

International Energy Challenges and American Diplomatic Engagement

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Thank you, Amy, for that kind introduction. Thanks also to the Energy Forum and Rice University for hosting this conference and to the sponsors.

It is an honor to be at the Baker Institute. James Baker is one of the finest diplomats of our time. As you know well, few Americans have served their country with greater distinction. He began his public service as a Marine, served as the White House Chief of Staff, Treasury Secretary and Secretary of State. Secretary Baker's breadth of experience is truly remarkable.

This morning I will outline the State Department's approach to energy issues in three areas: first, the challenges of maintaining supplies of oil and natural gas; second, international efforts to address environmental quality, with a focus on reducing emissions and increasing efficiency; and third, the move to increase the mix of energy sources by moving to alternatives.

Regional Engagement

Let's start with the supply side of the equation. The U.S. retains a strong focus on maintaining good relations with traditional energy suppliers. Countries like Qatar, for instance, have opened to robust international investment in LNG. The UAE recently deepened foreign upstream participation, allowing U.S. and Japanese firms to help develop an important offshore field.

Kuwait has been receptive to American refinery investment, and we are hopeful that the Kuwaiti Parliament will see the mutual benefits of proceeding with the opening of the Northern Fields. Saudi Arabia will be investing in additional production capacity and is open to many large downstream investments.

U.S. engineering, service, and energy equipment exporters are an important component of energy exploration worldwide, especially in the large supplier regions. As Middle Eastern nations invest in new oil and infrastructure projects, American exports to the region are rising.

Africa is another significant energy supplier, with roughly 10 percent of the world's proven oil reserves. Nigeria and Angola are among the largest producers on the continent. Nigeria, a member of OPEC, is one of the top oil producing countries in the world, and is a major supplier to Europe and the United States.

Angola has received significant international investment in its energy sector, and production is expected to reach 2 million barrels per day this year. It is also a major natural gas producer. These and other African countries are expected to become increasingly important suppliers to world markets.

The energy future for Africa, however, is tied to its overall economic development prospects. It is our hope that the energy sector will be a driver for broad-based economic growth and a more prosperous future on the continent. African countries, the private sector, and governments around the world should all be partners in making this hope a reality.

Moving to Russia, the country is the largest supplier of oil and natural gas to Europe, and is the largest non-OPEC producer in the world. As you know, U.S.-Russia ties are vital on a number of fronts. In April, President Putin hosted President Bush in Sochi, where they set forth a framework for strategic cooperation on security and economic issues. A key element of this agreement was to launch a joint economic dialogue. The first session took place in Washington last month, at which energy and other economic issues were discussed.

In our own hemisphere, we continue to strengthen key energy relationships. Canada is now America's largest energy trading partner, with energy flowing north and south between our two countries.

In March, we hosted Canadian Ambassador Wilson at the State Department's Treaty Room where we signed a Presidential Permit authorizing TransCanada Keystone Pipeline to construct a pipeline extending 1,300 miles from the Canadian border through the U.S. Midwest. When at full capacity, the Keystone pipeline is anticipated to provide nearly 600,000 barrels per day in oil imports from Canada, or about 4 percent of total U.S. daily imports.

In June, the annual Energy Consultative Mechanism talks will take place in Washington, where we will discuss with our Canadian counterparts the development of Northern natural gas, a clean conventional fuel which is important to our two growing economies. We will also discuss continued improvements in the oil sands environmental footprint.

We are engaged trilaterally with Canada and Mexico on energy through the Security and Prosperity Partnership. The United States is a net exporter of natural gas and of gasoline to Mexico, which is our third largest supplier of crude oil after Canada and Saudi Arabia.

Another of our key diplomatic goals on the supply side is our ongoing work to diversify global energy production and transportation routes regionally. For example, we are

actively involved in Eurasia. This effort began in the days when Houston Mayor Bill White served as Deputy Secretary of Energy. One tangible result is the Baku-Tbilisi-Ceyan pipeline.

We continue these efforts today, working with governments in the region to find outlets for their natural gas supplies that will allow them to meet consumer's needs in a secure and reliable manner.

Last month, we visited Azerbaijan and Turkmenistan where I had the opportunity to meet with their respective presidents to discuss a wide array of mutual economic issues. In the energy sphere we discussed the need to deepen East-West energy corridors. In particular, we spoke of brining additional oil and gas across the Caspian Sea, through the Caucasus, and on to global markets. Ambassador Boyden Gray, the Presidential Special Envoy for Eurasian Energy, and others of us are making outreach to these and other states in the region a strategic priority.

