

**STATEMENT OF MR. JOSE W. FERNANDEZ
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ENVIRONMENT
SENATE FOREIGN RELATIONS COMMITTEE
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Thank you, Chairman Menendez, Ranking Member Risch, and Members of the committee for the opportunity to appear before you today. Chairman Menendez, Ranking Member Risch, I appreciate your interest in the economic work at the State Department. It is my pleasure to be here with my colleagues, acting Treasury Under Secretary Andy Baukol and the Director of the U.S. Trade & Development Agency Enoch Ebong. State works closely with our interagency colleagues to build a prosperous and secure global economy that benefits American workers, families, and businesses.

The economic work of the Department of State is a vital part of rejuvenating rules-based global economic institutions and the U.S. alliances and partnerships of today and those to come. As Under Secretary for Economic Growth, Energy, and the Environment, I oversee a diverse team responsible for developing international policies and cultivating partnerships to promote economic growth and prosperity and address challenges in a transparent, rules-based, and sustainable manner. This includes teams across the Bureau of Economic and Business Affairs, the Bureau of Energy Resources, and the Bureau of Oceans, International Environmental and Scientific Affairs, as well as the Office of Chief Economist, Office of Global Food Security, Office of Global Partnerships, and the Office of Science and Technology Adviser.

What makes the State Department's contribution to this goal unique is our team of ambassadors and more than 1,500 economic officers, located in almost

every country in the world, who work with host governments to advance the Administration's economic statecraft agenda across an array of issues from supply chains to artificial intelligence, leveraging U.S. global leadership to strengthen our domestic economy. These efforts include promoting commercial and investment opportunities for U.S. companies and workers, intensifying our efforts on energy and climate security and environmental sustainability, ensuring sustainable and reliable supply chains, enhancing health security and resilience, expanding access to secure communication networks, advancing protection for U.S. intellectual property and innovation, and fostering innovation through robust science, entrepreneurship, and technology policies.

Recognizing the important role commercial diplomacy plays in promoting U.S. prosperity, Congress passed the Championing American Business Through Diplomacy Act (CABDA) in 2019. CABDA gives the Secretary of State primary responsibility for interagency coordination in support of U.S. economic and business interests abroad. The State Department has welcomed the opportunity to coordinate this whole-of-government effort and will be releasing the inaugural CABDA Report to Congress later this year, highlighting these efforts. The CABDA report, beyond creating an inventory of interagency commercial and economic advocacy efforts at posts, also establishes a critical baseline on U.S. companies' priorities and challenges, and how we are working to support them.

Since my confirmation in August 2021, much of my work has centered around combating Russia's outright aggression against Ukraine and its challenge to the international rules-based order, countering the People's Republic of China's (PRC) unfair economic practices, including economic coercion, coordinating the international COVID-19 response, and building partnerships for resilient clean energy, semiconductor, critical mineral, and medical/pharma supply chains.

Responding to Russia's Further Invasion of Ukraine

Russia's unprovoked aggression in Ukraine and the humanitarian and economic consequences of Russia's actions have not only severely hurt Ukraine but also impacted the global community. The Department's economic team, alongside the Department of Treasury and others, has worked round the clock on measures to hold Russia and Putin accountable. Our sanctions have hit the Russian economy hard – limiting the Russian military's resources and sowing dissatisfaction among those who would prop up the regime. The U.S. government has sanctioned over 1,000 individuals and entities under our Russia sanctions programs, and we have frozen or blocked billions in assets. My team continues to work closely with Allies and partners to coordinate sanctions measures and amplify their impact. My team is also supporting efforts to assess and respond to the environmental impact of damage caused by the war, as well as to coordinate with other global leaders to deliver much-needed medical supplies into Ukraine.

Food security, and the impending crisis exacerbated by Russia's war of choice on Ukraine and its impact on the production and transportation of key commodities, is also at the forefront of our work at the Department. Of course, these issues not only threaten vulnerable populations worldwide but they also impact American families, as food prices increase globally. My team is working diligently to help Ukrainian officials reopen seaports--and find additional, alternate export routes by rail, road, and barge--so shipping of agricultural products can continue.

