June 14, 2007

The Honorable André Bauer
President of the Senate
State House, 1st Floor, East Wing
Columbia, South Carolina 29202

Dear Mr. President and Members of the Senate:

I am hereby vetoing and returning without my approval S. 243, R-111.

S. 243 began as a five page bill making changes intended to improve the prospects for an enhanced hydrogen-based economy in South Carolina. In its current form, the bill has more than quadrupled in size and contains numerous items totally unrelated to the hydrogen debate – including two sections that I vetoed in S. 91. In the veto message of S.91, I detail my concerns of that bill, but in as much as they are attached in this bill, let me reiterate this administration’s view. We believe a more coordinated approach to economic development – as envisioned by Carroll Campbell with economic development legislation vetted by a Department of Commerce – is key to fully exploring all the ramifications of an economic development piece of legislation and is also key to fully utilizing the limited resources we have for economic development. Add-on bills like those found in S.91, with significant ramifications in setting precedent for future economic development deals, could be avoided if we adhered to this process, and is largely the reason that I veto this legislation.

However, I think there are some issues related to hydrogen research that we believe need some deeper consideration as well, and I would like to raise them.

Hydrogen is still an unproven commercial endeavor and, as such, I believe we should be very measured and deliberate in taxpayer commitments. With hydrogen, we’ve been supportive in many areas, but it is our option that this bill goes beyond this zone of deliberate investment in unproven technology.

We committed more than $3.6 million in recurring state funds for hydrogen-related projects in this year’s budget and $1 million for fuel cell research at USC. We have also been very supportive of Fred Humes and his group spring-boarding off of some of the work done at the Savannah River Site – where we also committed over $400,000 to the South Carolina Hydrogen
and Fuel Cell Alliance that hopes to work with the Department of Commerce to coordinate efforts on the hydrogen front. Finally, we have supported the research chairs programs that will fund over $200 million in a variety of research efforts across the state, including hydrogen. This is all in addition to roughly $175 million federal and other state dollars already going to hydrogen research in South Carolina.

We have stopped here, though, for three reasons.

One, we don't believe it's wise to put all your eggs in one basket. Rather than funding hydrogen research to the exclusion of other efforts, we proposed in our Executive Budget similarly modest—but targeted—investments in automotive research at Clemson and medical research at MUSC.

Two, we don't believe it's the role of government to "lead" the private sector. Japan tried it and failed in the 1970's with the Ministry of Economy, Trade and Industry. Korea tried it and failed in the 1980's with cars and steel. I believe it's foolish to think that government can pick the "winning" industry of tomorrow and beat the marketplace and private capital.

I'm as hopeful as anyone that hydrogen could be the answer to the CO2 emissions problem our world faces. It's telling, however, that Joseph Romm, the chief of conservation and renewable energy in the Clinton Energy Department, wrote very bluntly in his book, The Hype About Hydrogen, that, "It makes no sense for any state to risk millions on the fledgling hydrogen business now."

Private industries are investing in hydrogen-based power. British Petroleum recently spent $3.5 million on a single hydrogen transport project in Beijing, and General Electric has invested similar sums in hydrogen-based projects. These and other companies are also investing in many other forms of power generation, though, and that fact alone ought to give us pause. These multinational corporations—which have a far greater incentive to invest their money wisely than the state and federal governments do—aren't yet convinced that hydrogen power is the future and are diversifying their investments accordingly.

It needs to be remembered that right now it costs about $40,000 to fill the hydrogen tank of one of Honda's experimental hydrogen-based vehicles.

Finally, we believe that when government does invest in developing technologies, public monies should be matched with significant private investment. This is what makes the Aiken hydrogen work compelling for our administration—or, for that matter, the automotive work in Greenville. Unfortunately, this connection is all too often overlooked in much of the money that goes into research. In Columbia, millions of public funds are going into buildings that may or may not be filled with private investment that creates a real return to the taxpayer.

In this vein, consider the "Restorative Institute" that has already gotten over $13 million of our tax dollars down in Charleston. In our many deliberations with Clemson, representatives have assured us that private monies will be forthcoming. I have consistently made the counterpoint
that there is not a big market in restoring Confederate-era submarines, and that it is
dangerous for us to get into the practice Kevin Costner used in the movie *Field of Dreams* of
building it in the hope that “they will come.” Costner’s character hoped for the return of long
dead baseball players, and in our current situation, private capital may appear just as ephemeral
in these “research” enterprises if all of us are not vigilant in looking at quantifiable returns on
these significant public investments.

In short, along with the concerns noted on the other provisions in this bill, we have significant
reservations about this level of public investment in hydrogen research without more quantifiable
returns to the taxpayer. I do applaud the bill’s sponsors, not only for focusing on the possibility
of breakthrough technologies, but on technology that could materially reduce CO₂ emissions in
South Carolina. We have joined this debate from a different vantage point in forming the
Climate, Energy, and Commerce Committee to look at market-based options to do the same.
This is a worthy debate and, whether this bill is passed or not, it will inevitably be of increasing
importance over the years ahead.

For the reasons detailed above, I am compelled to veto S. 243, R-111.

Sincerely,

Mark Sanford