

America's Energy Exports: Opportunities for U.S. Allies and U.S. National Security.

Prepared Statement of David F. Gordon

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Chairman Barrasso, Senator Udall, and members of the Committee. Thank you very much for the opportunity to testify before you today on how increased energy exports can advance U.S. foreign policy goals, assist our most important allies, and strengthen U.S. national security. I commend your initiative in holding this hearing on a very important **opportunity** that the U.S. has to enhance a new tool in our foreign policy arsenal.

The unconventional energy revolution in the United States is bringing about a new era of energy abundance and is reshaping our gas and oil industries, stimulating industrial output, and has the potential to dramatically enhance many of our global trading relationships. The energy revolution has powered our recent economic recovery, dramatically lowered our dependence on imported oil and gas, and reinforced the continued global primacy of the U.S. dollar. Additionally, it has helped to stabilize the global energy market during a period of record, sustained supply disruptions in the Middle East and elsewhere. By strengthening our global trading position and our economy — the engine of our national security — the energy revolution already has meaningfully advanced our security and the ability of the United States to lead on foreign affairs.

Going forward, our remarkably productive, innovative and resilient energy sector can deliver even further benefits to U.S. foreign policy and national security. However, these benefits will be limited if policymakers do not change antiquated export policies that limit U.S. energy resources from moving to markets overseas.

In a domestic market awash with oil and gas, keeping export restrictions in place discriminates against U.S. producers and threatens investment in new supply, thereby jeopardizing economic, security, and trade gains from the energy boom. Policymakers should streamline and speed-up the process of licensing natural gas export projects and begin to lift the oil export ban to bring export policy in line with present market circumstances. This will promote free trade and responsible growth in the sector, and enable the U.S. to reap the geopolitical advantages of having a larger and more flexible role in the global oil market that will directly support U.S. allies.

The restrictions on U.S. energy exports was the outcome of a bi-partisan effort, and has been sustained and supported by both Democratic and Republican administrations. However, in today's abundant energy market supply conditions, these rules no longer make sense. And it is not surprising that calls for modernizing our export policies also have been bi-partisan. Under President Obama, the State Department upgraded its energy diplomacy mission and tapped Carlos Pascual, former US Ambassador to Ukraine and Mexico, to lead these efforts. Now out of government, Pascual is a leading proponent of lifting the restrictions on US energy exports. Last month, writing in the Wall Street Journal, Obama's former CIA Director and Secretary of Defense Leon Panetta and President Bush's National Security Advisor Steve Hadley highlighted that while the U.S. has broken free of its dependence on energy from unstable sources, our friends and allies "do not enjoy the same degree of independence. The moment has come", they write "for the U.S. to deploy its oil and gas in support of its security interests around the world."

National Security Benefits from Energy Exports

Strengthening our Economy

Expanding our energy exports will further strengthen the U.S. trade account, reduce our international indebtedness, and thus enhance the stature and ability of the United States to lead on international economic, strategic and defense matters. In an era of budget austerity, war fatigue, proliferating security challenges, and the expanding use of economic sanctions, a strong U.S. economy expands policy options beyond the more conventional diplomatic and military choices. It creates an opportunity to hone smarter and more creative tools to advance our national interests in the international arena. Additionally, a

more favorable trade balance liberates the United States to consider international trade policies and international lending that could be constrained, including by some of our key economic partners, such as China, in a scenario of greater U.S. indebtedness.

Increasing U.S. Attractiveness as a Trading Partner

In addition to providing an economic boost at home, lifting the oil ban will accrue economic yields to our foreign trading partners. A U.S. energy export policy that allows the free flow of all energy commodities—including crude oil and not just condensate and refined products—will enable the U.S. and our trading partners to optimize trade in various kinds of energy commodities, depending on seasonal and regional demands. The greater diversity in energy commodity trading relationships will support greater energy market efficiencies, lower costs for consumers, limit risks from supply disruptions, and promote greater economic growth. These factors can make the United States a more important trading partner for more energy consumers abroad, a circumstance which will expand the soft power leverage of the United States in international strategic relationships.

Promoting Open Markets

Lifting the restrictions on export of domestic crude will allow the U.S. to more credibly promote anti-protectionist policies on trade in the international arena. At a dynamic time in global energy trade and a critical moment in the evolution of U.S. trade relations with partners across the Atlantic and the Pacific, U.S. policy leaders have a unique opportunity to send a strong message on a commitment to open markets by lifting restrictions on oil export. Making a firm commitment to open energy trade will help the United States to influence trading policy priorities in other countries, such as those in East Asia. In that region, key decisions will be made over the coming years about the nature of international energy commodity market participation that will have a direct bearing on the U.S. economy. Having more open energy trade will be indispensable in winning potential future natural resources trading disputes that may arise.