We are also leading discussions with our allies and partners on the need for diversified and sustainable international energy markets. In the near term, we are committed to helping our European allies find ways to improve energy resilience and support their plan to end their dependence on Russian energy.

The United States continues to work, in concert with our allies and partners, to enhance Europe's energy security. One of Putin's biggest miscalculations in undertaking his war of aggression against Ukraine was underestimating how it would bring our alliances closer. Since September 2021 – even before Putin initiated his war – the United States engaged major natural gas producers around the globe to understand their capacity and willingness to surge natural gas output and allocate these volumes to European buyers. This work has produced tangible successes, including allies like Japan and the Republic of Korea agreeing to redirect liquefied natural gas (LNG) cargoes to Europe. We continue to support efforts that diversify and increase LNG supplies to Europe, particularly as Russia cuts off and decreases natural gas supplies to EU member states.

While we continue to support efforts to diversify LNG supplies to Europe, reducing demand for fossil fuels and advancing the clean energy transition remain key short- and long-term deliverables to eliminate Europe's energy dependencies on Russia. We are collaborating with clean and renewable energy technology providers to help reduce overall natural gas demand in Europe, including through deploying technologies such as smart thermostats, efficient grid technologies, and energy efficiency and productivity improvements. We are also collaborating to accelerate deployment of clean and renewable energy solutions, such as offshore wind, nuclear energy, and clean hydrogen.

Moreover, the Department is working to address the global energy crisis Putin's war has caused. With the Department of Energy in March and again in April we marshalled support for the two largest International Energy Agency collective oil releases in history. Together with the United States' commitment, these releases added a combined 240 million barrels to global supply. These actions show the President's unwavering focus on doing everything in his power to help American families who are paying more out of pocket for gasoline due to Putin's war.

All of this work has helped the United States and our allies assert a comprehensive and unified Russia policy that exacts maximum cost to Putin and his regime while mitigating, to the extent possible, unintentional impacts on civilian populations worldwide.

Countering the PRC's Economic Coercion

Additionally, as Secretary Blinken highlighted in a major policy address in May, Russia is not our only geopolitical economic challenge. As Members of this committee know well, the PRC is increasingly advancing economic policies and practices fundamentally at odds with the market-oriented global system. Additionally, the PRC uses its economic position to intimidate and coerce governments throughout the world in order to advance Beijing's strategic interests, or to punish countries for pursuing legitimate policies that the PRC deems harmful to PRC interests. The PRC has increasingly employed intimidation tactics and pressure campaigns against a number of U.S. partners, including Japan, the Republic of Korea, Norway, Australia, and, most recently, Lithuania.

As you are aware, last year, after Lithuania decided to allow Taiwan to open an unofficial representative office in Vilnius, with a name the PRC deemed unacceptable, Beijing began targeting Lithuania with a range of coercive and punitive economic measures which we believe were aimed at forcing Vilnius to change the name of the office, or, if Vilnius refused, to impose enough economic damage on Lithuania to deter other nations from following suit. State worked with the interagency to develop a plan to address the immediate impacts of PRC actions against Lithuania and then consulted with the European Union, Taiwan, and other allies and partners on ways to support Lithuania and strategize on ways to prevent and respond to future cases of economic coercion. As the PRC ratcheted up diplomatic and economic pressure, we countered with a series of actions to demonstrate our support for Lithuania and encouraged others to do the same.

To name just one example: After the PRC cancelled a €300 million export credit facility to Lithuania (requiring Lithuanian importers to pay in advance for PRC imports), we worked with the Export-Import Bank (EXIM) to execute a Memorandum of Understanding (MOU) with the Lithuanian government to enhance economic cooperation by deepening engagement on opportunities for U.S. exporters and Lithuanian buyers. The MOU envisions making up to \$600 million of financing authority available to facilitate U.S. exports to Lithuania. In short, the EXIM MOU was a tangible demonstration of U.S. support to Lithuania as it stood up to the PRC.

