief wells are going to be able to pinpoint and hit the right spot to cure this. Now, this industry is highly skilled and they may well do it but nobody should assume that's just a homerun that is automatic. Everybody has just sort of built that into their thinking that when the well gets there, we've got it.

MR. MUFSON: It seems pretty likely but it's not necessarily something you do on the first try. In the well that had a similar problem off the coast of Australia, in the team where, see, I believe it took them five tries.

MR. VERRASTRO: Because what you're looking at it is while it's an 18,000-foot column, you're aiming at a diameter the size of a dinner plate. So the relief well – the success rate in the industry is 100percent; we always get them. But the question is how long, and how many times you have to go back to do it.

MR. SCHIEFFER: Is there any way to give an estimate of how this thing is going? I mean, we're now told that it might be ahead of schedule but then this thing happened today.

MR. VERRASTRO: So the danger always, then, on the relief wells is the early drilling is actually pretty easy. So the first relief well is down to about 16,000 feet. They're looking at what they call a bottom kill to actually get close to the reservoir, pump in drilling fluids and stop the flow at that point. And then whatever is in the riser will then be suctioned off and that production will come up and then they can cap the main one.

The reason we have two relief wells going is to the extent that you run into the same problems – running through Horizons or a gas (berm ?), with the relief well that you have and the original well, it's probably prudent to have a second well. It's a time issue and I go back to Phil's point, I think, where the industry is right on prevention.

Drilling has just been terrific. I mean, we can drill down 6 miles from where we're sitting with a home computer and hit a spot underneath the Capitol and come within 36 inches of where we want to be. With containment policies back in the 1980s, in part because we were so confident that blowout preventers worked.

MR. MUFSON: Well, and in part because there's no money in doing spill control. There are big reservoirs they discovered are making advances in drilling. It's a dirty, thankless business cleaning up.

MR. SCHIEFFER: Some people would make the argument and it's been made – it's not an original thought with me – that if a well – if we can't cap a well – if it's too deep to cap, then maybe we shouldn't have drilled it in the first place.

MR. VERRASTRO: Yeah, so to go back to the technology side, the ability of capping – there are a number of fall backs and there are redundancies built into the system. The reason that oil and gas came up the pipe and that's the one thing we're sure of that happened because pressure coming out of the reservoir on the Deepwater Horizon is that, number 1, the first failsafe is the drill mud that keeps the pressure in the pipe to keep the upflow from coming out. The second is the casing around the pipe and that's the cement job. And then the third is the blowout preventer.

So we haven't seen accidents of this magnitude and I think Steve is absolutely right. It's a question of risk, right? If none of this happens – and we didn't have double-hull tankers until the Valdez – I'm sure the technology will emerge but the drill – (inaudible background noise) – flow can't be the solution because it takes three months to drill it.

MR. SCHIEFFER: Dr. Schlesinger, was the president right to order a moratorium on drilling in the Gulf now?

MR. SCHLESINGER: No. It's not due process of the law, so –

MR. SCHIEFFER: I mean, we now know that a federal judge has overturned that ruling and he's now being – (inaudible, cross talk) –

MR. SCHLESINGER: At least temporarily. We will see an effort by the administration to overcome it.

MR. SCHIEFFER: Why is it not a good thing to do?

MR. SCHLESINGER: Hmm?

MR. SCHIEFFER: Why is it not a good thing to put a moratorium on drilling?

MR. SCHLESINGER: Because it follows from your previous question about, since we discovered this risk, why would it be a good idea to do any more drilling? The answer is that we will have greater imports and it will be more costly in terms of the balance of trade.

The reality is that there's good news here. This may kill off the fantasy of energy independence, which we hear regularly from various political cores.

MR. SCHIEFFER: Well, anybody down there will tell you that the problem is you're putting all these people out of work. And I guess Congressman Cao has said, well, let's just have a partial program; let's continue drilling but stop before we get to the place where the oil is.

MR. SHARP: Well, of course, everything – we have to distinguish – (inaudible, laughter). Yeah, well that'll help. That sounds like a congressional solution. (Laughter.)

MR. SCHIEFFER: Well, if he makes it in – he very seriously has made that claim –

MR. SHARP: No, I know. I know, he's saying you could drill so far. But obviously, he means for a temporary period of time. I mean, I think the tougher thing, which I don't have a handle on – and I'm not sure who has a handle on this – is how weak has the regulatory system and the regular oversight been?