Enhancing Market Stability

Encouraging the expanded production of U.S. oil and gas will mean a result greater flow of energy from a reliable, secure producer to the global market. When more of the supply pool comes from producers that are not at risk from

political instability or imminent danger to critical energy infrastructure or supply lanes, the overall market is more stable. Additionally, U.S. exports do not need to travel through maritime hotspots such as the Straights of Hormuz to reach most foreign consumers. Major consumers in East Asia, for example, are highly vulnerable to supply disruptions coming from destabilizing conflict in the Middle East, from which a majority of their oil imports derive. Providing U.S. producers with the unrestricted ability to export will make them more responsive to market signals, and better able to quickly adapt to the needs of consumers, contributing to more stable market conditions and making it harder for some producing countries to use oil and gas as a strategic weapon.

U.S. Energy Exports and Regional Geo-Politics

For our European allies, the presence of more U.S. energy in the market will offer more supply options, over time helping European countries to lower their dependence on Russia, which has a history of coercive energy supply policies. When Russia has more competition for supplying European demand it will have to work harder to play a role in the market. A fundamental pillar in the current U.S. policy is to degrade Russia's ability to compete in the global energy markets. Liberalizing U.S. export policy will have the effect of reinforcing the pressure on Russia's energy sector and is thus in line with key U.S. national security goals. It will also constitute an important strategic act of support for allies in Europe, who are more threatened by Russian regional destabilization and have paid a bigger economic cost by imposing sanctions on Russia than has the U.S. Such a move would materially enhance the prospects for sustaining the trans-Atlantic stance in support of continuing sanctions. When our closest allies are stronger, the United States is more secure and better able to bolster and lead multilateral security initiatives.

For East Asian consumer countries, more U.S. supply in the market would give them new opportunities to diversify away from increasingly unstable Gulf and Russian oil and gas supplies. In addition to boosting supply security, such diversification will yield greater market efficiencies and will contribute to lower prices. This will be true for all Asian nations, including both our treaty allies in Northeast Asia and China. Energy **insecurity** is one of the major drivers of China's regional assertiveness. Policies that confer mutual benefit on the United States and the group of East Asian nations facing off as regional competitors should be priorities for the United States. They may help to deter strategic intra-

regional competition by increasing the shared incentives for stable, efficient market activity. Enhancing stability in this neighborhood is directly in line with the United States' policy of rebalance to Asia, and will benefit our country and all others that see their own stability tied to stability of this burgeoning region. Putting in place policies that can contribute, even if modestly, to enhancing regional stability will cultivate the influence of the United States in Asia and beyond.

One of the most important security benefits of the unconventional energy revolution was its enabling of crippling oil sanctions against Iran. Iran's oil exports decreased by almost 60% from approximately 2.5 million barrels per day in 2012 to 1.1 million barrels per day. There is little doubt that absent this pressure, Iran would not have come to the negotiating table over its nuclear program. Particularly in light of historically high oil supply disruptions globally, the international community would not have been able to sustain these sanctions, and cope with the oil price increases they would have caused, were it not for massive increases in alternative oil supplies. The United States added about 1 million barrels per day annually over the last several years, and Saudi Arabia also turned up production to balance the market.

Lifting the crude oil export ban will provide critical additional flexibility and leverage to the United States to sustain and expand energy sanctions — should they be needed — in the future. While the outlines of a potential final agreement between Iran and the P5+1 that would relieve many sanctions on Iran is taking shape, it is too early to assume success. U.S. policymakers will need to enhance their ability to impose tough additional energy sanctions in the future. This is critical as an element of contingency planning on Iran policy and to provide a credible threat that more oil sanctions on Iran are possible if Tehran does not cooperate with the international community.

The failure to prepare for the potential future imposition of more energy sanctions by stimulating alternative oil supplies may render the threat of new sanctions hollow. If adversaries do not believe that the United States and its allies have the economic and political tolerance to cope with a self-imposed oil price increase, which could occur if more sanctions pull more oil off the market, these adversaries may call a bluff. Furthermore, allies of the United States, many of whom have reluctantly gone along with energy sanctions in the past, may prove unwilling to participate in further energy sanctions unless the United States makes a serious effort to stimulate alternative oil supplies. Lifting the U.S. oil

export ban will bring online additional U.S. production, and would constitute an important signal to allies, adversaries and market participants alike, that the United States is serious about the threat, or actual use, of forceful energy sanctions.

Conclusion

In a period of tremendous geopolitical uncertainty, and when many questions exist about the future role of the United States as a global energy player and world leader, Washington has a unique window of opportunity to strengthen domestic economic growth, energy market stability, U.S. global leadership and open trade relations. At a time of lower prices, we need to stop discriminating against U.S. producers. Removing the outdated and detrimental limits on the export of U.S. natural gas and crude oil will advance these goals. It will deepen trading ties with strategic allies, including those in Europe and Northeast Asia. It will improve the economic position and energy market stability of our nation and partners abroad, and allow the U.S. to more effectively spur and lead multilateral action to counter international security threats. Our closest allies in Europe and Asia have asked for greater access to U.S. oil and gas. Policymakers should embrace these multitude of benefits for allies and ourselves and liberalize our energy export rules. Market conditions merit such a step, and national security dividends from the unconventional energy revolution will not be fully realized without it.