



**Statement of Spencer Abraham
Secretary of Energy Before the
Committee on International Relations
U.S. House of Representatives
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Mr. Chairman and Members of the Committee: I am pleased to appear before you this morning to discuss the important role that oil plays in our economy and the Administration's efforts to ensure a secure and prosperous energy future for all Americans.

I. Outlook

Energy is the lifeblood of our economy and, for over a century, oil has played a dominant role. Oil currently accounts for close to 40 percent of total U.S. energy consumption. However, while the U.S. economy grew significantly (63 percent) after 1985, oil consumption grew much more slowly (25 percent). Thus, our economy is far less dependent on oil than it was in 1973, the year of the Arab oil embargo.

Nonetheless, as our economy grows over the next few decades, our demand for oil will also grow. According to the Energy Information Administration (EIA), U.S. demand is expected to rise from an annual average of 19.7 million barrels per day (bpd) in 2002 to over 26 million bpd in 2020. At the same time, forecasts indicate U.S. domestic oil production will likely see little, if any, growth. Increasingly, therefore, the United States will rely on foreign sources to meet its oil needs. Today, 52 percent of the oil we use in America is imported from foreign sources. The most recent EIA forecast suggests that our dependence on imports could grow to 62 percent by 2020 (Figure 1 in the Appendix).

In 2001, the United States had net imports (total imports minus exports) of almost 10.9 million bpd of petroleum (which includes crude oil and refined products). More than one-fourth of the imports came from our North America Free Trade Agreement (NAFTA) partners, Canada and Mexico (Table 1). An additional 665,000 bpd came from North Sea producers. OPEC producers accounted for 47 percent of U.S. gross oil imports in 2001, with Saudi Arabia and Venezuela ranked as the second and third-largest foreign oil suppliers, respectively, to the United States.

Over the next two decades, U.S. petroleum net imports are expected to increase by more than 6 million bpd as U.S. oil consumption rises (Figure 2). U.S. imports of OPEC oil are expected to increase by almost 4 million bpd, with imports of Persian

Gulf oil increasing by slightly over 2 million bpd. The expected growth in non-OPEC imports into the U.S is projected to come from Canada, Mexico, West Africa (particularly Angola), Latin American producers, and Caribbean Basin refiners.

Table 1. Major Sources of U.S. Petroleum Imports, 2001*

(all volumes in million barrels per day)

	Total Petroleum Crude Oil Refined Product		
Canada	1.83	1.36	0.47
Saudi Arabia	1.66	1.61	0.05
Venezuela	1.55	1.29	0.26
Mexico	1.44	1.39	0.05
Nigeria	0.89	0.84	0.04
Iraq	0.80	0.80	0.00
Norway	0.34	0.28	0.06
Angola	0.33	0.32	0.01
United Kingdom	0.32	0.24	0.08
Algeria	0.28	0.01	0.27
U.S. Virgin Islands	0.27	0.00	0.27
Kuwait	0.25	0.23	0.01
Total Imports	11.87	9.33	2.54

Source: Energy Information Administration

* Table includes all countries from which the U.S. imported more than 200,000 barrels per day in 2001. Totals may not add due to independent rounding.

Crude oil prices are determined by worldwide supply and demand, and are influenced by the Organization of Petroleum Exporting Countries' (OPEC) policies on production quotas. In recent years, OPEC has tried to keep world oil prices in a target price band of \$22-28 per barrel for the OPEC crude oil basket, which corresponds to a \$24-\$30 price band for the U.S. benchmark, West Texas Intermediate (WTI) oil. OPEC's potential to influence oil prices worldwide arises because its members possess over 80 percent of the world's excess oil production capacity.

There is currently around 7 million bpd of excess crude oil production capacity in the global oil market (Figure 3), almost all of which is in the Middle East OPEC countries (Figure 4). In 2001, the Middle East (excluding North Africa) accounted for approximately two-thirds of the world's proven conventional oil reserves; 35 percent of world oil production capacity; 30 percent of world oil production; and about 83 percent of excess world oil production capacity (Figure 5). Middle Eastern oil also has the lowest production costs in the world (Figure 6).