And even though I know there have been efforts to go in and take a quick look and see if the performance is likely to be there – because I can assure you we'll all talk differently next week if there's another well that goes. And of course, everybody says, now, well, that won't happen. Well, that's what they all said before.

So I don't know what the answer is. I mean, I think we cannot afford to shut off all drilling. We cannot afford – unless we're ready to just throw in the towel and let the prices rise extremely.

But the welling that's been restricted is in the deep-water area. Now, that's very lucrative oil. That's where the big stuff is. And we clearly have had wells successfully drilled there, so it's not brand-new. It's not either/or. The question is whether there's a reasonable justification for a temporary – to get the regulatory system in order and to make sure the industry, the various drillers, have their act in order. And I'm not willing to certify that I know that's the case.

MR. MUFSON: But I mean, I think in defense of the administration, we do – the judge asks – you know, you don't necessarily shut off all tanker business or ground all airplanes every time there's an accident. But in fact, when there is an airplane accident, you do sometimes ground planes that are of a similar type. So it's not a completely crazy idea.

But they haven't actually determined which wells are the same type or not and so I think that's where the judge found some faults. I don't know whether they'll be done in more than six months, less than six months. I mean, the time period is kind of a political pause, gets them past the elections. It shows that they're thinking it over. So you know, there's some weakness in the Interior Department argument there.

But ultimately, we have to go back to the deep water because, as you say, that's where the best prospects are. The on-land United States is kind of like a pincushion after over 100 years of drilling. Two-thirds of Exxon's exploration acreage is in deep water, whether it's in the Gulf of Mexico or other places around the world.

An increasing portion of our domestic oil supplies come not only from the Gulf but from the deep-water portion of the Gulf: 30 percent of our supplies are from the Gulf and 26 percent of those Gulf supplies are from deep water.

And those numbers are growing bigger and bigger, so sooner or later, we're going to be back there, I think. The question is, how long will it take? How much more cost will there be? Can we really come up with some guidelines to make this safer?

MR. SCHLESINGER: What the judge said was that the Department of the Interior had misrepresented deliberately the judgment of the experts from the National Academy of Engineering, who never recommended this order.

MR. SHARP: So they're redoing their case now. They're going back in.

MR. SCHIEFFER: Yeah, you know, BP has said from the beginning that the oil is on top, that it's on top. But our reporting, just at CBS and other people, suggests that maybe there's more oil down below. Tell us about that. Who can talk about that and what do you make of these reports?

MR. VERRASTRO: Well, two things are happening. One is the water depth, right? So we're in a mile deep, just water to where the wellhead is on the surface, on the seabed. So this notion that oil is lighter than water, it always comes to the top, I think that was prevailing wisdom.

When you've got currents, ocean currents, and you've used dispersants, you can actually lose some of the oil in the space between the seabed floor and the surface. And this idea of plumes or clouds – we need to do more examination of what actually happens in this environment. And I don't think the industry really knows.

MR. SHARP: Well, also, we think there's been a tradeoff between our capacity to scoop the oil up and the dispersant. They were different strategies which, on a smaller scale, might have made sense.

The question is, when you get to this scale, would we have been better off not to disperse? I don't know the answer to that. That's the kind of thing that, out of this, we should learn and get clarity on strategy for these kinds of things.

MR. MUFSON: I mean, I think the idea of a dispersant was that you increase the surface area of the oil and it helps speed up the natural breakdown that bacteria do in the water. The danger is that, you know, has the dispersant somehow made the oil heavier?

And also, if you're trying to skim or burn oil, it's better to actually have it in a concentrated place. I mean, I wouldn't be surprised if, 20 years from now, we treat oil spills with coagulants to keep it in a tight space that we've come up with a better way to scoop up.

So I mean, I think this whole issue of the dispersants is going to be a source of a lot of debate as time goes on. And of course, it helps the company because it's less visible. You know, so from an image – and the government – from an image point of view, it looks a little better. Fewer dead birds, but maybe more dead turtles.

MR. SHARP: It goes back to the issue of containment; being kind of stuck in the 1980s. So if you think about a snow blower on your driveway, right, so it works really well when there's two inches of snow. It doesn't work so well when there's a sheen, or the equivalent of just a small thing. And so the skimmers, which is a technology that we've used before, but on sheens aren't particularly effective, especially when there's waves and high wind.

MR. SCHIEFFER: Have you seen anything that would suggest that there's been a breach in the well? In other words, that all of the oil is not just coming out of this wellhead, but coming out of the floor of the ocean in other places?