The United States is committed to working multilaterally to promote greater liberalization and transparency in energy markets through numerous venues. In the Group of Eight industrialized nations, the 2006 St. Petersburg Summit began an ongoing process of focusing the world's attention on core Energy Principles to improve stewardship of energy resources.

This work continues. Through the Extractive Industries Transparency Initiative, and Voluntary Principles on Human Rights and Security, we seek to make oil revenues more transparent, to promote good governance and to foster the highest human rights standards. Many of your companies and NGOs are active participants with us in these initiatives, and we thank you for your efforts.

As many of you know, the United States is an active participant in the International Energy Agency. A core mission of the IEA is to protect against supply disruptions by requiring its OECD country member states to maintain oil stocks equivalent to at least 90 days of imports. The United States and other member countries are working with the IEA to broaden its engagement with major energy consuming countries, and in particular with rapidly developing countries such as China and India. Global energy needs are expected to increase over 50 percent by 2030, with nearly three quarters of this growth coming from developing countries. Strengthening ties with these emerging energy consumers is therefore a priority for the IEA.

Supply Constraints

While you can be assured that the United States is actively pursuing the ways and means to enhance the global availability of oil and gas, we are ever mindful of some of the constraints. A report by the National Petroleum Council outlined what they term the "Hard Truths" of global energy supply. For example, investment is critical to energy exploration and production, yet less than 10 percent of the world's oil and natural gas reserves are open to full equity participation by international energy companies.

Another concern is resource nationalism. Energy investments are long-term and require clearly defined property rights, sanctity of contract and equitable dispute resolution mechanisms. Their absence slows investment flows and sends a negative signal to investors in other sectors as well.

In the middle of an unprecedented price escalation, many producing countries would be well served by building the legal framework and encouraging the behavioral norms necessary to attract and retain the sort of equity investments that will sustain them over the long term.

International energy companies can offer training opportunities for local workforces, the latest technology, upstream and downstream acumen and the highest environmental standards. Rest assured that we will continue to advocate for mutually beneficial engagement between governments and the private sector in our discussions with energy producers around the world.

Let me raise one other challenge to supplies, one that I know is of interest to this audience. To underscore the complexity of the relationship between energy and national security, it is important to note that overarching national security concerns can in some circumstances lead us to limit our own access to oil and gas.

Iran's pursuit of sensitive nuclear technologies is such a concern. Accordingly, your forbearance from doing business with Iran is a vital U.S. national and international security interest. To be sure, Iran is an energy rich country. We understand that sanctions, including those relating to the energy sector, are not without their near term costs. But we must weigh that against the unacceptable risk that Iranian behavior poses to the peace and security of the world.

The United States government continues to make every effort to multi-lateralize the pressure on Iran. The UN Security Council has passed three sanctions resolutions so far. We are also actively reaching out to third country financial institutions and energy firms to discourage business as usual, and particularly to discourage investment in Iran's energy sector. We have offered a responsible package of incentives to the regime to renounce its activities related to the development of nuclear weapons. We certainly hope that Iran will pick up the offer that is on the table, and rejoin the global community and the world economy as a responsible participant.

Conservation and Efficiency

Now let me turn to a brief overview of the second component of U.S. energy diplomacy – our outreach efforts to ensure environmental stewardship through reduced emissions and greater energy efficiency.

Starting with our own domestic policy, the Administration worked in a bipartisan fashion with Congress to pass energy legislation that specifies a new fuel economy standard of 35 miles per gallon by 2020, and mandates 36 billion gallons of renewable fuel by 2022. The

law sets new objectives for the coming decade to increase the efficiency of lighting and appliances. In addition, the President recently announced a new national goal to stop the growth in U.S. greenhouse gas emissions by 2025.

Innovation will continue to be critical to these efforts. Since 2001, this government has dedicated – and the American taxpayer has invested -- \$37 billion on science and technology research related to climate change, including \$18 billion for the research, development and promotion of clean energy technology.

We are working hard to ensure this research is shared internationally. President Bush recently announced a \$2 billion commitment to a new international clean technology fund. The fund will be administered by the World Bank and will be supported by Japan, the U.K. and other countries. The objective of the fund is to bring the best available clean energy technologies to emerging markets.

