

U.S. Senate Committee on Foreign Relations
Chairman Richard G. Lugar
Opening Statement for Hearing on
Oil Dependence and Energy Alternatives
May 16, 2006

The Foreign Relations Committee meets today to consider strategies for reducing dependence on oil. This dependence brings intolerable costs to American national security and economic well being. If oil averages just \$60 a barrel this year, the import cost to the U.S. economy will be approximately \$320 billion. This revenue stream emboldens difficult oil-rich regimes and enables them to entrench corruption and authoritarianism, fund anti-Western demagogic appeals, and support terrorism. As global oil demand increases and the world becomes more reliant on reserves concentrated in unstable regions, the likelihood of conflict over energy supplies will dramatically increase, and energy rich countries will have more opportunity to use their energy exports as weapons against energy poor nations.

High prices over the past ten months have demonstrated the vulnerability of supply. A global oil market tightened by under-investment in production and surging global demand has been aggravated by hurricanes, unrest in Nigeria, speculation about developments in Iran, weakened capacity in Venezuela, and terrorist activity in Iraq and elsewhere. In this environment, the price shock from a major supply disruption could cause a recession.

Today, we will concentrate on how our government can speed up the transition to alternative sustainable energy sources. We are cognizant that despite past campaigns for energy independence and a constant improvement in energy intensity per GDP, we are more dependent on oil imports today than we were when President Nixon authorized "Project Independence" in 1973. Yet, I believe that we are turning a corner. The American public and elected officials are becoming more aware of the severe problems associated with energy dependence and are more willing to take aggressive action.

The new realism of energy geopolitics requires us to abandon the notion that simply finding more oil will solve oil-driven threats to our national security. More than three-quarters of the world's oil reserves are controlled by foreign governments. With global oil demand projected to rise from 83 million barrels a day to 120 million barrels per day by 2030, the security threats related to oil dependence will continue to intensify, unless we make dramatic changes in policy.

Efforts to reduce oil consumption must focus on developing sustainable fuels and increasing efficiency. I am pleased that the first commercial scale cellulosic ethanol plant in the United States is ready for construction and that Americans are beginning to demand more fuel efficient vehicles. We must continue investing in advanced energy research, but threats to our national security require us to efficiently deploy the oil-saving technology that is available now.

The benefits of reducing oil use at home will multiply when other countries also switch to alternative fuels and decrease the energy intensity of their economies. I have introduced S. 2435, the *Energy Diplomacy and Security Act* to reorient our diplomatic activities to give greater priority to energy matters. We need bold international partnerships to blunt the ability of producer states to use energy as a weapon, to increase our own security of supply, and to reduce the vulnerability of our economy to high oil prices.

Today we will benefit from the views of two distinguished experts. We will ask them to identify the best options for reducing oil use through alternatives and efficiency gains. We will also seek their counsel on what government can do to accelerate the transition away from oil and how we can most effectively encourage helpful actions by the private sector and consumers.

First, we will hear from Mr. Vinod Khosla, the founding partner of Khosla Ventures, a leading venture capital firm that has invested in many cutting edge energy technologies. A co-founder of Sun Microsystems, Mr. Khosla, is an influential voice on the viability of alternative energy sources. Next, we will here from Mr. Jason Grumet, Executive Director of the National Commission on Energy Policy. In December 2004, the bipartisan commission released its recommendations for a long-term energy strategy. The report comprehensively examined numerous technologies and methods for increasing energy supplies, as well as for moderating energy demand. Prior to joining the Commission, Mr. Grumet served as Executive Director of Northeast States for Coordinated Air Use Management.

We welcome our witnesses and look forward to their insights.

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