

Senate Committee On Foreign Relations
Chairman Richard G. Lugar
Opening Statement for Hearing On
Energy Security in Latin America
June 22, 2006

The Foreign Relations Committee meets today to continue our examination of the ways in which energy is transforming geopolitics and threatening U.S. national security and economic prosperity. In previous hearings, we have defined the severity of these threats, examined options for reducing U.S. oil dependence, and explored in detail how energy is affecting our relationships with other nations, including India, China, and the Persian Gulf states.

Today, we meet to look at energy security in the context of our relations with Latin America. Mexico and Venezuela are two of America's top oil suppliers. Mexico has been a reliable energy partner. Venezuela, on the other hand, has made repeated threats to suspend oil supplies, and President Hugo Chavez has tried to use Venezuela's oil wealth to gain political advantages in this hemisphere. His inflammatory rhetoric and actions, coupled with the precipitous nationalization of the natural gas sector by Bolivia, underscore the vulnerability of U.S. national security to the political manipulation of energy.

The General Accountability Office has just completed a draft version of a report I commissioned that examines our country's vulnerability to an oil supply disruption by Venezuela. The report says that a six-month disruption that removed "all or most Venezuelan oil from the world market" could raise oil prices by \$11 per barrel and reduce U.S. GDP by \$23 billion. Even more startling is the possibility that the Venezuelan government might follow through on its threat to shut down its wholly-owned refinery system in the United States operated by CITGO.

Even without a government disruption of the flow of oil from Venezuela, oil production in that country faces serious challenges that could impact the global price of oil and the U.S. economy. The GAO report points to a severe deterioration in the ability of Venezuela to meet its oil production targets in the foreseeable future. This has happened because the Venezuelan oil industry has allowed its technical and managerial expertise to deteriorate, and it has failed to invest sufficiently in the maintenance of its oil fields.

The GAO study reinforces the urgent need to move away from reliance on volatile and sometimes hostile producers. According to the GAO, Administration officials told them that "they do not have Venezuelan-specific contingency plans for a potential loss of oil." Instead, our response to a Venezuelan oil disruption would rely on the Strategic Petroleum Reserve and diplomatic efforts to convince other oil-producers to increase production.

In March, I introduced the Energy Diplomacy and Security Act, S. 2435, which would realign our diplomatic priorities to address the new geopolitics of energy security. It would dramatically enhance our international energy activities and move our policy away from the out-dated notion that energy security is simply about finding more oil and gas.

Although global in scope, a particular priority of the bill is to stimulate partnerships in the Western Hemisphere. The high cost of energy imports, vulnerability to supply shocks, and the increased potential for conflict are concerns widely shared in the region. The bill creates a standing ministerial level Western Hemisphere Energy Forum modeled on the energy working group of the Asia Pacific Economic Cooperation forum. The Energy Diplomacy and Security Act also calls for international partnerships among energy producers and consumers.

One area of energy cooperation that could be especially fruitful for our hemisphere is ethanol. The expansion of ethanol capabilities would improve the diversity and reliability of fuel supplies, create jobs in many countries, and help reduce greenhouse gas emissions. Brazil long ago saw the importance of ethanol and is now energy self-sufficient. Brazil and the United States can work together to improve our mutual energy security -- and that of the region -- by spreading our shared expertise. The current protective tariff on ethanol imports to the U.S. should be reconsidered in light of this mutual interest in improving energy security.

This morning, we are joined by two distinguished panels. First, we welcome our colleagues, Senator Larry Craig and Senator Ken Salazar. Both are members of the Energy Committee and co-sponsors of the Energy Diplomacy and Security Act. I appreciate having the benefit of their energy expertise and wise counsel as our Committee continues to examine energy security issues.

On the second panel, we will hear from four experts with deep experience in Western Hemisphere energy affairs. We welcome Dr. Domingo Cavallo, former Economy Minister of Argentina and currently Chairman and CEO of DFC Associates; Mr. Luis Giusti, former President of the Venezuelan National oil company and currently Senior Advisor at the Center for Strategic and International Studies; Mr. Eduardo de Carvalho formerly Deputy Finance Minister of Brazil and currently the President of Brazil's Association of Sugar Cane and Ethanol Producers; and Mr. David Goldwyn, former Assistant Secretary of Energy for Policy and International Affairs and currently the President of Goldwyn International Strategies.

We thank our witnesses and look forward to our discussion.

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