

**Statement of
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Before the

**Subcommittee on Energy Policy, Health Care & Entitlements
Committee on Oversight & Government Reform
United States House of Representatives**

**U.S. Foreign Policy and the Export of Domestically Sourced
Liquefied Natural Gas**

April 30, 2014

Thank you Chairman Lankford, Ranking Member Speier, and members of the Subcommittee; I appreciate the opportunity to be here today to discuss developments in international energy markets and how we are using our foreign policy tools, including our energy resources, to improve U.S. national security and the energy security of our allies and partners.

1. Today's Ukraine Crisis and the Energy Crisis of 2009

Mr. Chairman, this hearing comes at a critical time and while your focus is on the foreign policy implications of our domestic oil and gas production boom, this issue is difficult to address without discussing the broader global context of the national security environment and the role that geopolitics of energy are playing in it.

This is a time when the relationship between security and access to energy is drawn in sharp relief. With the illegal attempt to annex Crimea by Russia and the unrest in Eastern Ukraine, we are witnessing the violation of the sovereignty and territorial integrity of one country by another. It is shocking and unacceptable that this could take place on the European continent in this day and age.

The crisis in Ukraine has led many in Europe to seek accelerated approval of exports of liquefied natural gas (LNG) to European consumers, and many in Washington are considering policies that may facilitate exports as a means to directly bolster the energy security of our allies and partners. The Department of State is not the agency responsible for the process of analyzing and approving natural gas export licenses and my colleague from the Department of Energy will address that process. In my testimony I would like to explain how U.S. energy resources, including LNG exports, are just one tool among many that the United States utilizes to address the energy security challenges that we are facing in Europe and around the world. The crisis that sets the tone for today's hearing also serves as an important milestone in the development of Europe's energy security – and the contributions that the United States has made, and continues to make, before any U.S. LNG exports reach the global market.

Ukraine's position as a transit country between Russia and the European Union has renewed fears that Russia would use energy as a political tool and revived memories of 2009. On January 1st of that year, as part of a gas payment dispute between the two countries, Russia cut off gas supplies to Ukraine. On January 7th, all Russian gas flows through Ukraine were halted for 13 days. Supplies to southeastern Europe were completely cut off; several other European countries were partially cut off. This event shocked the European Union, and raised the urgency for Europe to diversify not just its sources of energy, but also the routes by which that energy is delivered. In the years that followed, the European Union made great strides to advance energy security. With breakthrough legislation known as the Third Energy Package, the EU implemented regulations and built infrastructure toward a common, integrated and transparent energy market.

The United States has partnered with the EU to help prevent another energy crisis in Europe like that in 2009. After Russian gas deliveries through Ukraine to Europe resumed on January 20, 2009, the Administration proposed establishing the U.S.-EU Energy Council, an annual meeting co-chaired by the Secretaries of State and Energy to deepen the dialogue on strategic energy issues of mutual interest, foster cooperation on energy policies, and further strengthen research collaboration on sustainable and clean energy technologies. The first meeting of

the Energy Council was held in November 2009; the fifth meeting was held on April 2nd of this year.

2. The Global Picture: Major Shifts in Demand and Supply.

Europe's efforts to reduce its import dependence on Russia and America's emergence as a nascent exporter are taking place within the broader context of changing global energy demand and supply.

On the demand side, we are seeing unprecedented growth from countries outside the Organization for Economic Cooperation and Development (OECD). Non-OECD countries are expected to be responsible for approximately 85 percent of the growth in total energy demand over the next few decades. Already, for the first time in modern history, the non-OECD markets are overtaking the OECD in oil, gas, and coal consumption. As a result, an increasing share of Middle East oil is destined for Asia – including, according to some estimates, at least three-quarters of the oil transiting the Strait of Hormuz. China is the world's largest energy consumer and alone consumes roughly half the world's coal.

On the supply side, production and delivery of energy is also changing dramatically. Energy supply is no longer about a small number of the big energy producers, who push fuels in one direction to consumers via transmission systems they control. We are seeing new producers joining the club, large and small, veterans and newcomers, traditional hydrocarbons and increasingly affordable renewables, through an intricate web of pipelines, ships and power lines, moving energy in an increasingly global, diffuse market.

3. A New Era of Energy Diplomacy

Although global energy trade continues to change, the need for U.S. engagement has not. We live in an international global economy with interdependent energy markets. The term energy independence has become popular but does not reflect the reality in which we live. An energy disruption anywhere will threaten economic growth everywhere, including in the United States. It is in the common global interest to have adequate and diverse energy supplies. It is critical to our

economies, our security, and global prosperity. In acknowledgement of these global shifts, the events of January 2009, and the growing critical role energy plays in foreign policy and national security around the world, then-Secretary of State Hillary Clinton created the Bureau of Energy Resources in 2011. I have been privileged to help build and lead the bureau since its creation. Our efforts reflect a new era of energy diplomacy and have resulted in a number of significant accomplishments around the world:

The global shifts are not limited to Europe. At the 7th East Asia Summit in 2012, President Obama announced the launch of the U.S.-Asia Pacific Comprehensive Energy Partnership along with the leaders of Brunei and Indonesia. The initiative works across existing regional fora to ensure affordable, secure, and cleaner energy supplies for the Asia-Pacific region. The Partnership focuses on four regional priorities: the emerging role of natural gas, regional markets and interconnectivity, renewables and cleaner energy, and sustainable development. With an estimated \$9 trillion needed in investment in electricity alone through 2035 to meet growing demand in the Asia-Pacific region, enormous potential exists for American companies to play an important role in the region's energy future.

