

Statement by Ambassador Carlos E. Pascual
Nominee for Assistant Secretary for the Bureau of Energy Resources
Senate Committee on Foreign Relations
March 20, 2012

Madam Chairman, Ranking Member Lugar, Members of the Committee, I am honored to appear before you today as the President's nominee to be the first Assistant Secretary of State for the Bureau of Energy Resources or "ENR." I thank President Barack Obama and Secretary of State Hillary Rodham Clinton for their trust and confidence. If confirmed by the United States Senate, I will bring to this position more than 25 years of practical experience in government and as a leader in one of the world's most respected think tanks – as well as an absolute dedication to my country.

The fact that this position of Assistant Secretary for Energy Resources has been created is a testimony to the vision and leadership of Members of this Committee, starting with legislation Senator Lugar introduced in 2006 to create in the State Department a "Coordinator for International Energy Affairs." Our nation is indebted to Senator Lugar and this Committee for keeping energy security at the forefront of American foreign policy. Senator Lugar, I remember well the opportunity I had to introduce you in December 2007 at a policy address at the Brookings Institution. There, you presented the nation with a bold challenge to promote strong diplomacy, entrepreneurial innovation, and energy diversification as a platform for security. Through consistent bipartisan cooperation and the capabilities of the American private sector, today we see that U.S. oil imports have been falling since 2005. We have more oil and gas rigs operating in the United States today than the rest of the world combined. Our oil imports as a share of total consumption have declined from 57 percent in 2008 to 45 percent in 2011 – the lowest level since 1995.

Secretary Clinton built on these foundations in proposing to President Obama to create the Bureau of Energy Resources. This Bureau emerged from the State Department's first Quadrennial Diplomacy and Development Review (QDDR). The QDDR's conclusions on energy were at the same time simple and profound: the effective management of global energy resources is fundamental to our national security and economic prosperity. Further, it became clear that diplomatic leadership in this area will strengthen American capacity to use our vast energy resources in government and the private sector to our national benefit. The Department of Energy has unsurpassed technical capacity in energy research and

innovation and deep relationships with energy ministries around the world. The Department of Commerce, together with the Overseas Private Investment Corporation (OPIC), Export-Import Bank of the United States (EXIM), and the U.S. Trade and Development Agency (TDA), have the capacity to help convert American energy expertise into trade and investment opportunities. USAID has the capacity to bring technical advice to developing nations seeking to bring energy services to deprived populations. By working with other agencies advancing America's international energy interests to forge a coherent strategic platform that brings together these capabilities, the creation of an Energy Resources Bureau is a multiplying force. It can make our nation stronger and more targeted in our ability to pursue our energy security goals.

The opportunity to be considered for this position is a high point in my career, where I have consistently seen energy issues reverberate in importance. From 1997 to 2004, I had the opportunity to work on the transition of the former Soviet states to economically independent and self-sufficient nations. The mismanagement of Soviet energy resources was one of the very factors that contributed to the collapse of the Soviet Union. Later, strong U.S. policies – particularly the development of multiple pipelines – reinforced the independence of the Caspian states. Internal reform of Ukraine's electric power sector in 2000 created the basis for investments that allowed Ukraine to close the Chernobyl nuclear power plant. Even in this decade, lack of transparency in commercial energy relationships has caused gas supply crises between Russia and Ukraine that have also shaken European markets. While serving as the Vice President of Brookings, I had the chance to learn of the dynamic interplay between energy markets and technological change from co-chairing with Daniel Yergin a semi-annual seminar on energy security. Across these experiences, this lesson became clear: governments must set strong market-based incentives for the development of energy resources, but the success of those policies will depend on private investment and strong commercial relationships.

If confirmed in the position of Assistant Secretary for Energy Resources, I will make it my highest priority to draw on the expertise in government, the private sector, and the not-for-profit sector to inform an energy diplomacy strategy focused on America's energy security. Hydrocarbons today make up 85% of the world's fuel sources. We must use our diplomacy to insure that access to oil, natural gas and coal are adequate, reliable and affordable. We must use our diplomacy to forge policies that make our energy future sustainable – both commercially and environmentally. To do this we must have strong and consistent relationships with energy producers – producers of all forms of energy in all parts

of the world. Today's markets are global. And in today's world, energy producers and consumers are not adversaries. We both must understand that stable markets foster the best climate for global economic growth.

Today we see the importance of our energy diplomacy as we implement, under the National Defense Authorization Act of 2012, sanctions designed to deny Iran revenue from petroleum sales, which in turn fund Iran's illicit conduct. Iran now faces unprecedented and damaging sanctions applied by the United States and our partners around the world. Iran has used every opportunity to undermine our efforts by threatening actions to disrupt oil markets. The best immediate counter to these threats is unrelenting engagement with producers and consumers to help facilitate market relationships that keep supply and demand in balance. Such engagement has been central to my role as the State Department's Coordinator for International Energy Affairs. Since January, I have traveled to Saudi Arabia, the United Arab Emirates, Libya, Iraq, Turkey, China, Nigeria, Angola and Colombia – and conferred with European allies.