MR. VERRASTRO: So there's natural seeps that occur everywhere. And oil and gas, all the time, come through the seeps in the ground. I think some people have mistaken – I don't know exactly the answer to this, but some people have mistaken these little plumes that show up on the seabed floor.

The explanation so far has been that when the remotely operated vehicles move, they kick up dust and that what you're actually seeing is the dust in the back. But again, this is a mile deep, so it's not clear how this is working.

MR. SCHIEFFER: I think we'll have some questions from the audience and we'd like to entertain those. While we're waiting for those, let me just go through a couple of other questions. And I think we've touched on this, but let's talk about it some more, Dr. Schlesinger. How is this going to affect the U.S. oil supply through this year and next year? Are consumers going to see changes in prices at the pump because of this?

MR. SCHLESINGER: They're not likely to see changes in the price at the pump because we will be importing more oil. And I suspect that the Saudis will loosen up or OPEC will loosen up. It will, of course, affect our ability to produce crude. The longer that the moratorium lasts, the greater will be the reduction of future supply and the greater will be our level of imports and the greater will be our outpayments in the balance of payments.

MR. SHARP: The assumption that the secretary's been underlining here – what's unbelievably missed in this country by so many people is how much we are part of this international, global oil market.

And so one of the reasons is that at the moment, with recession around the world, the pressures on the world oil market are not great and the prices have been going down. And we're lucky these events, in that way, come together in terms of price. And so we're not going to pay the price.

But it sure shifts where oil is coming from, who's producing it, who's making the money out of it. And over time, that market will tighten back up, we assume, with that. But it's this notion that we so casually talk about it as if it's the American oil. And it is an international pool of oil and that makes it very difficult for public policy and it makes it very difficult to do. And anyway, I won't preach more. (Chuckles.)

MR. SCHLESINGER: If we had to have an oil spill, it was optimally timed.

MR. SHARP: Oh, that's right. That's right.

MR. VERRASTRO: It's important to distinguish, those – (inaudible, cross talk).

MR. SHARP: If it had happened two years ago, when the oil price was still way up, whoa. This thing would have been – (inaudible, cross talk).

MR. VERRASTRO: The 33 wells that have been suspended were exploratory wells, so the amount of production they were going to deliver between now and the end of the year is kind of minimal. So you just push that forward.

I think the real concern is that this extends into next year – if the commission rules or makes a determination in January and then that results in the promulgation of new regulations. And this really looks more like a year that you see rigs deploying from the Gulf, going elsewhere and then you actually lose production in the United States. And just as Jim was talking about, you supplant it with imports.

MR. MUFSON: Tony Hayward actually put a number on it in a conference call recently, that BP alone would be down about 50,000 barrels, I think, in 2011. Maybe 70,000 in 2012, 70 to 75,000 barrels a day, which is pretty substantial for one company.

MR. SHARP: What's hard for us to figure is we've been talking about what government does to industry here. And it certainly can do things. But what we don't know is the industry decisions that result from this. This is a new, high-risk proposition.

And you can imagine what's going to go on in boardrooms and in decisions about where to invest their money and who to bank on and who to contract with to do the work for them and whether they trust which drillers and all that kind of stuff. That's going to be scrutinized in industry more and more, now. That, again, I don't think, is going to fundamentally reshape the oil market. But it may mean that there is a greater – less risk-taking. And therefore, we'll begin to see the production – (inaudible, cross talk).

MR. SCHLESINGER: It's also going to rebound on the degree that industry is willing to bid.

MR. SHARP: That's right.

MR. SCHLESINGER: And thus the taxpayer will be paying for a good chunk of this.

MR. SCHIEFFER: Do you think we're not going to see any drilling in the Gulf for a long, long time, or do you think – when do you think it will start back?

MR. SHARP: Well, I think you're going to see drilling go forward in the shallow area, period. Now. There was some scrambling going on as to what the rules are going to be in that kind of stuff, but that's going to go forward, I think, for the deep well. And I think we'll be back to deep wells. I just don't know how quickly.

MR. MUFSON: I think we'll get back there. And I think the administration has been careful not to promise too much in the way of a moratorium. I mean, Salazar has described it as a pause, not a halt. So I think that they're leaving themselves open, the path open, to get back to it relatively soon.

MR. SCHLESINGER: Yeah, but not before Election Day.

MR. MUFSON: Not before Election Day.

