

U.S. Senate Committee on Foreign Relations
Chairman Richard G. Lugar
Opening Statement for Hearing on
Oil Dependence and Economic Risk
June 7, 2006

The Foreign Relations Committee meets today to continue our examination of the geopolitical consequences of energy imbalances and U.S. dependence on energy imports. In previous hearings, we have focused on quantifying the costs of U.S. energy dependence and examining options for improving our energy security. We also have explored in detail how energy is shaping our relationships with other nations, including India, China, and the Persian Gulf states. Later this month, we will have hearings that look at energy in the context of our relationships with Latin America and Russia.

Today, with the help of our esteemed witness, former Federal Reserve Chairman Alan Greenspan, we will have a unique opportunity to examine the economic effects of U.S. energy dependence. We are delighted that Chairman Greenspan has joined us today. He has given extraordinary service to our country over many years, and nobody speaks with greater authority on the U.S. economy. His presence here, for his first Congressional testimony since leaving the Federal Reserve, is a testament to the economic importance he ascribes to solving our energy dilemma.

The Foreign Relations Committee has devoted intense scrutiny to energy issues because we believe that America's national security and economic well being depend on reducing our dependence on foreign oil and establishing more predictable, transparent, and cooperative relationships with both producer and consumer nations. To this end, I have introduced the Energy Diplomacy and Security Act. This bill would strengthen U.S. diplomatic capabilities related to energy and encourage greater international cooperation on energy security.

As Secretary Rice stated before this Committee, our diplomatic activities around the world are being "warped" by petro-politics. Important foreign policy goals -- from accelerating progress in the developing world and expanding trade, to preventing weapons proliferation and promoting democratic reform -- are being undermined by international energy imbalances that have weakened our foreign policy leverage, while strengthening the hand of oil-rich authoritarian governments. In a speech in March at the Brookings Institution, I outlined these dynamics in greater detail, and I ask those remarks be entered into the record.

As recently as four years ago, spare production capacity exceeded world oil consumption by about ten percent. As world demand for oil has rapidly increased in the last few years, spare capacity has declined to less than two percent. Any major disruption of oil creates scarcity that will drive prices up. Our vulnerability was made clear to Americans after the devastation of Hurricanes Katrina and Rita. But even as supplies rebounded from those disasters, we experienced a continued upward trend in oil prices. Events such as the civil unrest in Nigeria, uncertainty over Iran's nuclear program, and worries over Venezuelan supply have kept the price of oil above \$70 a barrel.

Our capacity to deal with these energy vulnerabilities in a foreign policy context is shaped in part by the ability of our own economy to adjust to changing energy markets. Eventually, because of scarcity, terrorist threats, market shocks, and foreign manipulation, the high price of oil will lead to enormous investment in and political support for alternatives. The problem is that by the time sufficient motivation comes to markets, it may be too late to prevent the severe economic and security consequences of our oil dependence.

Today, we will have the benefit of Chairman Greenspan's insights into the risks of oil dependency to our economic prosperity. We are interested in a clearer picture of how current high energy prices are affecting our economy, how our economy may react to certain types of supply disruptions, and what steps we should take as a nation to reduce the economic risks of our energy vulnerability.

We welcome Chairman Greenspan to the Foreign Relations Committee and thank him for lending his expertise to our ongoing inquiry.

###