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Prepared Text of U.S. Senator Pete V. Domenici's Remarks at EIA's Annual Energy Conference 2008

Thank you, Administrator Caruso, for that introduction, and for the invitation to speak here this morning.

For the past 30 years, the Energy Information Administration has helped those of us in Congress chart the energy policy of our nation. This has never been, and will never be, an easy assignment. Accurately projecting America's energy needs is a very difficult task. But through experience and constant refinement, EIA now stands as the most authoritative source for energy data, forecasts, and analyses.

The importance of this work reminds me of advice once given by one of our greatest scientists, Albert Einstein. "Know where to find information and how to use it," he said. "That's the secret of success."

Looking back, we have done well with regard to the first part of Einstein's equation. We have become adept at keeping track of what is happening in the energy industry, and determining the types of resources that will make up our energy mix. But our efforts to address the second piece of the puzzle – how to put that information to good use – have often fallen short.

Consider how things have changed between 1977, when Congress created EIA, and the present. Adjusted for inflation, the price of oil back then was about \$50 per barrel, and imports were just over 40 percent of our oil supply.

Today, those numbers are significantly higher. Oil rose above \$111 per barrel last month. Perhaps most alarmingly, imports have swelled to more than 60 percent of the oil we use.

As a result, we now spend hundreds of billions of dollars to import oil each year. In 2008 alone, this figure will likely surpass \$400 billion. Through 2030, EIA has estimated that our reliance on foreign oil could cost \$8.5 trillion, even without taking inflation into account.

The consequences of this arrangement are becoming evident. A tremendous amount of American wealth, accumulated over generations, is being transferred to nations that are rich with oil. We are trading our capital – a resource that can grow and multiply – for a volatile and finite commodity.

Here at home, oil imports account for the bulk of our trade deficit, and may deprive our nation of as many as 2.2 million jobs per year. High oil prices reduce the purchasing power of consumers, spur inflation, and boost the prices of basic goods and services.

The story is much different abroad. Oil-producing nations are able to spend our dollars on national defense, education, health care, financial instruments, and infrastructure. As American capital pays for investments in those nations' futures, we are forced to spend money we do not have, or forgo our own priorities altogether.

Another concern is that oil is still prone to supply disruptions. A recent study found 24 major interruptions between 1950 and 2003. These lasted an average of six months, and removed up to 12 percent of the world's oil supply from markets. The vulnerability of oil to supply disruptions, in turn, increases our vulnerability to the negative consequences of price spikes.

Think back to the terrorist attack on a pipeline in Basra, Iraq two weeks ago – actual production losses amounted to a

relatively small amount, about 100,000 barrels per day, but the price of oil rose by more than one dollar per barrel. We must consider how severe the consequences would be if an attack were to succeed at a major facility, such as Abqaiq [AB-CAKE] in Saudi Arabia.

Our dependence on foreign oil must be significantly reduced. This is not a call for energy independence. Instead, we must strive for what many have termed “energy inter-dependence” by strengthening the use of our own supplies and balancing self-reliance with a diversity of energy sources.

There has been no shortage of ideas for reducing our oil imports. In the near-term, very few of those proposals would decrease prices, add to supply, and promote economic growth. But there is one course of action that would have such a positive and immediate impact: increasing the exploration, development, and production of our own domestic resources.

With proven reserves of more than 21 billion barrels of oil, and potential reserves that may exceed 100 billion barrels, it is unacceptable, and frankly irresponsible, to rely on foreign nations for so much of our energy. American energy, produced by our workers, must be used to power our homes, businesses, and vehicles.

To achieve this goal will require a significant overhaul of our policies. We must inventory our energy resources in order to know what can be produced domestically. The permitting process must be streamlined to attract needed investment and shorten the time it takes to develop wells, refineries, pipelines, wind farms, solar arrays, and geothermal and tidal energy projects.

Our most promising reserves, including the Arctic Coastal Plain of ANWR and the Outer Continental Shelf, must be opened to responsible leasing and development. Damaging provisions, such as Section 526 of last year’s energy bill, must be repealed as soon as possible. At a time when nearly all of us agree that oil from overseas is a detriment to our national security, interpretations of the law that harm our ability to provide our own fuel, or import fuel from our ally and neighbor to the north, are irresponsible and counterproductive.

While there is much that should change, there is one area of policy that those in Congress should simply leave alone – the tax incentives available to oil and gas companies. At a House hearing last week, the President of BP’s American operations testified that:

“...Taxing one form of energy to encourage production of another will reduce our ability to keep up with the growing U.S. energy demand. The result will be less investment, less production, tighter energy markets and potentially even higher prices at the pump.”

We must remember that American energy companies control only a fraction of the world’s oil reserves, and we ought to be glad they are still in business and that they are ours. To punish them for accepting market prices, or to suggest that they somehow set those prices, is wrong. Shifting tax incentives away from oil and gas companies will raise their cost of business, discourage exploration, and ultimately heighten the cost of energy for consumers.

