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Mr. Chairman, distinguished Committee members, I am pleased to be here today to discuss U.S. Foreign Policy, Petroleum and the Middle East.

Oil Market Developments:

Given the rise in energy prices we've witnessed over the last year, I think it might be appropriate to first put our discussion of petroleum and the Middle East in the context of current oil markets.

- As we all know, in addition to the tragic human suffering caused by Hurricane Katrina and Hurricane Rita, they also impacted much of our oil and gas infrastructure on the Gulf Coast. As a result, we've seen increases in the price of gasoline at the pump, which have now moderated somewhat, and concurrent rises in the price of diesel, home heating oil and natural gas.

- Oil markets were already extremely tight before the hurricanes struck. Over the last two years, oil markets witnessed an unexpected surge in the growth of world oil demand. Much of that rising demand has come from the U.S. and from China, and is linked to strong economic growth. This unexpectedly high demand had already translated into higher prices.

- This rising demand also eroded the surplus production capacity that has been held by OPEC producers (mostly Saudi Arabia) for most of the last 25 years. This loss of a potential "cushion" against supply disruptions added to market uncertainty and to even higher prices.

- At the same time, we have witnessed a reduction in surplus refining capacity, worldwide, and the US refining industry was running above 90% of capacity prior to Katrina and Rita.

- The two storms disrupted U.S. oil production in the Gulf of Mexico and onshore, and caused the shutdown of a number of major refineries, sending prices worldwide to much higher levels.

- We expect oil markets will experience the effects of the hurricanes for some time , as infrastructure and production both on- and offshore takes some time to return to pre-hurricane status.

Hard Facts About Energy

In addition to recent market developments, we should take into account a number of hard facts:

- Imports supply almost 60 percent of our petroleum needs, a percentage that has been rising for several decades.

- Imports supply an even greater share of the needs of some of our most important allies and economic partners.

- We are no longer self-sufficient in natural gas. We now import 15 percent of our natural gas, almost entirely from Canada, but in growing volumes from Trinidad and other LNG suppliers.

- Almost two-thirds of proven world oil reserves are in the Middle East. In contrast, the United States has less than 3 percent of the world's proven oil reserves.

- The Middle East accounts for approximately one-third of total oil exports, and 28 percent of world oil exports transit the Straits of Hormuz.

- Oil is a worldwide commodity, and, as we've witnessed repeatedly over the last few years, a supply disruption anywhere in the world can have an almost immediate effect on prices worldwide.

Not all the facts about energy are bad; there is some good news:

- Since 1970, the energy intensity of the U.S. economy, that is the amount of energy we consume per dollar of GDP, has fallen by almost 50 percent.

- Aside from petroleum, we are largely self-sufficient in energy, particularly in the generation of electricity, which is produced from American coal, natural gas, hydropower, nuclear and renewables. In fact, imports account for less than 10 percent of all our non-oil energy sources.

- The U.S. has the world's largest coal reserves, 250 years worth at current consumption rates.

- We continue to find more oil worldwide. Estimates of the world's remaining proved oil reserves were actually 18 percent higher in 2004 than they were in 1990, despite all the oil consumed in the intervening years. Improvements in petroleum technology continue to unfold, enhancing recovery from existing sources and making new sources possible.

- Markets work. We've been told that within three days of the landfall of Hurricane Katrina, 30 tankers had been contracted to ship gasoline from Europe to the U.S. They weren't responding to a government mandate, but to the spike in U.S. gasoline prices.

- Markets also work over the longer term, with high prices stimulating the development of new supplies. This applies not only to conventional oil and gas supplies, but also to unconventional sources, such as heavy oil deposits and fuels from natural gas, coal and biomass.