We are also engaging allies and partners to explore options for multilateral action on the broader issue of PRC economic coercion. The State Department joined USTR in welcoming the EU's decision to bring a WTO case against the PRC (for which the United States requested to join the consultations, along with Japan, the UK, Canada, Australia, and Taiwan). We would like to see more

multilateral action of this nature and are exploring options across a range of fora. We are also working bilaterally with our allies and partners to help Lithuania replace markets and supply chains cut off by the PRC, especially Taiwan, which earlier this year agreed to provide Lithuania with a \$1 billion export credit facility.

Mr. Chairman, as you have mentioned, Lithuania was a test case to combat the PRC's economic coercion, and I believe the United States and our allies and partners rose to the occasion, allowing Vilnius to stand strong, but we need to remain supportive of Lithuania and vigilant of similar challenges from Beijing in the future.

Working with Allies and Partners

As we've seen with Russia and the PRC, strong global partnerships are force multipliers in advancing U.S. foreign policy priorities. The Department of State is actively working on harmonizing efforts with our sister agencies as well as foreign partners in formal settings such as the U.S.-E.U. Trade and Technology Council (TTC), the U.S.-Japan Economic Policy Consultative Committee (EPCC), and the India, Israel, United Arab Emirates and United States initiative, or "I2U2", all established in just the last year.

Since the inaugural U.S.-EU Trade and Technology Council (TTC) ministerial in September 2021, the U.S. and EU, along with stakeholders in business and labor, have worked together to demonstrate how democratic governance approaches can deliver for our citizens and the world. Under the TTC umbrella, ten interagency, bilateral working groups are developing a set of concrete deliverables in these and other areas for our next ministerial meeting later this year.

And in many ways this partnership has already delivered in terms of our Transatlantic approach to Russian and Belarusian export controls and countering PRC coercion of Lithuania. In May 2022, the TTC ministers reviewed work to address supply chain vulnerabilities, including in the semiconductor industry, investment screening, export controls, and coordination of standards for emerging technologies such as artificial intelligence. As we do so, we are also mindful to avoid creating unnecessary barriers to trade in the vibrant transatlantic economy.

Secretary Blinken asked me last fall to lead the new Israel-India-United Arab Emirates-United States (I2U2) grouping of like-minded partners. We were very pleased the President elevated I2U2 to the heads of state level, launching the initiative with his I2U2 counterparts during his visit to Israel on July 14. I2U2 will deepen Israel's economic integration within the Middle East and beyond to Asia and will serve as a model for promoting trusted regional partnerships that can collaboratively create commercial opportunities and good paying jobs in countries that share our commitment to the region's peace, prosperity, and stability. We are collaborating closely with interagency partners on this initiative, including with the U.S. Trade and Development Agency (USTDA), Commerce, EXIM, USDA, and others.

Supply Chains

Supply chains are a major focus of these and other regional and bilateral initiatives, where we work with our partners and allies to relieve supply chain bottlenecks and disruptions that add to inflationary pressures. Even before the President issued his February 2021 executive order to secure U.S. supply chains in sectors critical to our national and economic security, the State Department had a long history of working closely with partners and allies to increase supply chain

resiliency against multiple vulnerabilities, and we regularly benefit from reporting from our posts around the world on relevant trends and host country views.

Our supply chain work has centered on promoting greater transparency (better information sharing), diversification (promoting investment and co-investment in critical supply chains), security (improving cyber security and identifying and addressing common threats), and sustainability (adhering to strong labor and environmental standards and enforcement). In this effort, the Department of State has ensured the participation of business, labor, civil society, and academics. We also ensured the impacts of supply chain disruptions on vulnerable populations are front and center for the United States and our allies.

At the Leaders' Summit on Supply Chain Resilience in Rome in October 2021, President Biden launched a global cooperative effort to drive greater transparency, diversification, security, and sustainability. Secretary Blinken and Commerce Secretary Raimondo furthered these goals through a multi-stakeholder Ministerial Forum on Supply Chain Resilience on July 19-20. The Department of State has worked with our sister agencies to also advance these principles through regional and sectoral engagement with key partners and allies, including the U.S.-EU Trade and Technology Council, the Quad Critical and Emerging Technologies Working Group, the Indo-Pacific Economic Framework (IPEF), the Americas Partnership for Economic Prosperity (APEP), the COVID-19 Pandemic Prioritized Global Action Plan for Enhanced Engagement (GAP), the recently announced Minerals Security Partnership, and a wide range of bilateral engagements. We are also promoting these supply chain principles through our bilateral dialogues, including with Japan, the Republic of Korea, and Taiwan.