MR. SCHIEFFER: There'll be no drilling before Election Day?

MR. MUFSON: I don't think so. Just a coincidence, though, I think – (laughter) – with the six-month time period that corresponds to it.

MR. VERRASTRO: Yeah, so on the issue of the deep-water exploration, I think that's actually right. But I do think that they're going to look for ways to try to ease up on the restrictions so that we don't see this massive redeployment. Because once that's gone, once these rigs go overseas, it'll be a year before they come back.

MR. SCHIEFFER: I'd like the panel's thoughts on how BP has handled this. (Laughter.) I mean, obviously, they're getting hammered. Do you think they've been unfairly treated, Steve?

MR. MUFSON: Well, yes and no. I mean, it's hard to come off well when you've had a disaster like this. Some things, I think, have been unfair and some things not. I mean, I think from the documents and testimony we've seen so far that there definitely seems to be a lot of fault on the part of BP and BP operators.

And you've got to wonder how, in a big organization like BP, which has already had a history of safety problems that is somewhat old – how a chief executive can make sure those things don't happen again and wonder whether or not Tony Hayward did enough.

On the other hand, some part of you has to feel a little bit for Tony Hayward. He had, you know, just turned in a great quarter. You know, he's got his mind on a lot of other things. He's having breakfast in London one day and, you know, the phone rings and that's pretty much the end of his career as he knew it. But you know, in the context of the catastrophe in the Gulf, that seems like a small thing. And people here are very angry and I think that's understandable.

MR. SHARP: I think those high compensation packages account for this kind of risk. Because hey, your career may be over, but you can get back to another life. You're not going to be like the shrimper in the Gulf.

MR. MUFSON: I mean, he did – I would say, on the positive side, he came here. He's been here nonstop. They haven't said no about spending anything, with the exception of one thing, which they didn't even quite say no to, in the end.

On the other hand, he's made some very ill-considered remarks, and the day of testimony in Congress, I thought, was catastrophic. For him to sit there and say he has no opinion at all about all the documentation and testimony that's come out, I think, stretched a lot of people's credulity and got a lot of congressmen upset.

And then he goes home and goes on the yacht which, on the one hand, obviously he must have felt like he needed to get away from everything. But you know, the image is very bad. So he does bear some responsibility.

MR. SCHIEFFER: I mean, there's no question that their public relations has just been a total disaster, but –

MR. MUFSON: Well, I think it could have actually been worse, believe it or not. (Laughter.) But it could have been a lot worse, actually.

MR. SCHLESINGER: Are you asking whether this was a shakedown? (Laughter.)

MR. MUFSON: Yeah, right.

MR. SCHLESINGER: Well, the fact is that it was an indiscreet comment by Congressman Barton. Texans do that, by the way. (Laughter.) The reality is that you can be indiscreet but it can be at least partially true. And arm-twisting might have been a more appropriate term.

But I doubt that the BP board sat around and said, we are very eager to borrow \$10 billion from the banks and tell \$10 billion worth of bonds and to cut the dividend. And it required considerable pressure from the administration. You can call it a shakedown. You can call it arm-twisting, but it was certainly not a voluntary action on their part.

MR. VERRASTRO: But this is not a typical accident, right? I mean, this is way beyond BP in what it affects in the Gulf, what it affects in the industry, what it affects in terms of the international oil companies.

An increasing amount, as Steve said, of their international production now – because they don't get access to conventional stuff on-shore in a lot of places – is to go into technically difficult places, in the subsalt and the real deep depths and the deep water. And if they lose that, their ability to do that just concentrates production in a smaller group, which is not good for national security policy as well.

MR. SHARP: Well, I'm not quite as sympathetic – (chuckles) – as Jim is to the voluntary nature of this. American citizens are demanding performance of their government and performance of their corporations and they're not very pleased with either at the moment. And so it may turn out BP finds this actually is to their advantage, to have this set up as an independent thing.

By the way, they've been paying everything. Every claim that has come forth has gotten their money. Now, the fear was that that would not continue. People may discover they don't get as easy a payment when they have to produce documents that either government or this third party will require. So it's not like it's a perfect system. But I do think it may limit some of the liability over time for BP by having this system set up.

But the point is, the trouble is we're having great difficulty figuring out in this world society how to keep people accountable – whether it's in government, in big government, or whether it's in big corporations. And so the notion that we're into this negotiation, that we ought to be going by this nice, clean view of that's the private sector and this is the public sector – that just doesn't get it anymore.