Energy Security

There are a number of elements to advance US energy security laid out in the Administration's National Energy Plan. Energy security begins at home, both on the supply and demand side. President Bush has encouraged Americans to conserve energy, and in August, signed into law

the first national energy plan in more than a decade. The legislation provides measures to promote energy efficiency, modernize our energy infrastructure, encourage renewable resources, and support energy-efficient vehicles. In addition to the energy legislation passed in August, we also need to promote the development of new domestic sources of oil and gas, including in parts of the Artic National Wildlife Refuge. In the immediate term, energy conservation and efficiency provide by far the biggest resource for limiting our dependence on imported oil. In the longer term, technology will be the key to significantly improving our energy security.

Given the scope of this hearing, I would like to focus my remarks on our energy security from a foreign policy perspective, and focus on the actions that we are currently taking to address energy security concerns.

The objective of our energy policy is to ensure that our economy has access to energy on terms and conditions that support economic growth and prosperity. We must also ensure that the United States can pursue its foreign policy and national security interests without being constrained by energy concerns. In addition, our policies must also be consistent with America's broader economic and foreign policy goals and complement domestic policy initiatives. I would like to focus on four key elements of our national energy policy, which includes:

1. Promoting the diversification of energy supplies, worldwide;

2. Working with other oil consuming countries to respond to supply disruptions, particularly through the coordinated use of strategic petroleum stocks;

3. Encouraging major oil producing countries to maintain responsible production policies to support a growing world economy and to reduce oil market price volatility;

4. Working with other countries to reduce global dependence on oil, including through conservation, efficiency and through the development of alternative sources of supply.

1. Diversification of Energy Supplies:

We've taken a number of steps over the years to promote the

diversification of energy supplies worldwide. Although the Middle East is – and will continue to be – the dominant region for oil production, the development of new supplies in a number of other regions in the world is an important objective. I would like to touch on a few areas, outside the Middle East, where we've been actively engaged and where there has been considerable progress.

North America Energy Integration:

Canada is our leading supplier of imported oil, natural gas, uranium and electricity and Mexico is our second largest supplier of imported oil. One effect of higher oil prices has been to stimulate greater development of Canada's oilsands, which contain an estimated 175 billion barrels of oil. We expect these to be an increasingly important source of oil, and some experts estimate production will rise to 3.0 million barrels per day over the next 10 years, from about 1.0 million barrels today. Natural gas from Canada, and from Alaska through Canada, will also play an important role in our energy future.

We have made strengthening our energy cooperation with Canada and Mexico a top priority. We are linked, of course by geography, by integrated pipeline networks, by energy that flows across each of our borders in both directions, and by a spirit of close cooperation between our governments and our peoples. To broaden our cooperation, we established a North American Energy Working Group in 2001 to serve as a forum for exchanging information and pursuing joint strategies, such as harmonizing certain appliance standards to facilitate trade and establishing a mechanism for scientific and technical cooperation. We are deepening cooperation on these issues through the trilateral Security and Prosperity Partnership of North America, and will next meet on energy issues November 7 in Ottawa.

Caspian Basin Pipelines:

A major U.S. foreign policy priority since the mid 1990's has been the development of multiple pipelines to provide for the export of oil and gas from the Caspian region to the rest of the world. The Caspian basin has been a significant new source of non-OPEC oil in recent years, and production should continue to grow in coming years. In addition to enhanced energy security, our policy in the region has been aimed at

strengthening the sovereignty and economic viability of new nation states, enhancing regional cooperation, and avoiding the potential bottlenecks and conflicts that might arise from rising petroleum exports through the Turkish Straits.

I just returned from Georgia, where I participated in "first oil" ceremonies for the Baku-Tblisi-Ceyhan pipeline. This pipeline is a real milestone for development in the region, and reflects years of work on the part of the three governments and the oil companies involved. We expect first shipments from this pipeline to be loaded in the Mediterranean around the end of the year.

