

Dick Lugar

U.S. Senator for Indiana

Date: 07/16/2009 • <http://lugar.senate.gov>
Contact: Andy Fisher • 202-224-2079 • andy_fisher@lugar.senate.gov

Opening Statement for Hearing on Energy Security & Foreign Policy

U.S. Senate Foreign Relations Committee Republican leader Dick Lugar made the following statement at today's hearing:

Thank you, Chairman Kerry for calling this hearing, which continues the Foreign Relations Committee's multi-year, bipartisan effort to examine the role of energy in our foreign policy. Energy security is a critical factor affecting nearly all of today's foreign policy challenges. The American public increasingly understands that greater energy independence is a national security necessity and that energy security should be a top diplomatic priority of our government.

Three days ago, in Ankara, Turkey, Ambassador Richard Morningstar and I represented the United States at the signing of a milestone treaty on the development of the Nabucco natural gas pipeline. Nabucco will be a vital link in the "East-West Corridor" that will connect the oil and gas rich Caspian region with Europe. During the past four years, Russia has repeatedly demonstrated its intent to use its dominant position in European natural gas markets to project its influence across Europe, the Caucasus, and Central Asia.

Nabucco will help diversify gas supplies to many European countries. In the process, it will bring more competition and transparency to natural gas markets, and it will reduce the coercive potential of Russia's natural gas dominance.

The significance of the Nabucco agreement is far greater than the natural gas it will carry. Agreement on Nabucco is a bold demonstration that governments representing diverse peoples and interests can overcome divisions. It required substantial agreement on energy security between European Union nations, Turkey, Georgia, Azerbaijan, and the United States. It is a signal to the rest of the world that partner governments will not acquiesce to manipulation of energy supplies for political ends. It also has the potential to build new avenues for peaceful cooperation. This prospect was illustrated in the meeting that Ambassador Morningstar and I enjoyed with Iraqi Prime Minister Maliki after the Nabucco signing this week. He indicated his desire to export natural gas via Nabucco, thus raising an opportunity for Iraq to establish stronger cooperation with Turkey and beyond and to raise money for the substantial post-war rehabilitation of his country.

American diplomacy has been extremely important to getting the Nabucco project to this point. I want to recognize the special efforts of Ambassador Boyden Gray in 2008. Although the United States is neither a customer, nor producer of the natural gas that will traverse the pipeline, steadfast American support over many years was instrumental in keeping Nabucco on the agenda and for bolstering the confidence of partner countries. Long-term strategic thinking on energy security is needed across U.S. foreign policy. That is one reason that I authored legislation creating an International Energy Coordinator at the State Department. My conversations with Secretary Clinton indicate that this appointment will be made soon. I am hopeful that the Energy Coordinator will work to ensure that energy is at the top of our foreign policy agenda.

In today's hearing we will focus on key oil and gas producing areas of the Middle East, Africa, and the greater Caspian region where political developments have major consequences for global prices and markets. The global economic downturn has reduced energy demand, bringing price relief to consumers and greater flexibility to markets. Predictably, the recession has also led to falling investment in the energy sector. The International Energy Agency projects that global investment in oil and natural gas production will fall by \$100

billion this year. Just last week, OPEC announced sharp reductions in production investment. These cuts come at a time when more investment is needed to counteract high oil field decline rates.

When major economies start to recover, energy demand will rebound, causing markets to tighten and prices to rise. Under such conditions, markets will be highly susceptible to vulnerabilities that can produce severe supply shocks. Three vulnerabilities stand out as areas of concern for energy diplomacy. First, instability and conflict may disrupt energy flows and undermine needed investment. Second, governments may make supply and investment decisions based upon politics, not economics. And finally, terrorist activity may threaten major energy infrastructure.

In the near term, if we fail to address these vulnerabilities, the prospects for economic recovery could be seriously imperiled. An oil price shock that hits just as a recovery is beginning and demand for energy is increasing would likely generate inflation, undermine market confidence, and increase the risks of conflict. Over the longer term, even if we hope for a conversion from a fossil fuel dominated economy to one that depends much more on renewable resources, failure to maintain consistent supplies of oil and natural gas in the interim could be debilitating to our economy and our national security.

These are problems that require cooperation with other governments. We can work on long term U.S. energy independence largely through domestic efforts, but short-term and medium-term energy security is highly dependent on the decisions, investments, and political attitudes of other countries. Consequently, there are few topics on which U.S. foreign policy has a greater responsibility to engage.

I welcome our distinguished witnesses and look forward to their insights on these matters.

###