We haven't figured out the rules of the game as to a where the pressures ought to be, kind of, thing. And so the average citizen is not, I think, going to be very sympathetic to that libertarian philosophy in this instance. They like it in lots of other instances, but not this instance.

MR. SCHLESINGER: If public opinion demands a shakedown, you don't call it a shakedown, right?

MR. SHARP: Well, that's right. Excuse me, the apology – I'm sorry? I mean, not if I've lost my business in the Gulf, not if I've lost everything in my life that I've worked for in the Gulf. And this is how Washington treats things? Excuse me. (Chuckles.)

MR. SCHIEFFER: Well, I mean, generally speaking, in this country when you break something and it impacts on the community, it's your responsibility to fix it.

MR. SHARP: You pay for it.

(Cross talk.)

MR. MUFSON: The problem is that the legal system, as we see, can take a long time. And we just reached the conclusion of the Valdez case, 20 years out. And so, you know, a lot of people didn't want to wait that long. You can sympathize with that, in a way.

But obviously, you know, we still don't know where responsibility lies, so that's the dilemma, right? You want to get money flowing. On the other hand, you don't quite know all the details yet.

MR. SCHLESINGER: On the other hand, if the U.S. government unilaterally closes down drilling in the Gulf, you don't demand that BP pay lost income for people in the Gulf.

MR. VERRASTRO: And that was an overstatement. I think people recognized it as an overreach. There's also state governors that came in and said that BP should compensate the states for income tax revenue they lost because people didn't have jobs. And so you have to get to what's a legitimate claim.

MR. SCHIEFFER: Well, what is the answer to that? Because if you do have this moratorium, there's going to be an enormous number of people that are going to be put out of work. And not just people who work in the oil industry, but restaurants, I mean, oil-well service companies. I mean, it just goes on and on and on.

MR. VERRASTRO: And that's why I think that the administration is going to have to find a middle road to walk on this. There's going to have to be a certain set of standards on the safety side that you can demonstrate what risk is acceptable.

And I think it starts in the shallow water, right? June 27, there's a notification that went out so that you have to comply with certain regulations. And then, I think, increasingly you'll find that you use those rigs and workover wells or development wells to kind of keep the people employed until you can make a determination.

I think the biggest problem is, having set up this presidential commission, it's going to be hard to justify going back into deep water, when you don't have a containment policy, before the commission rules. So by definition, you're looking at January, February at the earliest and probably something later. And I think that's the concern.

MR. SHARP: What's not clear to me is you said, when the commission rules.

MR. VERRASTRO: Well, when the commission makes recommendations.

MR. SHARP: The administration must keep its authority to itself – (chuckles) – and make sure it does not lock itself in, even though the original rhetoric might have, to the notion that somehow it's governed by whatever the commission decides and when they decide it.

They have to be willing and gutsy enough and smart enough to say, we're ready to make a decision when we think it's appropriate and not just be – not to take away that it's good to have a commission for some purposes, but –

MR. SCHLESINGER: I don't want to insult your former career but politicians are not noted for their courage. (Laughter.)

MR. SHARP: Well, I've noticed that.

MR. SCHIEFFER: Let me ask you about this congressional hearing where you had the other oil companies that were called up there before that congressional committee. And they

went over the plans that they had in case there was an accident and it seemed like everybody was working off the same piece of paper.

And clearly, I mean, from what you found out at that congressional hearing, it was absurd. It was about walruses and things like that. It was people's names there that you were supposed to get in touch with that had died years ago. Is the industry and its plans – it is as bad as it seemed at that hearing? Or was this just a congressional hearing that was looking for headlines?

MR. SCHLESINGER: It's 40 years since we had a similar spill, 40 years. And what we've seen is a growth in complacency and a carelessness particularly on the part of BP.

MR. VERRASTRO: Yeah, I think two things happened. I would distinguish the two hearings. So the hearing with the walrus – if I was a company, at this point, I would be upset that whoever I subcontracted out to write my environmental impact statement wrote the same statements for all the other companies, right? And that became boilerplate.

MR. SCHLESINGER: Yes, clearly.

MR. VERRASTRO: Clearly.

MR. SHARP: He got paid five times.

MR. VERRASTRO: Right. (Chuckles.) The American way. In terms of the walrus, though, you know, you can spend time on that or you can spend time on solutions. And I would distinguish that between the Waxman hearing, where I think Congressman Waxman always does his homework.