Russia:

Russia is a major producer of oil and gas. From 1999 to 2004, Russian oil production grew by about 3 million barrels per day, making it the single greatest source of new non-OPEC supply. Much of this growth has taken place in collaboration with U.S. and other international oil companies, and Eximbank and OPIC helped provide financing and insurance for some of these projects. We join the Department of Energy and other agencies in the U.S.-Russia Energy Working Group, which has focused on government-to-government cooperation in a range of economic and technical activities. We also joined with the Department of Commerce and other agencies to establish the U.S.-Russia Commercial Energy Dialogue, which focuses on facilitating commercial cooperation both within and outside Russia.

West Africa:

The Administration recognizes Africa's emerging role as a major energy supplier. Nigeria, Angola, Gabon, Equatorial Guinea, Republic of Congo, Cameroon and Chad are significant producers, and other countries, such as Sao Tome and Principe and Mauritania are emerging as potential producers. Much of the increased production is the result of the development of new technology to find and extract oil from deep offshore deposits, and U.S. energy firms, both majors and independents, have played a key role in bringing this technology to bear in West Africa.

From a government perspective, we have a strong policy interest in assisting oil producing countries to channel their energy resources into

solid and sustainable economic development as well as increased transparency and accountability that will benefit their populations. We negotiated a bilateral energy cooperation framework agreement with Nigeria, and supported the World Bank's involvement in independent monitoring arrangements for the Chad-Cameroon pipeline project, which led to significant amounts of Chadian oil entering world markets starting in July 2003. Nigeria is also a pilot country working with the G8 under terms of the Anti-Corruption and Transparency Action Plan developed at the Sea Island and Evian Summits. Another sign of our commitment was the establishment of a more pronounced U.S. government presence in Equatorial Guinea to support our ongoing work in the areas of energy security, human rights, and good governance in Equatorial Guinea.

2. International Cooperation in the Use of Strategic Petroleum Stocks

A second pillar of our national energy policy is the use of strategic petroleum stocks to respond to severe supply disruptions, in coordination with other energy consuming countries. Since 1974, we have been working with our partners in the International Energy Agency (IEA) to coordinate our efforts. The 26 IEA members collectively account for 4.1 billion barrels of government and industry held oil stocks, of which roughly 1.4 billion are government-controlled strategic stocks for emergency response. The U.S. Strategic Petroleum Reserve, managed by the Department of Energy, was filled to its target level of 700 million barrels in August of this year.

The critical role of the IEA and multilateral cooperation was recently illustrated by our coordinated stock release following Hurricane Katrina. Shortly after it became apparent that the hurricane would have a serious impact on U.S. oil production and refining, we worked with other IEA member states to offer 60 million barrels of crude oil and product to world markets. This was only the second coordinated release in the IEA's history, and the action had an immediate calming effect on world markets.

I would like to underscore just how important our allies were in this effort. The U.S. Strategic Petroleum Reserve consists of crude oil. There are some stocks of home heating oil in a separate reserve, also managed by the Department of Energy. However, because Hurricane Katrina damaged a number of U.S. refineries, it became clear that world gasoline markets would be particularly tight. European members of IEA hold substantial stocks of refined products, and we therefore designed a mixed-stock draw

in response, to consist of both crude oil and refined product. I also want to point out that the IEA Secretariat did a superb job in coordinating the whole effort among the member countries. We continue to monitor oil markets carefully with our IEA partners, and are prepared to release additional stocks if the situation merits it.

Finally, I'd like to add that in addition to coordinating releases from strategic reserves, the IEA's small, expert staff provides information and analysis on the energy markets and developments. The agency also provides expert guidance to important non-member countries, such as Russia and China, on investment policies, strategic stocks, and how to work better within energy markets. This dovetails with work the U.S. and others are doing in the Asia Pacific Economic Cooperation (APEC) forum and contributes to enhanced energy security.

3. Dialogues with Major Oil Producing Countries

A third pillar of our national energy policy is to maintain a dialogue with major oil producing countries. Our objectives are not only to exchange information on oil markets but also encourage producers to maintain responsible production policies to support a growing world economy and to reduce oil market price volatility. We have had dialogues with a number of the major oil producing states, particularly Middle Eastern producers, for a number of years, in some cases since the 1980's. These have included formal bilateral exchanges with some countries, and regular discussions among high level officials and through our Embassies in the region.

