

U.S. Senate Committee on Foreign Relations
Chairman John F. Kerry
Opening Statement for \$150 Oil: Instability, Terrorism and Economic Disruption
July 16, 2009

Chairman Kerry Opening Statement At Energy Security Hearing

WASHINGTON, D.C. – Today, Senate Foreign Relations Committee Chairman John Kerry (D-MA) released the following opening remarks at the hearing titled, “\$150 Oil: Instability, Terrorism and Economic Disruption”.

Full text as prepared is below:

There is a striking overlap between the world’s sources of energy and the world’s sources of instability. Iran, Iraq, Sudan, Russia, the Caucasus, Nigeria, and Venezuela—all are on the frontlines of our energy supply challenge and the fault lines of our geopolitics.

Too often, our foreign policy debate has failed to reflect the importance of this issue. Senator Lugar has worked, over many years, to right this balance. We are all grateful for his ongoing vigilance and for his leadership, particularly in the development of biofuels.

It may seem strange to be discussing \$150 oil with the price hovering in the 60 dollar range. But given the tremendous volatility of recent years, today’s price should not be a gauge of urgency.

In fact, such volatility itself is a major problem in its own right: Last year, we almost reached \$150 per barrel. By the beginning of this year the price had plummeted to less than \$35. Since January we have seen prices double. Such dramatic swings in such a short time span are devastating to our economy.

As the cost of oil soared last summer, gas prices skyrocketed, airlines cut routes and raised prices, businesses closed factories, trade slowed, and our economy began to plunge. Even with lower prices today, the recent instability has left existing businesses reluctant to expand and discouraged new businesses from opening.

And, according to McKinsey Global Institute, prices volatility will continue. They predict another spike between 2010 and 2013, just as our economy gets back into gear. However, they and many others see a solution: manage the demand. Globally we can reduce demand by up to eleven million barrels by 2020 at little or no cost, through higher energy efficiency, natural gas substitution, and the removal of subsidies internationally. That is more than the entire output of Saudi Arabia in 2008.

Of course, we also have to understand and address the stability of our supply. In fact, many argue that it was the shortage of spare capacity that fueled last year’s price spikes. The good news is, new production may be coming down the pipeline: in Iraq, BP and CNPC, the winning bidders on the Rumaila oilfield, believe they can increase production by 1.85 million barrels per day—roughly equal to France’s oil use in 2008. Saudi Arabia is bringing another 1.2 million bpd online and has committed to maintaining spare capacity of 1.5-2.0 million bpd to avoid future shocks.

The bad news is, supply risks are growing, too. In Nigeria, the militant group, MEND, has been regrettably successful in taking oil infrastructure offline—cutting oil flows nearly in half and leaving exports significantly below the government’s target. Such conflicts are not easy to solve. MEND announced a cease-fire yesterday, which after just a few hours, was already on the ropes. Underinvestment is another risk to supply—straining the ability of Russia and other countries to bring new capacity online.

Of course, as Europe was painfully reminded during the stand-off between Russia and Ukraine, energy security extends beyond oil. Several European nations were left without a vital source of natural gas during a cold winter. The risks of undiversified supply can be profound.

Here again, Senator Lugar has been a leader. He just represented the United States in Ankara at the signing of the Intergovernmental Agreement for the Nabucco Pipeline, which will bring natural gas from Iraq and the Caspian Region through Turkey and into Europe. His advocacy played a critical role in moving plans for this pipeline forward and in furthering the goals we all share: diversity in energy supply and free market access.

Before turning to our distinguished panel, I want to raise one final point about energy security. We have to think not only about the threat *to* our carbon-based energy supply, but also the threat it poses to us. Energy and climate security must ultimately advance hand-in-hand, and we need to keep both at the forefront of our minds.

We are fortunate to have with us today four very distinguished experts to discuss, region by region, current and future challenges to our supply of energy.

- Ambassador Richard Morningstar, Special Envoy for Eurasian Energy, has been covering these issues for years, as Ambassador to the EU and Special Advisor for Caspian Basin Energy Diplomacy. He has just returned from a successful visit to Turkey with Senator Lugar.
- Ambassador Bill Hudson, Acting Deputy Assistant Secretary of State for Near Eastern Affairs, has had a long and distinguished career with the Foreign Service, serving previously as our Ambassador in Tunisia and opening our Embassy in Kabul.
- Ambassador Rich Schmierer, Deputy Assistant Secretary of State for Near Eastern Affairs was just confirmed last week and will be heading to Oman shortly as our Ambassador. He previously served as Director of the Office of Iraq Affairs.
- Ambassador Phil Carter, Principal Deputy Assistant Secretary of State for African Affairs, brings a wealth of experience on West African issues, having served as our Ambassador in Guinea and Director for West African Affairs.

I am pleased to have you all here, and I look forward to your testimony.

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