In the past, crude oil price increases have occurred in response to crude oil shortages caused by, for example, the Arab oil embargo in 1973, the Iranian revolution in 1978, the Iran/Iraq war in 1980, and the Persian Gulf conflict in 1990. The price increases of 1999-2000 were due principally to OPEC crude oil production

cuts that began in 1998. In addition, higher demand from recovering Asian economies caused more competitive bidding for crude oil supplies in the international market. With decreased petroleum demand following September 11th, and a weakened global economy, OPEC decided to cut crude oil production as of January 1, 2002 to forestall anticipated oil price declines. Since February 2002, oil prices have risen 25 percent. In total, OPEC has reduced its production quotas since the beginning of 2001 by 5 million bpd, although quota cheating has resulted in an effective cut of 4 million bpd.

Crude oil represents the largest share of the retail cost of gasoline, comprising 46 percent of the average price in 2000 and 38 percent in 2001 (Figure 7). The other components of gasoline price also vary over time and by region. For 2001, taxes (Federal and State) comprised almost 30 percent of the gasoline price, distribution and marketing costs comprised 13 percent, and refining costs and profits comprised 16 percent. Regional variations are due to local taxes, different formulations of gasoline due to environmental requirements, competition in local markets, and proximity of refineries to crude oil supplies.

Even when crude oil prices are relatively stable, gasoline prices normally fluctuate due to factors such as seasonality and local retail station competition. Additionally, gasoline prices can change rapidly due to crude oil supply disruptions stemming from world events or domestic problems, such as refinery or pipeline outages. Prices of basic energy (gasoline, electricity, natural gas, heating oil) are generally more volatile than prices of other commodities because consumers are limited in their ability to substitute between fuels when prices fluctuate.

The most recent EIA forecast projects the imported average crude oil price in 2002 to be \$23.66 per barrel, and the West Texas Intermediate (WTI) price to be \$26.14 (Figure 8). In the United States, gasoline is projected to average \$1.35 per gallon in 2002, with summer prices for regular grade averaging \$1.41 and peaking in September at \$1.43.

II. Principles Guiding the President's National Energy Plan

Our growing reliance on imported oil was a major consideration in the development of the President's National Energy Policy (NEP). The NEP recognizes that our significant dependence on imported oil has serious economic and national security implications.

The Administration's National Energy Policy:

- Provides a long term, comprehensive strategy;
- Advances new, environmentally friendly technologies to increase energy supplies and encourage cleaner, more efficient energy use;
- Aims to raise the living standards of the American people by integrating our energy, environmental, and economic policies; and
- Recognizes that energy security is a fundamental component of national security and a prerequisite to continued economic growth.

Our approach to international oil markets is based on the following principles:

We must champion free markets. Free trade and free markets are at the heart of our vision of a healthy international energy system. Experience has shown that free markets are best at delivering the outcomes that are most favorable for producers and consumers. Issues of oil supply, demand, and price are thus best settled by the free market, with the government's role primarily limited to addressing market barriers and market failures. Finally, oil markets work best when coupled with transparent exchanges of information and equal opportunities for participation by all countries.

We must balance increased production with a renewed focus on the clean and efficient use of energy. The genius of American technology allows us to dramatically increase our efficient and clean use of energy, including oil. However, even the most aggressive energy efficiency and conservation programs will not be enough by themselves to eliminate entirely the use of imported oil. Thus, we must increase domestic production to reduce our reliance on imported oil and ultimately strengthen our energy security.

We must expand and diversify our sources of supply. To meet our long-range energy needs, we must expand and diversify our sources and types of energy. To assure energy security, we need to maintain a diversity of fuels from a multiplicity of sources.

We must expand international engagement with consumer and producer nations. Opportunities for increased investment, trade, exploration, and development are increasing every year, far beyond the traditional markets of the last 50 years. To promote greater diversity of supply from a multiplicity of sources, we must promote increased trade and investment. And we must continue to cooperate with other consumer nations regarding a coordinated response to potential major supply disruptions.

We must promote energy development as a necessary condition for successful economic development. Access to clean, reliable and affordable energy is important to economic development not simply for our nation, but for developing nations everywhere. We are working internationally to advance clean energy development in many venues, including the World Summit on Sustainable Development in August.

III. Implementing the National Energy Plan

Each of these principles is reflected in a variety of Administration initiatives and actions taken over the last year to implement the President's National Energy Plan.

