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Mr. Chairman, honorable committee members, it is a pleasure to be here today to testify on the critical nexus of energy and national security. We welcome the attention being paid to this vital issue by the House and this Committee. Mr. Chairman, we appreciate your particular interest in this issue demonstrated by your participation at the First Oil Ceremony inaugurating the opening of the Baku-Tiblisi-Ceyhan (BTC) pipeline in Georgia in October 2005. A major foreign policy success, the BTC pipeline will not only enhance global energy security but also go far toward strengthening the sovereignty and economic viability of the nations in the region.

By maintaining diversified sources of supply, as exemplified by the BTC pipeline, nations can help make their economies more resilient to disruptions in energy supply. Energy is, after all, a fundamental driver of growth and development around the world, and the use of energy has been steadily expanding along with the world's economies. Greater wealth and prosperity may enhance national security by providing the underpinnings of more peaceful, democratic and cooperative relations. But they also bring increasing pressure on world energy markets – particularly markets for oil, on which most of the world's transportation depends, and markets for gas, on which a growing share of the world's electric power production depends. Whether in reaction to these tight market conditions or in an attempt to take advantage of them, we are witnessing countries that engage in behavior which undermines global energy security.

In order to address this challenge, we must develop a portfolio of near- and long-term measures. To reduce the tightness in the world petroleum market in the near-term, we must work to increase spare production capacity. However, to achieve our long-term goals of energy security, we must acknowledge our "addiction to oil." In the State of the Union address, the President outlined a plan by which we can broaden our energy options. The mission of the State Department is to engage our friends and allies around the world in implementing this vision

with us. We do this everyday through our bilateral and multilateral relations with other countries in promotion of diversified energy supply and transit options; enhancing the investment climate for energy exploration and development; encouraging a transition to market pricing, improving energy efficiency, and advancing research and development of transformational energy technologies.

Diversification of Supply and Transit

As I alluded to earlier, a key factor in global energy security is diversification. This concept is important to producers, transporters and consumers. We actively encourage all nations to facilitate, as practical, the development of a diversity of sources of energy supply and modes/routes of transit in order to lessen the impact of supply disruptions---whether they are natural or man-made.

As a result of the Russia-Ukraine gas dispute, European gas consumers are now increasingly focused on the need to diversify their natural gas supplies, increase efficiency and utilize alternative sources of energy. Such alternatives include the development of gas resources in the Caspian region and the Middle East and East-West transit routes through Turkey. Europe should continue to explore opportunities to expand its gas pipeline links with North Africa. In addition, liquified natural gas (LNG) technologies are growing increasingly affordable, and offer Europe a way to diversify its gas supplies with LNG shipments from North Africa, Nigeria, and the Persian Gulf.

Beyond diversifying the sources of supply and transit routes, Europe's collective energy security can be greatly improved through better integration of the electric, oil, and gas transmission infrastructure systems among energy consuming countries. Again using the example of Europe, the recent disruptions in Russian gas supply demonstrate that gas does not flow smoothly among the European nations. Particularly in Central Europe, the pipelines largely only carry westward flowing gas and oil. More electric, gas, and oil "interconnectors" should be established within Europe in order to achieve efficient and fluid distribution in all directions of needed energy to affected regions during supply disruptions.

Diversification of energy supply, of course, also includes non-hydrocarbon based technologies. Nuclear power will be key in meeting the twin challenges of energy security and greenhouse gas emissions management. New technologies have addressed concerns about safety and emerging technologies may greatly

reduce nuclear waste. Several nations have already joined us in a multilateral partnership known as the "Generation IV International Forum" which conducts research and development for the next generation of safer, more affordable, and more proliferation-resistant nuclear energy systems. This new generation of nuclear power plants could produce electricity and hydrogen with substantially less waste and without emitting any air pollutants or greenhouse gas emissions. Since the Forum was formally established in July 2001, the United States has led the development of a technology roadmap, and increased support for R&D projects carried out in support of the Forum's goals.