Using old fears about energy production, and ignoring new concerns about energy prices, many policymakers have locked up our lands and our energy potential. Technology has advanced greatly over the years, as have the safety and environmental sensitivity of production activities. With \$100 oil becoming the norm, a fresh debate on this topic – and a fresh approach on policy – is clearly warranted.

Increased domestic production will not be a stand-alone solution to America’s energy challenges. We must also continue to enhance our ability to conserve energy, increase efficiency, and develop alternative and renewable fuels. But increased domestic production will be, without question, a vital component of a stronger energy policy for decades to come.

EIA projects that America’s liquid fuels consumption will increase by more than 10 percent through 2030. Far more telling is EIA’s forecast for global consumption of those fuels, which is expected to rise by roughly 40 percent over the same period. The simple truth is that we will need more oil in the future than we do today, even as new energy

resources are commercialized.

The oil locked up off of our coasts, beneath our permafrost, and within our shale can provide a stable supply of energy as we transition to the next generation of cleaner fuels. By generating billions of dollars for the federal Treasury, these resources will also allow us to confront another great energy challenge: reducing our carbon dioxide emissions to address the threat of global climate change.

Last year, the IPCC concluded, with 90 percent certainty, that man-made greenhouse gases are “very likely” contributing to our warming climate. I have no reason to dispute that finding, and no reason to believe it is incorrect. I would simply remind you that climate change is a global challenge, not limited to the United States alone. We can and must take steps to ensure domestic carbon dioxide emissions decrease. But without international cooperation – a global effort to address a global problem – any progress made within our borders will have little to no impact.

A few facts and figures make it clear why this is the case. In 2006, our carbon dioxide emissions declined by 1.3 percent, while the carbon dioxide emissions of the European Union, under a cap-and-trade system, increased by 1 to 1.5 percent. According to the Wall Street Journal, this trend continued last year, when the European Union’s carbon dioxide emissions rose by another 1.1 percent.

Consider also the rapidly-industrializing nations of the world. China’s emissions of carbon dioxide in 2010 are projected to be 600 million metric tons higher than they were in 2000. That increase is five times greater than the reductions that all developed nations that signed the Kyoto Protocol have committed to over the same period – and several of those countries are not on target to meet their own goals.

Some of America’s foremost economists are now questioning the value of a cap-and-trade system. Jeffrey Sachs, the liberal economist from Columbia University, wrote this month that,

“If we try to restrain emissions without a fundamentally new set of technologies, we will end up stifling economic growth, including the development prospects for billions of people. The key is new low-carbon technology, not simply energy efficiency. ”

As we approach a floor debate in the Senate on a cap-and-trade system for the United States, it is my hope that common sense will prevail. Every policy can have a price, but sometimes that price is too high. A new report by the Science Applications International Corporation has found that the impact of the Lieberman-Warner bill would be staggering, and worse over time. In 2030, it could decrease domestic GDP by up to \$670 billion per year and remove up to four million jobs from our economy.

In my home state of New Mexico, more than 27,000 jobs could be lost in 2030 as a result of this bill. Electricity prices could increase by up to 133 percent; gasoline prices by 140 percent; and natural gas prices by 154 percent. The authors of the study found that “Higher energy prices would have ripple impacts on prices throughout the economy and would impose a financial cost on households.” They state that people “on fixed incomes, such as the elderly will also suffer disproportionately.” We are sent to the Senate to write and support bills in the best interests of our constituents. The Lieberman-Warner bill clearly falls outside of those bounds.

Given the current state of our economy, it would be devastating to further disadvantage our nation with a domestic regulatory approach that may not solve this global problem. Our focus should be on policies that advance clean technologies, and allow progress on a net basis. I recently introduced one such measure, Senate bill 2730, which would create a Clean Energy Investment Bank to provide the infusion of necessary capital for clean energy technologies in the broader marketplace.

We have two difficult challenges in front of us that will shape our energy policy for years to come. As a country, we must reduce our dependence on foreign oil. As a world leader, we must foster consensus and implement strategies that will reduce carbon dioxide emissions. Enacting the Clean Energy Bill will work to advance this process.

As we debate these issues, we should not propose to overhaul the traditional energy industries without also addressing

the likely impacts that such actions will have. And we should not seek to transition away from traditional sources of energy until new technologies have been proven affordable, available, and acceptable to the public.

The good news is that we are starting to head in the right direction. In the past three years, we have passed three landmark energy bills. Their impact is already being felt: nuclear energy has been revived; the first-ever Renewable Fuel Standard is in place; the fuel economy of our vehicles is rising; and some progress has even been made with regard to domestic oil and gas production.

In the years ahead, we must continue to rethink our policies to match the modern challenges that we face. As we do, we must be sure to look carefully at the information produced by EIA to ensure that we develop, at long last, an effective energy policy that meets the long-term needs of our nation.

Thank you again for the opportunity to join you this morning, and best wishes for the rest of this year's conference.

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