Today's energy revolution is being felt around the world. Recent gas discoveries in Mozambique, Tanzania, and elsewhere in East Africa carry with them great potential for transforming their economies and future as well as playing a key role in the growing global gas markets. We are working to help ensure these discoveries are exploited in a safe, open, transparent manner to ensure the revenues create new prosperity for all the people in the region.

Another exciting area of new development is the Eastern Mediterranean. New discoveries of gas offshore Israel and Cyprus and great potential in Lebanon, Greece, Egypt, and the Palestinian Authority have great promise for not only economic growth, but for new regional cooperation. In February of this year a State Department-facilitated landmark agreement was announced in which Houston-based Noble Energy will sell natural gas from Israel's offshore fields to Jordan starting in 2016. The deal is a strong first step toward providing Jordan with critically needed affordable energy supplies after losing supplies from Egypt

due to repeated terrorist attacks on the Sinai pipeline and due to the changing nature of Egypt's production and consumption patterns. The deal could also provide a template for future energy agreements to strengthen relationships in challenging regions.

Mr. Chairman, as you know, Congress has recognized energy as an important piece of our diplomatic toolkit. In late 2011, Congress imposed petroleum sanctions on Iran. The implementation of these sanctions by the Administration has led to a 1.5 million barrel- per-day decrease in Iran's crude oil exports. Due to the broad U.S. engagement in energy diplomacy, we have been able to implement these sanctions while maintaining relative stability in the oil markets. This could not have been done without increased U.S. production and help from our friends and allies around the world.

4. Europe and Ukraine – What Is Possible Today

We have worked diligently to help Europe diversify its energy sources. The Southern Gas Corridor, an ambitious plan to deliver Azeri Caspian Sea gas to European markets, has been an Administration priority for years. Last year, after more than a decade of U.S.-led energy diplomacy in Central Asia, Turkey, and Europe, a final investment decision was made on the development of a pipeline that will bring 10 billion cubic meters of non-Russian natural gas from Azerbaijan to southern Europe by way of Georgia, Turkey, Greece, and Italy. The implications of the so-called Southern Gas Corridor on European energy security are real – in today's global energy markets, improvements in diversity of supply strengthen the resiliency of the entire region.

Today, Ukraine is one of our highest priorities. Due in part to energy diplomacy efforts with the EU since 2009, we have a framework for cooperation to speed our response in times of crisis. The commitment of the United States and Europe to support Ukraine was at the forefront of the April 2 U.S.-EU Energy Council. At that meeting, the United States and the European Union agreed to work together to help Ukraine in its efforts to diversify its supplies of natural gas including through reversing the flow of pipelines connecting Ukraine to its neighbors, increased gas storage capacity, and reforms to its energy sector.

I am pleased to mention that just two days ago, on Monday, April 28 in Bratislava, the governments of Ukraine and Slovakia signed an MOU for reverse-flow of gas – a deal which will allow gas to flow from west to east across the border in just a few months. Although the volumes will be small initially, they will increase significantly over the next year and help Ukraine benefit from Europe’s competitive energy market.

5. The U.S. Energy Transformation and Its Global Impact

The energy position of the United States has indeed changed, and the impacts are felt abroad as well as at home. Taken in the aggregate, these changes can be viewed as part of the broader shift in supply and demand that is taking place at the global level.

In oil: The United States has increased oil production by 1 million barrels per day (bpd) in each of the last two years, and we are on track to replicate that this year. Those increases have brought U.S. crude oil production to almost 8 million bpd, the highest level since 1989. As a result of these trends, net imports now account for just over 30 percent of U.S. oil supplies, compared to 60 percent in 2006. The United States is expected to remain a net oil importer, and will still be connected to global energy markets.

In gas: The shale revolution began with gas. Shale gas fields became commercial due to the application of increasingly effective drilling techniques. The United States has increased natural gas production by over 20 percent since 2007 because of growth from shale basins (shale gas now accounts for over one-third of U.S. natural gas production). Current projections estimate that unconventional gas – including shale gas, tight gas, and coal-bed methane – could make up more than 75 percent of U.S. natural gas production by 2030. The Energy Information Administration (EIA) now anticipates the United States will become a net exporter of LNG in 2016 and an overall net exporter of natural gas by 2018.

Although the State Department does not play a regulatory role in domestic natural gas or its export, the U.S. natural gas boom has already had significant ripple

effects on gas markets. LNG from Qatar and Trinidad and Tobago, once destined for the United States, is being exported to other markets. As U.S. gas production has increased, our LNG imports have decreased. Those displaced volumes provided European markets with gas traded at a less expensive price than pipeline gas from Russia. This increased supply helped many utilities in Western Europe successfully renegotiate their existing supply contracts with Gazprom. Additionally, gas trading hubs in the U.K. and Austria are benefiting from a transparent gas system that is open to third parties and capable of multidirectional gas flows, thereby reducing the power of gas transportation monopolies to use natural gas exports as a political lever.

6. Conclusion

The United States is transitioning from being a natural gas importer to a net exporter. However, natural gas production and export remain only one aspect of a multifaceted diplomatic strategy. Disruptions in global markets have a direct impact on U.S. security and economic priorities. We have a wide range of tools that we are applying to strengthen energy security in Europe and around the world.. In conclusion, Mr. Chairman, LNG exports may become an important factor in assisting our friends and allies in Europe to enhance energy security through diversification. But, this is only one factor and one tool in achieving that goal. As I have demonstrated today, we are strongly committed to Europe's energy security and will continue the successful joint efforts with the EU to make that a reality.