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Written Testimony

Thank you Chairman Markey, Senator Barrasso, and members of the Subcommittee. I appreciate the opportunity to be here today to discuss energy security and conflict and how we are using our foreign policy tools to strengthen U.S. national security and global energy security. It is a privilege to be joined by my colleagues from the Department of Defense and the United States Agency for International Development (USAID).

Recent developments splashed across the front pages of newspapers around the globe serve as the latest reminders of the interplay between energy security and foreign policy. The critical nature of the geopolitics of energy is easily on display when you look at global oil supply disruptions, which are at historic levels of over three million barrels per day due to reduced output in Libya, Sudan and South Sudan caused by political instability, politically motivated declines in Nigeria and Venezuela, and reductions in Iran's exports by over 50 percent due to effective U.S. sanctions. It is now more important than ever that the United States and the State Department's Bureau of Energy Resources work diligently to ensure that energy resources are used to drive economic growth, stability, and cooperation, rather than conflict.

Today's hearing is timely. Competition for access to and control of energy sources and supply routes can indeed be a source of conflict, and revenues from energy sales can provide funds that prolong conflict. Poor governance of natural resources can also contribute to conflict by allowing pervasive corruption to undermine accountability, deprive economic growth, and encourage civil unrest. As your former colleague Senator Lugar said in sponsoring his legislation, "the 'resource curse' affects [the United States] as well as producing countries. It exacerbates global poverty, which can be a seedbed for terrorism, it empowers autocrats and dictators, and it can crimp world petroleum supplies by breeding instability."

We are in the middle of a global energy transformation that is affecting both supply and demand at the very same time. On the demand side, we are seeing a historic shift where already non-OECD economies have overtaken the OECD economies in total energy consumption. On the supply side, production and delivery of energy is also changing dramatically. Energy supply is no longer

concentrated in a small number of OPEC countries - new producers are joining the ranks of major energy suppliers. We are seeing traditional and unconventional sources growing. We are seeing the growth of renewable energy. We are witnessing regional linkages, regional power lines, and the growing ability to move natural gas by ship, making energy markets increasingly global and competitive.

Nowhere is this transformation more evident than in the United States. The United States has increased oil production by one million barrels per day (bpd) in each of the last two years, and we are on track to replicate that this year. At the same time, the phase-in of increasingly robust efficiency efforts, such as Corporate Average Fuel Efficiency standards in the transportation sector, has reduced our oil demand, and helped slash net imports' share of U.S. oil consumption from 60 percent in 2005 to just over 30 percent today. Similarly, the United States has increased natural gas production by over 20 percent since 2007 because of growth from shale basins. This overall sea change in U.S. energy balances has had significant international energy market implications as vast quantities of imported energy once destined for the United States are now consumed elsewhere in the world markets.

Today's Ukraine Crisis and the Energy Crisis of 2009

Ukraine and Europe's dependence on Russian gas is a clear example of the danger of relying on a dominant supplier.

After weeks of negotiations, Russia unfortunately ceased supplying gas to Ukraine on June 16, showing little willingness to continue negotiations until Ukraine pays its debt. The situation is urgent for Ukraine. While Ukrainian production is sufficient to cover summer demand, without Russian gas Ukraine will not be able to meet its consumption needs when the heating season resumes. The short-term impact of this cutoff has been relatively small in Europe because it is not in the gas-intensive heating season and because last year's winter was mild, leaving stocks unseasonably high. However, while there is no crisis in Europe today, it may be just around the corner. On an annual basis, Russia supplies more than half the gas consumed in Ukraine and more than a quarter of the gas consumed in the EU.

So where does that leave us today? While the media and others have focused on European energy security only for the last several months, the United States Government has been focused on this issue for several years.

Our European energy security efforts intensified after Russia cut off gas supplies to Ukraine and European customers in 2009. Since then, the State Department, now spearheaded by the Bureau of Energy Resources, has been intensely focused on energy security in Europe, advocating energy diversification across the European continent, particularly in Central and Eastern Europe. We work hand in hand with the EU Commission as well as with the Energy Envoys in Eastern/Central European countries meeting often with the “V4 plus” states.

When we talk about supply diversification in a European context, there are several components that must be addressed. First is fuel mix – including other energy sources like renewables and nuclear, as well as pursuing additional production from conventional and unconventional sources, potentially including shale basins.

Second is diversity of import routes. Europe must build an interconnected pipeline system that allows gas to flow freely throughout the continent. Finally, European countries must pursue diversification of sources away from a dependence on a single supplier. I am not suggesting that countries should eliminate Russian imports – that is neither necessary nor reasonable and Russia will remain a central player in the region – but introduction of alternative supplies will promote competition in the energy market. This will ultimately increase energy security while also benefitting consumers.

The United States is supporting Europe in actions as well as words. It is unlikely the Southern Corridor would become a reality without State Department engagement. We strongly support the creation of the Greece-Bulgaria Interconnector, which will allow gas from the Southern Corridor to supply Southeast Europe rather than just enter Central and Western Europe via Italy. For the same reason we support proposals to build an extension of the Southern Corridor from Albania all the way to Croatia, once enough gas becomes available, ultimately supplying neighbors Hungary, Ukraine, and others.