Most recently, the United States has also put forth a bold new vision of the future of nuclear power known as the "Global Nuclear Energy Partnership" (GNEP). Through GNEP, the United States will work with other nations possessing advanced nuclear technologies to develop new proliferation-resistant recycling technologies in order to produce more energy, reduce waste and minimize proliferation concerns. Additionally, these partner nations will develop a fuel services program to provide nuclear fuel to developing nations allowing them to enjoy the benefits of abundant sources of clean, safe nuclear energy in a cost effective manner in exchange for their commitment to forgo enrichment and reprocessing activities, also alleviating proliferation concerns.

Enhancing the Investment Climate

According to the International Energy Agency, $2.2 trillion in investment in worldwide oil production is needed by 2030 to meet forecasted demand growth. Worldwide, there remain significant reserves of oil and gas which remain untapped, and at the same time, adequate funds are available in capital markets to finance upstream and downstream investments. However, new supplies of oil and gas are concentrated in countries that lack open and transparent investment regimes. The main challenge, thus, is not the physical deficit of such resources per se but rather the need to create, through joint efforts, the proper environment to realize this potential. We welcome measures aimed at attracting private investments and improving the overall sustainability of the energy sector development. Governments that create transparent and non-discriminatory regulatory environments, favorable investment climates, rule of law and physical safety of key energy infrastructure facilities contribute substantially to the achievement of those goals. At the same time, to ensure optimal benefits to all and building of civil society we will encourage adequate environmental impact assessment of such programs.

Moving to Market Pricing

It is also in our interest to promote a gradual transition to market prices in the economies of developing nations in order to provide for the most efficient utilization of limited world energy supplies. The dispute between Ukraine and Russia over natural gas put the spotlight on below-market pricing for energy. A similar issue is "administered pricing" policies which are in place throughout the developing world, including in major consumer nations such as China. Administered pricing interferes in the operation of markets by insulating consumers from price signals, which in turn encourages demand growth beyond what the markets would ordinarily support.

In addition, to enhancing the flow of energy, coordinated efforts by our friends and allies to promote an improved investment climate and market-based exchange of oil and gas can also affect the chances for real democratic reform to take root in many energy producing and transiting countries. The lack of transparency into the energy deals by many of these nations only sustains cronyism which stifles the rule of law and efforts for genuine reform. Our energy security, and most importantly, our national security writ-large are naturally enhanced when our neighbors and economic partners are democracies instead of tyrannies and kleptocracies. A focus on transparency and good governance will also limit the ability of those in energy producing states that recycle our energy dollars to finance terrorist organizations.

Russia's chairmanship of the G8 offers a unique, although limited, opportunity to push for important commitments on energy security. To be effective, G8 partners need to stress the continuing need for reliability and transparency of energy supply. We should encourage Russia to engage in greater cooperation with the IEA as a non-member country and support greater Russian integration into the global energy system based on market-oriented principles.

Energy Efficiency

Moving to market pricing will be a key step in spurring a greater focus on energy efficiency within Russia, Ukraine, as well as the rest of the transitioning and developing economies of the world. USAID is launching a new program to

assistance Ukraine to improve efficiency and respond to the higher gas import prices. I must emphasize that in the immediate term energy conservation and efficiency provide by far the most important tool in improving our collective energy security. We support programs that provide for incentives for enhanced energy efficiency, conservation, and reductions in greenhouse gas emissions. USAID will be launching a $1 million energy efficiency program aimed at leveraging $100 million of multilateral development funds for industrial energy efficiency in Ukraine. In the United States, for example, the Energy Star labels, which signal high efficiency in office buildings and appliances, were initially developed for domestic use, but they have proven so successful that they have been adopted in many countries. Manufacturers in some 25 countries are producing EnergyStar-compliant equipment. In order for Americans to better take advantage of the efficiency benefits of electric-hybrid and clean diesel technologies, the President has called on Congress to make all such vehicles sold this year eligible for federal tax credits. A similar program is the innovative International Methane to Markets International Partnership, which takes wasted methane gas from oil and gas systems, coal mines, landfills, and agricultural wastes and uses it productively. This important climate change and energy initiative now has 17 countries participating.