He had a 14-page letter and what he distinguished with the other companies was, in this type of well, with this type of pressure and these type of horizons, this is standard industry practice, and this is what BP chose to do. And you saw, you know, Rex Tillerson and Watson from Chevron and Shell all say, confronted with similar situations, we would have done X. And then I go back to Steve's point.

So then when they asked Hayward, well, so why did BP make the decisions you made, his answer – after 60 days, so there had to be an internal BP investigation – is, I wasn't on the platform. People want better accountability. I understand the liability concerns. I understand the attorneys. But people want more straight talk on how this happened.

MR. MUFSON: Yeah, I mean, I think where the whole industry is at its weakest is that obviously, no one had a way of containing the spill anywhere near the magnitude that they had all claimed to be able to contain. Otherwise, we'd have seen it out there. And this is something that can be addressed.

I mean, there's no reason that the industry has to be first fabricating a kind of containment pipe, or undersea manifolds or all the other stuff that they've been forging in plans on the coast, and waiting, you know, two weeks or more for these things to get done.

All that stuff could be sitting there, you know, in a couple of different locations across the Gulf and it wouldn't even cost that much money. They could share these things. And I think you're going to see something like that will come out of one of these panels. And I think that's going to be one of the changes.

MR. SHARP: You know, I think there's a tougher, endemic problem as humans. And that is simply that if you notice what we've just been through – we have been through on Wall Street, where we miscalculated the risk. Very smart people, some of them may have been highly motivated to make money by miscalculating that risk, but others were not.

And the same with government regulators. We've seen the same thing here. It's where we get in the mindset. We saw this on the electricity crisis in California. We've seen this happen again and again.

When the mindset is collective – I mean, all but some outlier, and they then become famous and rich for two days on their books – but except for those people, everybody buys into, you know what, we haven't had a spill for 40 years; we have this incredibly sophisticated technology – and it is – for doing this; and so this case is very unlikely to happen.

And you get complacent. Should we? Of course not. But the truth is that we do things huge now, in big ways. And frankly, this is – the issue about climate change is we're changing the chemistry of the atmosphere and we're changing the chemistry of the ocean because we're doing things huge.

How big a risk is that? Well, you can get a debate here about that. But the question is we're having trouble, as a people, figuring out when do we do this? Because the truth is, if you want that oil, we're going to take some risks.

(Inaudible, audio interference) – you can drive all the cars and drive all the planes and do all the stuff that we love to have and all the plastic – we like to do it – which we're overloading with plastic now. And we can all turn around and say, oh, we hate these oil companies. We hate everybody in the business. We want to stop them all. Well, you know, that's childish.

MR. SCHIEFFER: Questions from out there? Yes, right here.

Q: Will anybody, just any – (inaudible, off mike). At the end of the day, can we change the trajectory of U.S. energy policy, so-called policy? Does it make a difference anywhere down the line?

MR. SCHIEFFER: It's a very good question. Who would like to answer?

MR. MUFSON: Well, I think, clearly, the administration's going to try to make that come true. That's going to be the positive side of this incredibly negative experience, to try to mobilize people to say if this – you know, this should be a wake-up call. I mean, that's the line that the president keeps using.

Personally, though, I'm kind of – and we'll have to see. Congress hasn't distinguished itself by moving quickly toward a climate or energy bill and I'm not sure that this is really going to help. In fact, in some ways, it could make it harder because one of the chips that was being used to help bring some more votes on to a climate bill was expansion of offshore drilling.

So you know, whether they can get Republican votes without that, or whether they're politically able to keep Democratic votes if they move ahead with that, I think, is unclear and may be in some ways harder.

MR. SCHLESINGER: I didn't even notice there was a trajectory. (Laughter.)

MR. SCHIEFFER: Anybody else want to take a shot at that?

MR. VERRASTRO: I think it's stop-start. I mean, when I look at Secretary Schlesinger, so in the '70s we knew all these things, right? That the current system was unsustainable – decontrolled oil, decontrolled gas, moved with clean air, clean water, CAFE standards. We even developed, in the Carter administration, the Synfuels Corporation, which has been much decried.

But the idea was to build up a backstop technology for the day when you needed it. And we came in with tax cuts in the early '80s. Congress decided that the conventional prices were low enough. We did away with it and 30 years later, we're kind of back in the soup.

So I mean, I think that the transformation is underway. I think we're going to move towards efficiency and lower-carbon alternatives. It could also be a call to us that we need to keep the conventional system robust because it supplies 80 percent of our needs.