The United States has also launched other multilateral energy technology initiatives, such as the International Partnership for the Hydrogen Economy, which explores the advancement of hydrogen; the Carbon Sequestration Leadership Forum which works to improve the technology to capture carbon dioxide and store it safely underground in geological formations; and the Methane to Markets Partnership seeks to capture and use the potent greenhouse gas, methane, as a fuel source instead of releasing it into the atmosphere.

To directly address global greenhouse gas emissions, the United States is committed to developing an environmentally effective and economically sustainable framework under the UN Framework Convention on Climate Change. At the UN Climate Conference in Bali last December, consensus was achieved on a roadmap for these negotiations, which are scheduled to conclude by December 2009.

To contribute to and advance these negotiations, President Bush launched the Major Economies Process which brings together the top energy consuming countries of the world – developed and emerging economies – representing some 80 percent of global greenhouse gas emissions, and 85 percent of global GDP. Through the Major Economies Process, we hope to build consensus among key players in a number of areas, including a shared long-term global emissions-reduction goal; national mid-term plans and goals; and cooperative technology efforts in key sectors.

These are just a few of the examples of our international work in the area of addressing greenhouse gas emissions and energy efficiency.

Alternative Sources of Energy

The third element of U.S. energy diplomacy involves broadening the sources of energy both here at home and abroad. Alternative fuels are an important component of our energy security, and thus an important part of our international outreach efforts.

One effort on biofuels is a bilateral agreement with Brazil to advance ethanol technologies and to help harmonize international biofuels standards and codes. Our two nations are jointly assisting countries in the Caribbean and Central America to turn a small portion of their sugarcane or other biomass into biofuel to meet E10 and bio diesel opportunities there. We are further engaged in promoting clean energy through the Organization of American States, where we are supporting a series of upcoming workshops in the hemisphere to help promote renewable energy.

In the Asia-Pacific region, we have launched a Partnership on Clean Development and Climate to encourage renewable energy projects. So far over 120 projects have been sponsored, and we look forward to more in the future.

We are also working to pursue the global expansion of clean and safe nuclear power. We are working, both bilaterally and through International Atomic Energy Agency, to help countries considering nuclear energy develop the national infrastructure necessary to meet highest standards for safety, security and nonproliferation. The Global Nuclear Energy Partnership, or GNEP, which has 21 countries so far, is working to develop technologies that will reduce nuclear waste while strengthening the proliferation resistance of nuclear power reactors.

Without proper safeguards, the same technologies needed to prepare reactor fuel can also be used to produce fuel for nuclear weapons. We are therefore determined to ensure that the expansion of nuclear energy is carried out in a responsible manner. Last July, President Bush and Russian President Putin issued the Joint Declaration on Nuclear Energy and Nonproliferation. This declaration outlined a broad array of assistance measures to permit states to gain the benefits of nuclear energy while creating a viable alternative to the acquisition of sensitive nuclear technologies.

Earlier this month, the U.S. signed a bilateral agreement with Russia to cooperate on the peaceful uses of nuclear energy. Known as the 1-2-3 Agreement, it serves as a foundation for permitting joint ventures and for U.S. companies to sell nuclear materials, reactors and components to Russia. The agreement also strengthens U.S.-Russia nonproliferation cooperation. And just last week, during the President's visit to Riyadh, the United States and Saudi Arabia signed a Memorandum of Understanding in the area of peaceful civil nuclear energy cooperation.

These agreements underscore the determination of the United States and other countries to expand the base of energy sources. As the international supply-demand equation becomes more challenging, greater efficiency and a broader mix of fuel types will become more urgent. Moreover, we all recognize that these challenges are global in scope, and require a global response with American leadership.

Conclusion

Not since the first oil embargo in 1973 has the global energy security situation been as complex and dynamic as it is today. Economic, political, security and environmental

considerations are at play, sometimes in complementary ways; sometimes in competition with one another.

The challenges and solutions are both immediate and longer term. Part of the solution set, of course, lies with sound domestic energy and environmental policies. But energy markets are global and require active, constructive and constant attention by the private sector and government alike.

Similarly, the long term nature of the challenges we face require both immediate actions and long term investments in oil and gas exploration, distribution, efficiency and in alternative fuel sources and types.

As government officials, we recognize and applaud the contribution you and the organizations you represent make to our shared energy future.

Thank you for your time.