

**Senate Committee on Foreign Relations**  
**Chairman Richard G. Lugar**  
**Opening Statement for Hearing on the High Costs of Oil Dependence**  
**November 16, 2005**

The Committee meets today to examine the effects of U.S. oil consumption on American foreign policy and on our wider economic and security interests. High oil prices have hurt American consumers at the gas pump, and record revenues flowing into oil producing nations are changing the world's geopolitical landscape. Increasingly, oil is the currency through which countries leverage their interests against oil dependent nations such as ours.

Oil is not just another commodity. It occupies a position of singular importance in the American economy and way of life. In 2003, each American consumed about 25 barrels of oil. That is more than double the per capita consumption in the United Kingdom, Germany, and France and more than 15 times that of China. With less than 5 percent of the world's population, the United States consumes 25 percent of its oil.

Higher oil prices have helped drive the consumer price index up 4.7 percent during the past year. Motorists felt this pinch at the pump long before the destruction of Hurricanes Katrina and Rita. This year, the United States has spent about \$19 billion per month on oil imports. The cost of imported oil now accounts for approximately one third of our trade deficit.

In the short-run, our dependence on oil has created a drag on economic performance at home and troubling national security burdens overseas. In the long-run, this dependence is pushing the United States toward an economic disaster that could mean diminished living standards, increased risks of war, and accelerated environmental degradation.

Up to this point, the main issues surrounding oil have been how much we have to pay for it and whether we will experience supply disruptions. But in decades to come, the issue may be whether the world's supply of oil is abundant and accessible enough to support continued economic growth, both in the industrialized West and in large rapidly growing economies like China and India. When we reach the point where the world's oil-hungry economies are competing for insufficient supplies of energy, oil will become an even stronger magnet for conflict than it already is.

Since 1991, we have fought two major wars in the oil-rich Middle East, and oil infrastructure and shipping lanes are a target for terrorism. In addition to the enormous dollar cost we pay for the military strength to maintain our access to foreign oil, our petroleum dependence exacts a high price in terms of foreign policy and international security.

Massive infusions of oil revenue distort regional politics and can embolden leaders hostile to U.S. interests. Iran, where oil income has soared 30 percent this year, threatened last month to use oil as a weapon to protect its nuclear ambitions. At a time when the international community is attempting to persuade Iran to live up to its non-proliferation obligations, our economic leverage on Iran has declined due to its burgeoning oil revenues. Similarly, the Chavez government in Venezuela resists hemispheric calls for moderation, in part because it has been emboldened by growing oil revenues. Russia uses its gushing oil and natural gas income and reserves as leverage over new democracies in East Europe. Globally, critical international security goals, including countering nuclear weapons proliferation, supporting new democracies, and promoting sustainable development are at risk because of dependence on oil.

Diversification of our supplies of conventional and non-conventional oil, such as Canada's tar sands, is necessary and under way. Yet because the oil market is globally integrated, the impact of this diversification

is limited. Our current rate of oil consumption, coupled with rapidly increasing oil demand in China, India, and elsewhere will leave us vulnerable to events in the tumultuous Middle East and to unreliable suppliers such as Venezuela. Any solution will require much more than a diversification and expansion of our oil supply.

Despite the widening discussion of our energy vulnerability, the U.S. political system has been capable of only tentative remedial steps that have not disturbed the prevailing oil culture. The economic sacrifices imposed on Americans recently by rising oil prices have expanded our nation's concern about oil dependence. But in the past, as oil price shocks have receded, motivations for action also have waned. Currently, policies for mediating the negative effects of oil dependence continue to be hamstrung in debate between supply-side approaches and those preferring to decrease demand. We must consider whether the political will now exists to commit to a comprehensive strategy.

Our weak response to our own energy vulnerability is all the more frustrating given that alternatives to oil do exist. Oil's importance is the result of industrial and consumption choices of the past. We now must choose a different path. Without eliminating oil imports or abandoning our cars, we can off-set a significant portion of demand for oil by giving American consumers a real choice of automotive fuel. We must end oil's near monopoly on the transportation sector, which accounts for 60 percent of American oil consumption.

I believe that biofuels, combined with hybrid and other technologies, can move us away from our extreme dependence on oil. Corn-based ethanol is already providing many Midwesterners with a lower-cost fuel option. Cellulosic ethanol, which is made of more abundant and less expensive biomass, is poised for a commercial take-off. We made progress in the 2005 energy bill, which includes incentives to produce 7.5 billion gallons of renewable biofuel annually. I introduced legislation last week that would require manufacturers to install flexible-fuel technology in new cars. This is an easy and cheap modification, which allows vehicles to run on a mixture of 85 percent ethanol and 15 percent gasoline.

We will get even greater payoffs for our investment in oil alternatives if American technological advances can be marketed to the rest of the world. Nations containing about 85 percent of the world's population depend on oil imports. These nations could reap many of the same security and economic benefits by breaking their oil import chains. Developing countries could improve their balance of payments and promote rural development by growing profitable biomass, while offering new markets for fuel technologies.

We need to think creatively about cooperating with other countries to address today's global energy challenges. For example, earlier this month I introduced S.1950, "The United States-India Energy Security Cooperation Act of 2005." This bill would promote greater cooperation with India on clean coal technology, ethanol, and other energy sources.

I am particularly pleased to welcome two good friends who will assist us in our inquiry today. Dr. James Schlesinger, former Secretary of Defense, Secretary of Energy, and Director of Central Intelligence, has seen America through oil shocks and has remained committed to improving America's energy situation. He is a keen analyst of the geopolitical consequences of oil dependence, as well as an authority on America's energy future. Also joining us is Mr. James Woolsey, former Director of Central Intelligence. In 1999, Jim and I co-authored "The New Petroleum," an article in Foreign Affairs that laid out the case for a greater role for cellulosic ethanol. He has continued to serve as a leading advocate for forward-looking reforms of our energy policy.

We thank our distinguished witnesses and look forward to their insights.

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