And it's going to be here for decades. And that's where I think maybe the administration hasn't been honest. So the president's starting to say that it's going to be there for decades, but it took a while for the secretary of energy, for example, to acknowledge that we need oil and gas and nuclear and coal.

MR. SCHIEFFER: Next question, right here. Yes, ma'am.

Q: Well, I have a hard time with, one the one hand, saying, well, oil technology will ultimately be there to rescue us the next time it happens, but we won't have the technological capability to, in fact, go in a different direction and develop alternatives. Part of my concern is what we have ignored.

In the case of the financial disaster, I mean, we ignored a certain number of economists who were out there saying something. Sheila Bair was speaking out. Elizabeth Mora was speaking out.

And in the case of this oil drilling, we didn't look at Australia when it happened. We continued to let BP drill, despite the records of egregious, criminal violations. We ignored a lot of the evidence, for the first 52 days, that BP didn't know what to do. And it troubles me with Obama that he seems to have this mindset where those who cause the disaster should be the ones who have the solutions for it.

Some of the recommendations after Exxon Valdez were not implemented, that put locals in responsibility for coming up with solutions that they would have been able to put forward because of their knowledge of the area. And the locals finally testified before Congress a couple of weeks ago and said, 52 days, they saw no skimmers.

Some of the booms that were out there weren't being cleaned off. They could have used a lot of the fishermen and converted their boats and sent them out. And the dispersants are extremely troublesome because Europe bans those chemicals.

MR. SCHIEFFER: Right. Would anyone like to –

Q: So and I just wanted to ask someone to address – our risk-assessment paradigms seem very flawed.

MR. SHARP: Well, that's what I was trying to get at is the difficulty we have – whether it's government, industry, or more collective in the population – coming to a good assessment of risk and what to do. I mean, we all agree that there's been this enormous neglect by government and by this industry in terms of the clean-up things and that we should be demanding it.

The question is, how rapidly could we get off oil, which I assume you would like for us to do? I'm guessing that's part of your advocacy. And you know, I would like to and I wish us well and I wish we didn't have carbon in it. And I think we will move in that trajectory. But anybody who thinks that in a decade we're going to be off this stuff must be making some other kind of decision.

And by the way, if we're going to do this – well, excuse me. I'm going to go off on nuclear next. (Laughter.) It's not a tradeoff between oil and nuclear unless you get to electric transportation, but it is if you start talking about the carbon problem. Pardon me, I didn't mean to bring more issues in.

MR. SCHIEFFER: No, that's fine. Another question? Right here.

MR. SCHLESINGER: Well, there's a failure there –

MR. SCHIEFFER: Oh, go ahead. Let Dr. Schlesinger –

MR. SCHLESINGER: There has been a failure to crack down on BP. We had the accident in the refinery down in Texas. We had the accidents up in Alaska. We should have

cracked down earlier. We did impose a substantial fine, but it was inadequate to reshape the BP culture.

MR. SHARP: Well, also, you're talking about different parts of the business and nobody was actually looking for the totality. They were looking at their section of the business: refining or where the accidents were. And they should have been looking at it.

Q: Human error can be mitigated, if not prevented, in organizations with the right kind of culture, governance, vigilance and the like. Apparently, we didn't have that with BP. To quote a colleague, what we need is less of blowout preventers and more of screw-up preventers. But how can you change organizations? And in particular, what is the government role without really intervening in the very structure and function of our businesses?

MR. MUFSON: Well, it seems to me you're always going to have bad actors somehow. You're not going to change the culture or guarantee the culture of every company out there. And that's what the role of government is supposed to be. It's to be able to make sure that people adhere to standards that they might not do otherwise.

And that's why I think this is such an incredible story, which is that you've really had multiple failures. You've had failures at corporate level, at human level, at regulatory level and in our whole, kind of, collective understanding of the tradeoffs involved in what we do. So I mean it's a very deep and broad story. But I would say that that's why you have government, to make sure that –

MR. SHARP: But in the nuclear industry, they also have this collective effort called INPO that was set up after – by the industry. It actually works closely with the Nuclear Regulatory Commission, which is the official government thing. And one of the things that they are looking at in their regular audits of every power plant in this country is that question of safety culture in there.

And they rate these things and they bring the CEOs together after they've rated them and, by golly, the other CEOs – I wanted to use some colorful language here – explain to that CEO, you don't keep your shop in order and we all go down.