We are working closely with colleagues in the EU Commission to advance interconnections of infrastructure in Central and Eastern Europe. These efforts are already producing successful projects such as the recent announcement of the Hungary-Slovakia interconnector. We also support proposals to build LNG terminals at critical points on European coasts, from Poland to Croatia to the Baltics. In short, Mr. Chairman, we agree with our European allies on the critical need for Europe to improve its energy infrastructure by constructing new pipelines, upgrading interconnectors to allow bidirectional flow, and building new LNG terminals to diversify fuel sources.

We support the EU's regulatory effort in what is referred to as the Third Energy Package, which has reduced Russia's ability to use its monopoly as a weapon against its neighbors. But more must be done to enforce these rules and their intent.

Part of the answer for Ukraine's energy security is its integration into the EU's energy market. However, before this integration can happen successfully, it is essential that Ukraine reform its energy sector. If it does not, and if corruption and inefficiency continue along with crippling energy subsidies for consumers, Ukraine will be right back where it started before long.

That is why the Bureau of Energy Resources and others in the U.S. government are working with Ukraine on internal reform, governance, and efficiency improvements, as well as increasing their own gas production including by exploring their shale resource potential.

We have worked closely with the governments of Ukraine, Hungary, Poland, and Slovakia and with European energy companies to see gas flowing from Europe into Ukraine. Thanks in part to these efforts, gas is now flowing from both Poland and Hungary into Ukraine. In late April, the governments of Ukraine and Slovakia also signed an MOU on reverse-flow – an agreement which will allow gas to begin to flow from Slovakia into Ukraine as soon as September. Although the volumes will be small initially, they could increase significantly over the next year.

Caribbean Energy Security

The value of energy diversification does not stop in Eastern Europe. Most of the Caribbean island states are significantly reliant on a single source for energy and energy finance. Additionally, several suffer from inefficiency and aging infrastructure, corruption, and an investment climate that deters rather than encourages investment. As this is critical not only for the region as a whole, but also for our own national security, I recently joined Vice President Biden in Colombia and the Dominican Republic as he announced a new Caribbean Energy Security Initiative. The initiative will seek to address the barriers specific to this region and take actions to encourage the private sector to make the necessary investments.

No country in the world should rely on a single supplier whether in Europe, the Western Hemisphere, or Asia.

Mediterranean Energy as an Anchor for Regional Cooperation

The Eastern Mediterranean is an example of where, with active U.S. engagement, energy can serve as a catalyst to increase regional cooperation and avoid conflict.

Exciting offshore hydrocarbon discoveries in Israel and Cyprus, as well as potential offshore discoveries in Lebanon and Egypt, are transforming countries that were previously energy importers into countries that have the ability to both supply domestic demand, and export to regional and global markets where demand is high.

I have spent a lot of my time in the region helping to facilitate discussions between Israel, Cyprus, Lebanon, Jordan, and Egypt as these discoveries continue to play a pivotal role in re-defining previous geopolitical relationships. Energy cooperation has significantly warmed relations between Israel and Cyprus – a point that was underscored by President Anastasiades when I was in Nicosia with Vice President Biden in May. Energy can also serve as an incentive to reaching a comprehensive settlement to the Cyprus question.

Also, repeated terrorist bombings of the Egyptian gas pipeline to Israel and Jordan forced Jordan to import expensive fuel oil to meet its energy needs – costing Jordan nearly four billion dollars each year. Over the past two years I made 16 trips to Jordan to help facilitate solutions to Jordan's energy crisis. These efforts recently culminated in a historic deal signed between Houston-based Noble Energy operating offshore Israel, and a Jordanian industrial complex at regionally competitive prices, saving Jordan billions and helping to stabilize Jordan's future economy.

While the export of energy resources from Israel and Cyprus has the potential to forge stronger economic, and by extension diplomatic, ties, if managed poorly these resources could become the flash point for conflict.

Competing Exclusive Economic Zone claims by Israel and Lebanon present a potential flash point for conflict if left unresolved. However, the United States continues to work closely with Israel and Lebanon to find a solution that will allow both countries to explore and exploit their offshore resources. We remain optimistic that a solution is possible because it is in the interest of both sides.

If countries in the region work together, the Eastern Mediterranean can become an important energy hub, promoting regional prosperity and supporting Europe's energy security. The United States will continue to support this effort.

Closer to home, the State Department was able to lead, with the Department of the Interior, an important international negotiation to defuse neighborly concerns over potential cross-boundary oil reserves in the Gulf of Mexico. We were able to see the negotiation to its successful completion and bring the United States–Mexico Transboundary Hydrocarbons Agreement into force with the support of the Congress.

Thanks to the increased certainty that this agreement brings, the United States was able to lease additional offshore Gulf of Mexico exploration blocks this year, earning the taxpayer some \$21 million in bid payments that would not have accrued without this energy diplomacy.

Conclusion

Mr. Chairman, the energy diplomacy I have discussed today does not include all of ENR's global engagement. ENR's diplomacy spans the globe and extends from addressing oil and gas related-issues to advancing renewables and energy efficiency. With global oil supply outages at historic highs, patterns of energy production, consumption and trade fundamentally altered, and the sound energy supply footing of the United States, we have a historic opportunity to engage across the energy spectrum to address the many challenges that lie ahead. The role of the State Department and the Bureau of Energy Resources in engaging on these key energy security issues is now an integral part of our overall diplomacy. We have learned that in an interconnected world, we advance our own energy security and prosperity when our friends and allies advance with us. 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, and not conflict. I look forward to your questions.