Ensuring resilient supply chains also includes nearshoring in the Western Hemisphere to minimize future disruptions. The supply chain disruptions due to the pandemic have shown us that it is critical for the private sector to diversify its supply chains, to the greatest degree possible, away from single-sourcing and to create enhanced resilience. Where appropriate, we will work with sister agencies, the private sector and partners to coordinate efforts and potentially leverage financial and development tools, including support for efforts to move supply chains away from adversarial nations or locations with unacceptable environmental or labor standards. Our efforts must ensure that our partners uphold high environmental and labor standards and have strong trade enforcement policies. We also seek to support capacity building and provide technical assistance when needed to improve environmental and labor standards and enforcement of them.

Food Security

The Department is also working to address acute and growing global food insecurity and, as Secretary Blinken noted during the during the May 18 Roadmap for Global Food Security—Call to action ministerial at the United Nations, the drivers of which are climate change, COVID, and now conflict caused by Russia’s aggression. As part of our efforts, we created a global roadmap that commits countries to take swift, concrete steps to get food to people around the world who need it now, and to build greater resilience to future shocks. Ninety-nine countries and counting have signed on to that roadmap.

Our focus now is to turn those commitments through the roadmap and other initiatives into concrete, immediate action, including through the seven actions laid out by Secretary Blinken at the Roadmap for Global Food Security ministerial -- namely: (i) pressing countries to step up with new substantial contributions to

meet urgent humanitarian needs; (ii) working with the United Nations to end Russia's blocking of Ukrainian food exports through the Black Sea; (iii) closing the global fertilizer gap by both producing more fertilizer and using it more efficiently; (iv) urging governments not to impose restrictions on the export of food and fertilizer; (v) increasing agricultural capacity and resilience, including through our own Feed the Future initiative; (vi) working with international financial institutions to cushion food shocks; and (vii) promoting greater information sharing and coordination, including through the Global Alliance for Food Security.

I would also like to close by highlighting one of the initiatives that I have led since beginning my tenure at the State Department, the Minerals Security Partnership, or MSP. It is an example of the work we have been doing to advance many of the priorities I have outlined in my statement today, including supply chains, collaborating with allies and partners, and the clean energy agenda. As you know, many of the clean energy technologies being deployed today, and those under development, require a wide range of critical minerals and metals on a rapidly accelerating pace. The world will need tremendous amounts of minerals like cobalt and lithium, nickel, and rare earth elements, essential for manufacturing photovoltaic solar panels and electric vehicle batteries, let alone more copper to help further electrify our economies and reduce the need for higher emitting sources of energy.

After hearing from our embassies and consulates overseas about the need for a cohesive policy on global critical mineral supply chains, we began to develop a global approach with our partners and allies on a pathway towards meaningful progress in expanding access to critical minerals extraction and production. That is why on June 14, the United States and other partners moved forward with

establishing the Minerals Security Partnership, or MSP, that will seek to improve cooperation on diversifying critical mineral supply chains and speed up the production, processing, and recycling of critical minerals in a way that helps countries realize the full economic development benefit of their geological endowments. The MSP will focus on increasing public and private investment, improving transparency, and promoting high environmental, social, and governance (ESG) standards throughout critical mineral supply chains. We want a race to the top, not the other way around.

This is something that will be at the heart of the Administration's work on critical minerals, and I want to thank you Mr. Chairman for your leadership on this issue, and I pledge that I will continue to work with you and this Committee to further develop the tools and mechanisms needed to amplify the MSP and the work we are doing with our partners on securing global critical mineral supply chains.

Mr. Chairman, Ranking Member Risch, let me conclude by saying that I look forward to working with you both as well as the Members of this committee in the years to come on the initiatives I have described today, and the challenges and opportunities we are sure to face in the years to come. I look forward to your questions.