Supporting New Technologies

Since the President launched his National Energy Policy in 2001, the U.S. government has spent nearly 10 billion to develop cleaner, cheaper, and more reliable alternative energy sources. The President's "Advanced Energy Initiative" provides for a 22 percent increase in research by the Department of Energy (DOE) to find clean alternatives to oil imported from unstable parts of the world. In order to change the way Americans power our homes and offices, DOE will invest more in clean coal technology, solar and wind technologies, and nuclear energy. DOE will increase research in better batteries for hybrid and electric cars, and in pollution-free cars that run on hydrogen. I am pleased to report that our efforts have helped lower the cost of renewables significantly and we expect further gains and also that our hydrogen program is on track with the President's vision of commercially available vehicles in a roughly 2020 timeframe. Additional funding will be directed to cutting-edge methods of producing ethanol. The United States has initiated a host of multilateral energy technology RD&D coalitions and looks forward to expanding its international collaboration on cutting-edge energy technology research with its friends and allies in order to better utilize our supplies

of raw materials and to reduce our dependence on imported energy from volatile regions of the world.

Engagement

The International Energy Agency

In order to advance the policy objectives of diversification, efficiency, market pricing, technological development, and enhanced investment climates, the USG maintains a wide range of bilateral and multilateral engagements with energy producing, consuming and transiting countries.

Chief among the multilateral fora is the International Energy Agency (IEA). The primary role of the IEA is to coordinate measures in times of oil supply emergencies. While the global oil markets are tight, the U.S. and other IEA member nations have 1.4 billion barrels of crude and refined product in strategic reserves to respond to supply disruptions. Most notably, the IEA and its 26 member countries initiated an emergency response to oil supply shortages caused by Hurricane Katrina less than 48 hours after the extent of the supply disruption became clear. The response included the release of 40 million barrels of oil into the market over a period of sixty days, providing supply to the market.

International Energy Forum

In addition to the IEA, the U.S. is also an active participant in a multilateral producer-consumer dialogue. The State Department participated in the 10th Meeting of the Ministerial-level (IEF) International Energy Forum, which was hosted by Qatar in April. The IEF meeting brought together all of the world's major energy producers and consumers for an open discussion of global energy issues and challenges. Over 60 countries and international organizations were represented. Discussion focused on "Fuelling the Future" with an emphasis on how to meet the investment challenge and reduce uncertainty and volatility in energy markets. China and Italy co-hosted the meeting. The next meeting will be in 2008 in Italy, but the IEF process will continue over the next two years at a more technical level where we, including State Department representatives, and other producers and consumers will work at reducing barriers to energy production and trade and increasing global efficiency.

East and South Asia

To facilitate the transition to open, transparent and efficient energy markets, we are deeply engaged in Energy Dialogues with India and China and work closely with all of the APEC economies on APEC's Energy Security Initiative. One goal of these talks is to encourage these emerging consumers to recognize that they are now stakeholders in the system, not apart from it, and unilateral efforts to guarantee oil security, like buying oilfields, will not guarantee their energy security. But collective energy security can be advanced by improving transparency, particularly of demand data; by partnering with major consumers in building strategic stocks and, as important, prudent policies under which to use them; and by pursuing energy efficient technologies and greater fuel diversification.

We also encourage key non-member drivers of global demand to collaborate with – and move toward greater association with --the International Energy Agency. Through its non-member country outreach program, the Agency maintains several avenues (e.g. bilateral and multilateral policy and technical meetings, energy sector surveys and reviews, international collaboration on energy technology and R&D) to disseminate the latest energy policy analysis and recommendations on best practices. The IEA can assist non-member countries in designing policies to accelerate market-based domestic policy reforms, build strategic petroleum stocks, employ clean energy technologies, and enhance energy efficiency.

In order to obtain the active collaboration of critical energy-consuming and energy-producing countries in Asia in strategies for improving energy security, reducing pollution, and addressing the long-term challenge of climate change, the United States, along with Japan, Australia, China, India, and South Korea, recently launched the Asia-Pacific Partnership on Clean Development and Climate in January 2006. The Partnership will focus on voluntary practical measures taken by the six countries in the Asia-Pacific region to create new investment opportunities, build local capacity, and remove barriers to the introduction of clean, more efficient technologies.