The National Energy Policy places a priority on increased energy efficiency and conservation to extend the use of our energy resources, to enhance our standard of living, and to advance our environmental objectives.

For example, the Department of Energy recently announced the FreedomCAR program, which implements our long-term vision of a dramatic reduction in our dependence on petroleum through the development and deployment of hydrogen fuel cells in automobiles. In addition, the Administration supports significant tax incentives to reduce the price of the highly efficient electric, gas/electric hybrid, and fuel-cell vehicles now coming to market. The Administration has also begun to develop new CAFÉ standards based on sound science and passenger safety.

To increase domestic oil production with improved exploration and drilling technology, the NEP calls for the development of domestic resources like the Arctic National Wildlife Refuge (ANWR). A small portion of ANWR could supply us with the equivalent of about 36 years of the annual imports we currently receive from Iraq. Failure by Congress to support ANWR may be seen by other countries, some of which do not wish us well, as an indication that we are not serious about reducing our dependence on imported oil.

To increase and diversify domestic supplies of oil and gas, the Administration, among other actions, has:

- Streamlined the process by which permits are granted for important energy projects, such as pipelines and refineries; and
- Accelerated the leasing of non-restricted Federal lands where environmentally appropriate.

To strengthen our energy security, the NEP also calls for identifying and developing energy opportunities around the world. We are working in every corner of the globe to encourage new cooperative trade arrangements and to develop new resources.

With respect to the global market, our Administration is moving in a new direction. We believe that while we must maintain and strengthen our friendships around the world, we must begin to work - in the first instance - with our neighbors here in our own hemisphere to build a stronger partnership. We do not believe that the United States has all the answers to the energy challenges that face us, but we do know that by working together with Canada, Mexico, and our other neighbors in the Hemisphere, we can achieve the kind of energy security needed to support a robust economy.

The centerpiece of our hemispheric partnership is a new program with Canada and Mexico, called the North American Energy Initiative, which was launched by President Bush and quickly supported by President Fox and Prime Minister Chretien. This group met recently to begin to develop the policies needed to enhance North American energy trade and interconnections, and most of all energy security. The members of this group all recognize this as an essential foundation for the stronger hemispheric friendships we see in the future.

We are also working with our other partners in the Hemisphere to advance integration and resource development on a regional scale. Over the past year, we have had the opportunity to meet with our counterparts from Mexico, Canada, Bolivia, Brazil, Ecuador, Colombia, Peru and Venezuela - all of whom are determined to develop and expand their vast energy resources. In order to expand this cooperation, we are reviewing a proposal from Florida International University to establish a center that offers an opportunity to advance our objective of significantly improving cooperation between the United States and the countries of this hemisphere on a broad range of energy issues.

We continue to be active in the International Energy Forum (IEF), a multilateral effort to enhance relationships between oil producing and consuming nations. I plan to attend and participate in the next IEF meeting in Osaka, Japan in September. A key focus of the IEF is a joint effort to improve the transparency, timeliness, and

accuracy of the data that guides global oil markets. This initiative, begun by the United States, has garnered broad support from both producers and consumers.

We are developing a strong bilateral relationship with Russia, now the second largest world crude oil producer and exporter. As you know, Presidents Bush and Putin just signed joint statements launching our strategic energy initiative, and I was in Russia last year laying the foundation for this enhanced cooperation. We are working with the Russian government and oil companies to enhance our relationship by launching a commercial energy dialogue and holding a Commercial Energy Summit in Houston later this year. We are hopeful this cooperation with Russia will lead to increased investment opportunities and lasting results. In our view, rising Russian production significantly increases the supply diversity in the world oil market.

In addition, the United States has a strong interest in oil field and infrastructure development in the Caspian Sea region. The Caspian basin has proven reserves in the 17-33 billion barrel range (to put this in perspective, Persian Gulf proven reserves amount to approximately 679 billion barrels), with possible oil reserves of about 233 billion barrels. With investment in oil field and pipeline capacity and proven reserves equal to or exceeding those in the U.S., the Caspian Sea region could produce 3.5 to 4.0 million bpd by 2010. The United States has been a strong supporter of oil and gas development in the region, urging governments to provide the necessary legal, fiscal, and regulatory environments to safeguard the large investments required to develop these new resources.