Through our continued dialogue with producers, we have identified a number of areas where oil producers and consumers have shared interests. Neither consumers nor producers benefit from instability in energy markets. We recognize that price fluctuations are necessary in any commodity market to balance supply and demand, but no one welcomes chaos and uncertainty. Furthermore, some producers share our concerns about the impact of high oil prices on world economic growth, particularly the impact on developing countries. They remember all too well the collapse in oil prices that accompanied the Asian financial crisis in 1998, and would like to avoid a repetition.

As evidence of the maturing relationship between producing and

consuming countries, the IEA member states and APEC countries are working with key producers to improve efficiency and transparency of oil markets – to try to avoid the sort of market surprises that led to some of the shortages we see today. Producer-Consumer energy Ministerials that started in the early 1990's have led to the Ministerial-level International Energy Forum (IEF). The IEF is an informal group consisting of about 50 countries and international organizations, dedicated to promoting better understanding of international oil and energy market developments and policy issues among its members. The IEF Secretariat, located in Riyadh, Saudi Arabia, is leading efforts on developing of the Joint Oil Data Initiative (JODI), which is designed to improve our understanding of developments in the oil market.

Oil, of course, is only a part of our broader dialogue with a number of key Middle Eastern producers. With respect to oil, however, I think our dialogue has matured over the years, as our shared interests in market stability and world economic growth have led to frank and honest exchanges.

4. Reducing Global Dependence on Oil

Our policy includes initiatives to reduce global dependence on oil, particularly over the longer term. This includes strategies to improve energy efficiency, worldwide, and develop alternative fuels. The United States has been a leader in advancing the research, development, and deployment (RD&D) of advanced energy technologies. In addition to domestic efforts, the United States has initiated, or served as a founding member of, several international technology partnerships designed to share data and best practices among nations while reducing the time and expense needed to achieve technological breakthroughs.

The U.S. hosted the first meeting of the **Carbon Sequestration Leadership Forum (CSLF)** in June 2003. This partnership advances technologies for capture, transport, and storage of carbon dioxide to mitigate greenhouse gas emissions from sources such as coal-fired power plants. The 21 members, **including Saudi Arabia and India**, have approved ten capture and storage projects as well as a Technology Roadmap to provide future directions for international cooperation.

The **International Partnership for a Hydrogen Economy** was launched in April 2003 to implement internationally the goals of the Hydrogen Fuel Initiative and FreedomCar Partnership. The Partnership's 16 countries and the European Union are working together to advance the global transition to the hydrogen economy, with the goal of making fuel cell vehicles commercially available by 2020. The Partnership will work to advance research, development, and deployment of hydrogen and fuel cell technologies; and develop common codes and standards for hydrogen use.

The **GenIV International Forum (GIF) Policy Group**, composed of 10 countries and EURATOM, is providing a framework for international cooperation in research and development for the next generation of nuclear energy systems, which are intended to be safer, more economic and secure, and able to produce new electricity and potentially hydrogen.

The **Methane-to-Markets Partnership (M2M)** is a new global initiative to advance international cooperation on the recovery and use of methane as a valuable clean energy source. The Partnership works closely with the private sector to develop methods to recapture wasted methane escaping from landfills, leaking from poorly maintained oil and gas systems, and vented from underground coal mines. Inaugurated in November 2004 and now composed of 15 countries and the European Commission, M2M will improve energy security, economic growth, air quality and industrial safety, and reduce greenhouse gas emissions throughout the world.

In January 2003, President Bush committed the United States to participate in the largest and most technologically sophisticated research project in the world to harness the promise of fusion energy, the same form of energy that powers the sun. If successful, this $5 billion, internationally supported research project, the **International Thermonuclear Experimental Reactor**, or "**ITER**" as it is known, will advance progress toward producing clean, renewable, commercially available fusion energy by the middle of the century.