As we have engaged, the world's main energy producers have reacted in a similar and consistent way: they will meet market demand as it arises, because producers, like consumers, have an interest in economic growth that is linked to energy access. In Europe we have seen complete solidarity as they took action on January 23 to ban all new contracts for Iranian crude oil and phase out existing contracts by July 1. With those who import Iranian crude oil, we have left no doubt about our seriousness of purpose. We have seen a rise in oil prices as countries work out transitions from Iran to other suppliers. At any given time we will see production declines in parts of the world, as have occurred recently in South Sudan and Yemen. But the global relationships we are forging place us in a position of strength, as a leader in our goals toward Iran, and as a partner with other key producers in promoting stable energy markets at price levels consistent with economic recovery in the global economy.

We have also seen that improved stability and market incentives create opportunities. Libya has restored over 1 million barrels per day of production, a testimony to that country's desire to forge a new future. Iraq in 2011 increased its production of oil by nearly 300,000 barrels per day, and could realistically see another 500,000 barrels per day increase in 2012. Production prospects are strong from discoveries on the west coast of Africa, from the pre-salt fields in Brazil and of course here in the United States. In a global market of about 90 million barrels per day, there is not a magic bullet in achieving energy security. But the converse is also a strength – diversification in global production adds resiliency. And when

diversification is combined with good business climates and market incentives for production, then we have a platform for efficient energy markets and sustainable economic growth. These goals will guide our energy diplomacy.

Our challenge as well is to look ahead, foster innovation and investment, assess changing markets and politics, and create business opportunities. In the United States we have experienced a natural gas revolution, due to technology and private investment. U.S. natural gas production grew in 2011 – the largest year-over-year volumetric increase in history – and easily eclipsed the previous all-time production record set in 1973. We have learned valuable lessons to share on environmental safeguards, transparency and regulation. Australia, Indonesia, Russia, Argentina, and Qatar just to name a few – have vast additional gas capacity that will come into the market in the coming five years. Increasingly gas is being traded as LNG, potentially changing the very structure of that market. One can envisage gas trading relationships not exclusively dominated by point-to-point pipelines that make consumers beholden to single suppliers. As a resurgent gas supplier, understanding this market will help us shape the rules – to make them transparent, predictable and thus to our commercial benefit. These changes in global gas markets are fundamental to both our geopolitical and commercial interests, and to the effective conduct of American foreign policy.

Business opportunities abound as well in clean and renewable energy and energy efficiency. American companies are world leaders in wind, solar, hydro, power transmission, efficient generation, and smart grids. The scale of this market is huge. The International Energy Agency estimates that from 2011 to 2035, the world will see \$5.9 trillion in new investments in hydroelectric and other renewable power, \$2.8 trillion in coal, gas and oil-fired plants, and \$1.1 trillion in nuclear power. This shift to renewable power is market driven, and unprecedented in the world's economic history. It is big business. Fostering market environments to compete in these fields is good for energy security, and it will generate export markets and American jobs in a field where we are commercial leaders.

This changing face of global electric power also requires us to change the lens through which we see energy and economic development. Access to energy is the strongest driver of economic growth. To achieve universal access to energy by 2030, developing nations need to invest hundreds of billions of dollars in power infrastructure, but that is just 2.5 percent of global private investments in power. The challenge will be making strategic use of limited public resources to attract private capital to the markets of developing economies. Already, many poor people pay more for diesel-generated power than we do. The key to change is to

create viable business models that bring efficient and reliable power to the poor, to foster their growth, to make it possible to educate their children, and to bring greater stability to where they live.

If confirmed as Assistant Secretary for Energy Resources, I pledge to make the pursuit of good governance and transparency in the energy sector a central theme for the Energy Resources Bureau. The Cardin-Lugar amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act set a new standard for transparency in extractive industries, and I hope the regulations expected from the SEC reflect the clear intent of the law. This effort compliments other efforts the State Department already undertakes, including strong engagement on the Extractive Industries Transparency Initiative, and a technical assistance program called the Energy Governance and Capacity Initiative, which provides advice and assistance to countries with emerging oil and gas industries, to help those countries manage their resources and revenues responsibly. Good governance and transparency will in the end help ensure that resources are used wisely, to the benefit of all citizens. That is good for economic growth, stability and our foreign policy interests.

As this Committee well knows, the purpose of American foreign policy is to make our nation prosperous and secure. We have learned that in an interconnected world, we advance our security and prosperity when our friends and allies advance with us. Energy diplomacy is one of our strongest tools to achieve the fundamental purpose of our foreign policy. With the wise stewardship of resources, and by fostering private innovation and investment to expand energy access, we can ensure that the world's energy resources become a sustained driver of growth and stability. I would welcome the opportunity to take on this challenge if confirmed as Assistant Secretary for Energy Resources. I look forward to your questions.