The United States also has been a strong proponent of new pipeline capacity to transport oil in an east-west corridor to reach world markets. Late last year, I attended the inauguration ceremony for the Caspian Pipeline Consortium (CPC) that opened its pipeline from Kazakhstan to the Black Sea, providing direct access from Kazakhstan to export markets. We continue to support a new pipeline - the Baku-Tbilisi-Ceyhan pipeline - that will be able to carry 1 million bpd from the landlocked Caspian to world markets.

We are also working closely with our other friends in major consuming countries to address our common energy challenges. Last month, as recommended by the National Energy Policy, I co-chaired with my Canadian counterpart a meeting of energy ministers from the G-8 countries in Detroit. The meeting was a great success, establishing a strong foundation of cooperation on which we can build in the years ahead. To strengthen our joint insurance against the damage that oil supply problems can inflict, we reaffirmed our dedication to maintain our response readiness for supply emergencies, emphasizing the importance of emergency oil reserves and our commitment to coordinate their use. We agreed to work together to meet growing energy demand by encouraging the investment that will be needed in energy development, production and infrastructure, as well as in improved energy efficiency.

I have just returned from co-hosting the U.S.-African Energy Ministerial held in Morocco, attended by some 40 African energy ministers. President Bush highlighted the importance of this meeting and the U.S.-African Energy Ministerial process in the NEP. At that meeting, we met with government and industry to discuss ways to improve energy trade and facilitate energy sector development to better serve U.S. and African economic growth and development.

Energy from Africa plays an increasingly important role in our energy security (accounting for nearly 15 percent of America's oil imports) and is a key engine for economic development in Africa. We are very pleased with the resolve of African nations to facilitate private sector investment in the development of energy resources and to streamline regulations so that resources can be developed most efficiently. In Morocco, the U.S and African countries reaffirmed a commitment to good governance and stable regulatory structures and discussed additional steps to encourage private investment in the energy sector.

Next month, I will participate in the fifth Asia Pacific Economic Cooperation (APEC) Energy Ministers Meeting in Mexico City. A major feature of this meeting on regional energy cooperation will be the endorsement of actions under the APEC Energy Security Initiative, which the United States originally proposed in 2000 and which was endorsed by APEC Leaders last year in Shanghai in their Statement on Counter-terrorism. Shorter-term actions under the initiative include enhancing the transparency of the global oil market and sharing ideas on energy emergency preparedness. Longer-term actions include cooperation on energy efficiency, renewable energy, and alternative fuels.

All of these international activities ultimately promote our common goal of energy security. But, given our dependence on imported oil, we also recognize the importance of providing strong insurance against the possibility that the flow of international oil could be interrupted. The Administration early on reaffirmed the importance of maintaining a strong Strategic Petroleum Reserve (SPR). At the President's direction, we recently began filling the SPR to its 700 million barrel capacity. Today the SPR contains 571 million barrels of oil. This oil can be released at a maximum rate of 4.2 million bpd, and we can begin delivering oil to the market within 15 days of the President's order.

We continue to play a leadership role in the International Energy Agency (IEA). Created following the 1973 oil crisis, the IEA includes 26 member countries that are committed to holding emergency oil reserves and to taking common effective measures to meet oil supply emergencies. Together, IEA members' oil stocks total nearly 4 billion barrels, 1.2 billion barrels of which are under direct control of member governments, with the remaining 2.6 billion barrels from commercial stocks. IEA members have the ability to draw down these stocks at a rate of over 8 million bpd (including the SPR). At the G-8 Energy Ministerial in May, we agreed on the importance for net oil importing countries to maintain emergency stocks and to use them when necessary to respond to major physical supply disruptions. We also recognized the value to all of us when other countries, including those in Asia (whose demand is projected to increase sharply), build similar stocks.

III. Conclusion

We are committed to ensuring that America's energy needs are not held hostage by politically unstable foreign suppliers. We are taking the necessary steps to encourage increased domestic production, while protecting the environment and diversifying our sources of energy. As our economy expands, however, demand for energy will increase, and our dependence on foreign suppliers will continue to rise. We are committed to protecting our economic well being and our national security through an emphasis on energy efficiency and conservation to reduce energy consumption, continued reliance on the efficiency of the free market, diversification of foreign

suppliers, increased domestic production, and emergency preparedness for potential supply disruptions.

[Appendix: Figures 1-8](#)

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