And so there are ways to do this. Now, whether you can get that same effective system of INPO in the deep-water drilling I don't know, but we certainly ought to look at it as a possible pattern.

MR. SCHLESINGER: The Exxon people said that we train our people and they must follow the procedures. What is clear in the case of BP is that they failed to follow the accepted procedures and there should be a substantial penalty.

MR. VERRASTRO: And I think the challenge in the industry right now is to go back and look at best practices. So governments can do standards and regulation, but if the industry doesn't come up with the best approaches – and I do think we will see a marine spill – a collective marine-spill capacity developed because it needs to be developed and updated.

MR. SHARP: One of the major companies in a conference I was at recently said they transformed the safety culture within their company but it took them almost a decade to make it really effective and to have confidence that it had bit. I don't know the reality of that.

MR. SCHLESINGER: It took a decade for BP to transform its culture into an environmentally friendly, green organization. (Laughter.)

MR. SHARP: I don't think it's that day, then. The public relations people did that quickly.

MR. SCHIEFFER: (Off mike.)

Q: Are we concerned too much about keeping BP in business, as the president himself said? And does it come in the way of making them do what they have been responsible for? I see that there is more concern about keeping them viable and keeping them in business.

MR. SHARP: Well, I don't think there's any evidence that the administration is doing something – no kind of bailout, no kind of this kind of thing. I think they're being hard on them. I mean, in some ways, I think people ought to give this president more credit. He could have been up there lambasting them. That's what a lot of his friends on the left were telling him to do, that he should have just been ripping them to shreds every day.

And he acknowledged, we've got a bill to pay here. We have work to be done and they've got a responsibility to do it. And we want them to survive it long enough to be able to do that. It's not like he's trying to bail them out, or his buddies or anything of the sort.

And I don't know why we can't take seriously – we will not allow today a president or another policy leader to actually have an intelligent statement on something. If they don't run to right or they don't run to the left, we tear them to shreds all day long. And I personally am getting sick of it. (Chuckles.)

MR. VERRASTRO: I think we have to separate emotion, too. There was a public outcry, you know, boycott BP stations, right? So most of the service stations are run by franchisees. They were probably Amoco franchisees before this. They're small businesses.

And you're right. We could have had the same thing as we had, a run on Enron. So if people dumped the stock or walked away from BP on the financials, their ability to pay would have been adversely affected.

MR. SCHIEFFER: Right here. We're getting close to the end here.

Q: Frank and I worked together on this a little bit, but the amount of oil that lies in the world in deep water is amazing. And I mean, there just was a huge find off of Brazil. And also, the number of deposits which lie on lines of dispute between countries is quite large. And I think

that there's going to be a tremendous restraint put on the development of one of the more productive areas of the world, not just in the U.S. I mean, it's so –

MR. SHARP: That's what I was – (inaudible) – at the outset, yeah.

Q: – common, so likely, so obvious, I guess, that CNN and the other American networks concentrate about 99 percent of their coverage on the Gulf and ignore the fact that the volume of oil – I mean, if you look at a map of the world and it shows you what the potential is for oil underwater at various depths, it is staggering. I mean, a Gulf of oil is just a drop compared to what lies elsewhere.

And how that will play out, both in terms of just the overall production, but also, if you remember, Frank, the State Department wouldn't let us release the study letting away the amount of oil within disputed areas because you can imagine, if you have a field which lies in a disputed area, the environmental arguments will be brought to the forefront very quickly in order to prevent the other side from producing.

MR. VERRASTRO: Yeah, there's a piece in the G-20 communiqué that's going to come out that talks about Norway, the U.K., Brazil, Australia, maybe West Africa, offshore China – so there's a lot of places – and whether or not we can have an international agreement or an assessment of how we might approach this different. Because it's not just the United States, you're right.

MR. SHARP: Yeah, we don't – that's why I think it's very hard for us to predict what's going to happen to oil drilling around the world. I think it will go forward. The question is, will it be constrained in quite a way because of other governments and not to mention the industry itself struggling with risk?

MR. SCHLESINGER: As to the Gulf itself, Mexico, Venezuela and now Cuba are going to be drilling in the Gulf. And I don't think that they're going to be much inhibited by any regulations that we are dealt.

MR. SCHIEFFER: Well, I think on that note, we have come to the end of another Schieffer School symposium. Thank you all for coming. We really appreciate it. (Applause.)

(END)