The U.S. is committed to working with other countries, especially developing countries, in building future prosperity while improving energy security, reducing pollution, and addressing the long-term challenge of climate change. Toward this end, the President announced the launch this past summer of the **Asia Pacific Partnership for Clean Development and Climate** which will focus on voluntary practical measures taken by member

countries to create new investment opportunities, build local capacity, and remove barriers to the introduction of clean, more efficient technologies. Current membership in the Partnership includes the United States, India, China, Australia, Japan, and South Korea.

Middle East Energy Developments

Since the focus of this hearing is on petroleum and the Middle East, I would like to close with a few observations on developments in selected countries.

Saudi Arabia, which is the world's largest oil producer and exporter, we believe has tried to play a moderating role in oil markets over the last year by increasing its oil production. Much of the kingdom's remaining surplus production capacity, however, consists of heavy crude oil, and, as we discovered last year, following Hurricane Ivan, there is a worldwide shortage of refineries with the ability to convert heavier crude to product. Nevertheless, maintaining a margin for increased production in critical. Saudi officials have promised publicly to expand production capacity to both meet greater market demand and to maintain 1.5-2.0 million barrels per day of surplus capacity.

Kuwait has steadily expanded production and is currently producing 2.6 million barrels per day. Kuwait is making significant long-term investments in its oil infrastructure in order to raise production to a target of 4 million barrels per day by 2020, including a proposal to bring in the technical expertise of international oil companies in order to maximize production in its northern oilfields.

The United Arab Emirates has also expanded production over the last few years and is currently producing approximately 2.5 million barrels per day. Earlier this year, Exxon Mobil Corporation confirmed that it has been chosen by the Abu Dhabi Supreme Petroleum Council for final negotiations regarding participation in the Upper Zakum offshore oilfield.

Qatar, with 800,000 barrels/day of production, is not one of the larger Middle East oil producers, but has combined its enormous gas reserves with an attractive investment climate to become a center for the development of liquefied natural gas (LNG) exports and gas-to-liquids processes. Over the last decade, Qatar appears to have attracted more

investment from the international oil companies than all the other Middle East countries combined.

Iraq has the potential to become one of the world's largest oil producers. The country is currently producing about 2.1 million barrels per day, and exporting 1.4 million barrels per day. As security conditions improve, we expect those figures to rise. As we have stated on earlier occasions, Iraq's oil and other natural resources belong to the Iraqi people, and they will determine how the country's reserves are developed.

Algeria has witnessed a steady rise in production, of both oil and gas, since ending its civil war, and is viewed by international oil companies as an attractive place to do business.

Libya has emerged from years of isolation as an important new player in world energy. The country has hosted several bid rounds for exploration tracts in the country, and American firms have been quite successful in competing for those opportunities. In particular, we are encouraged by the fact that Libya has focused on making the bidding process as transparent as possible.

Conclusion:

In conclusion, we certainly remain aware of the potential risks posed to the United States by reliance on imported oil, and by instability in the Middle East, where much of the world's oil is produced. We need to remember, however, that oil is a global commodity and that a disruption in supply anywhere in the world can have an immediate impact on all oil importing countries, no matter where their oil comes from. I also think it worth noting that increases in energy prices we've seen over the last two years have very little to do with the Middle East. They are much more directly related to strong world economic growth and, more recently, to acts of God on the U.S. Gulf Coast.

Energy security is a leading Administration priority, and our National Energy Policy spells out the roadmap to achieve it. In the long run we need new technologies that can fuel our economy without posing threats to the environment or our national security. In the interim, our national energy policy must address the familiar challenges posed by a hydrocarbon-based economy where oil reserves are concentrated in various challenging regions

of the world. Like the war on terrorism, this will require sustained, patient and determined effort. The State Department here and overseas will remain engaged in that effort.

Thank you.