Eurasia

The US interagency community with responsibility for energy affairs recently initiated a review of Eurasian energy dialogues to assess their

effectiveness in implementing U.S. government policy and furthering global energy security, and to determine if the current mechanisms require changes or if additional dialogues are needed. The U.S.-Russia Energy Working Group was reestablished in 2002 with the Department of Energy in the lead at the Deputy Secretary level. The group focuses on investment issues including the legal and regulatory framework, oil market, energy efficiency and renewables, new technologies, and data exchange. The next meeting is likely to take place in the fall of 2006. DOE is working to reinvigorate the exchange. The plan is to focus the annual meetings on specific issues of mutual interest such as LNG markets and regulations. Cooperation will continue on energy efficiency, oil spill monitoring and prevention, and exchange of information on reserve data collection and an oil and gas regulatory framework. There will be continuing effort to evaluate the progress and benefits of this dialogue and seek new ways to enhance cooperation and understanding of energy markets.

The U.S. government is also working toward intensifying its engagement with officials from Eurasia to encourage development of commercially viable pipeline routes to transport Central Asian gas to Europe and other markets. In the South Caucasus, the U.S.-Azerbaijan Energy Dialogue, which occurs annually at the cabinet level, addresses such issues as development of oil and gas resources, regulatory reform, environmental and technological issues, investment climate, market-based development of the electric power industry, investment issues, energy efficiency and renewables, and science cooperation. Similar exchanges are carried out through the U.S.-Ukrainian Bilateral Coordinating Group, the U.S.-Kazakhstan Energy Partnership, and the U.S.-Turkish Dialogue. Regional cooperation in electricity in Central Asia is coordinated by the USAID regional Mission in Kazakhstan and USAID is currently looking at expanding this cooperation to markets in Afghanistan and on to Pakistan and India.

The recent Russian/Ukraine natural gas dispute and the sustained high price of oil on world markets have also prompted Europeans from Portugal to Poland to re-examine their respective situations with respect to security of gas supply. Sensing a need to improve communication and coordination among member states, which retain authority for determining their individual energy policies, the European Commission has taken the lead on this issue by publishing on March 8, a "green paper" outlining a common "strategy for sustainable, competitive and secure energy" in Europe. The current state of affairs presents an opportunity for us to engage the EU on strategies to enhance its energy security posture---and by extension, our own. In the run-up to the U.S.-EU summit in June, the US

interagency community with responsibility for energy affairs is in regular contact with its counterparts in the European Commission and member states to identify areas for enhanced cooperation.

The USAID is already working with the European Commission on developing and harmonizing energy regulatory frameworks to create a more transparent and attractive climate for energy diversification investments. In addition, since 2002 USAID technical assistance programs support the proposed Energy Community Treaty for Southeast Europe aimed at creating electricity and gas markets in the energy transit countries of Bulgaria, Romania, Serbia, Macedonia, Bosnia and Albania, with which Greece, Italy, Austria, Moldova and Hungary also participate, under the leadership of the European Union. Other possible areas of focus may include geopolitical engagement with third countries, energy efficiency, and alternative fuels.

Western Hemisphere

Central America and the Caribbean are just one area where energy policy and foreign policy concerns are apparent. The region is one of most oil dependent regions of the world, given a lack of access to other energy resources. The Caribbean is being tempted with the promise of "charge card" oil, easy credit terms that can only add to the already strained fiscal balances of many countries in the region. State is working closely with USAID and DOE in this region and elsewhere to link the issues of poverty alleviation, energy security, and environment and climate change. We are encouraging the Inter-American Development Bank and other international Financial Institutions to pay more attention to the pressing energy needs there. And, with the partnership of the Congress, the CAFTA will help lift all economic boats in the region.

We are supporting Mexico's Mesoamerica Initiative to integrate Central American energy grids. We are doing so by using our influence in the IDB and bilaterally by focusing and expanding USAID, EPA and TDA programs there. In March we expanded our engagement to partner with the Central American Integration Secretariat on clean energy development. We are working with the Central Americans to identify and fast track a key matrix of energy sector projects and policy reforms. At the request of President Fox, we will observe the upcoming Mesoamerican Summit in the Dominican Republic on June 3.

The United States helped pioneer the Summit of the Americas Hemispheric Energy Initiative and, over the past decade, we have helped to foster a dramatic opening of Latin America's energy sector. But the region has seen many changes in the direction of energy policy, away from the free market liberalization of the 1990s, so our model and our message is not as in vogue as it once was, but we still believe it is the right message. The theme of today is contract renegotiation, nationalization and the erection of new barriers to energy trade across borders. Oil windfalls are being spent on short term consumption at the expense of long term investment. We are working with lead hemispheric institutions, like the international financial institutions, to promote economically sound long term solutions without making ourselves easy targets for populist sloganeering.

Even though we have broader differences with Venezuela, we have said both publicly and privately that we seek to maintain good bilateral relations on issues of mutual interest, such as energy, trade, and counter narcotics. Ambassador Brownfield stands ready to meet with Energy Minister Ramirez just as soon as the Minister can receive him. It is worth noting that Ambassador Brownfield has repeatedly sought to meet with Minister Ramirez and has been unable to secure such a meeting, which is unusual given that we remain Venezuela's largest oil market. We have also cooperated very closely with the Government Accountability Office on their study of the reliability of our oil supplies from Venezuela. We look forward to the release of their study in June as it will no doubt help calibrate our diplomatic engagement on this key energy relationship.

Africa

The State Department is also closely monitoring the events in sub-Saharan Africa --- a growing source of our energy inputs. In fact, the nations of sub-Saharan Africa now supply the United States with approximately 18 percent its annual crude oil imports. However, in recent weeks, up to a quarter of Nigeria's daily production has been shut-in at times due to the ongoing instability in the Niger Delta. We are taking steps with the Nigerian and British governments to discuss ways of responding to the conflict in that oil producing region of Nigeria. Our three governments have met twice this year --- most recently in the last week of April --- to seek a solution. They will meet once more in Nigeria in July. Among the options considered are strengthening coastal security, controlling financial crimes, reducing small arms trafficking and increasing development in the Niger Delta. Nigeria is considering offers by the United Kingdom and United States for targeted technical assistance in these areas. As Africa's most populous

democracy and largest oil producer, Nigeria faces challenges in advance of 2007 elections. However, we feel that our engagement with Nigeria in diverse areas like developmental assistance, promoting democracy and supporting economic growth remain the best ways of addressing the complex problems seen in West Africa's largest country. Regional cooperation in Africa is best illustrated through the West Africa Gas Pipeline, a private sector project supported by the World Bank and USAID, which will bring wasted gas in Nigeria to the neighboring countries of Benin, Togo, and Ghana, and replace fuel oil used in power generation.

Much of the strife in the Niger Delta arises from the belief held by many of that region's inhabitants that the riches generated by the country's oil industry have eluded them due to the corruption and incompetence of government officials. Part of the solution to ensuring that the benefits of oil and gas development are managed in a transparent manner --- not just in Nigeria but around the world --- is the Extractive Industries Transparency Initiative (EITI). EITI is a UK initiative launched in 2002. The U.S. supports EITI as one policy tool in our comprehensive anticorruption/transparency kit set forth in the G8 Evian and Sea Island anticorruption and transparency initiatives. EITI focuses on extractive industries payments and budget revenues in developing countries. In FY 2006, the U.S. will contribute $1.0 billion in Economic Support Fund (ESF) assistance to be administered by USAID to support EITI implementation and to strengthen the role and capacity of civil society organizations in the EITI process. U.S. companies are generally supportive of EITI, and emphasize the need for keeping initiative voluntary and maintaining a focus on host government responsibilities rather than on company obligations. Other key attributes of the Initiative is its universality (i.e. that national petroleum companies must be included); respect for contractual obligations, local laws and regulations; and confidentiality of proprietary information.

At Gleneagles, the G8 endorsed the UK's call to "widen and deepen" EITI participation and implementation. A 16-member multi-stakeholder International Advisory Group (IAG), which includes the U.S., has been tasked to develop the governance structure, identify funding sources, define standards and methods for validating country participation, and consider incentives to encourage EITI participation. The fourth meeting of the IAG took place on April 5, 2006, in Baku, Azerbaijan. The IAG will submit its proposals for approval to a plenary conference which Norway has agreed to host October 16-17, 2006, in Oslo.

Conclusion

Mr. Chairman, in these few minutes here today, I hope I have been able to provide the Committee an adequate description of the tools with which the State Department uses to implement the President's plan for securing our energy future. The threats to stable energy markets come in various forms. By working with like-minded nations, we can broaden our energy options and thereby diminishing capacity and/or motivation for others to act in irrationally in regards to energy security.