



Statement Before the
House Foreign Affairs
Subcommittee on Terrorism, Nonproliferation, and Trade

***“Geopolitics of U.S. Oil and Gas
Competitiveness”***

A Testimony by:

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Good morning Chairman Poe, Ranking Member Keating and members of the subcommittee. It is my pleasure to be here today to speak with you about the *Geopolitics of U.S. Oil and Gas Competitiveness*. My name is Sarah Ladislaw and I direct the Energy and National Security Program at the Center for Strategic and International Studies (CSIS). CSIS is a bipartisan, nonprofit organization headquartered in Washington, D.C. The CSIS Energy and National Security Program provides strategic insights and policy solutions related to the dynamic and changing global energy landscape. My remarks and written testimony represent my views and not the views of my colleagues or CSIS as an institution.

The United States has experienced an oil and natural gas production renaissance that has changed the domestic and global energy landscape in some important ways. Today, U.S. production of oil and natural gas are at or above historical levels. According to the Energy Information Administration (EIA), U.S. crude oil production averaged 10.5 million barrels per day in April 2018 and U.S. natural gas production averaged 85.75 billion cubic feet per day in the same month.¹ Taking into account oil, natural gas, and hydrocarbon gas liquids, the United States is the largest hydrocarbon producer in the world – larger than Russia or Saudi Arabia – and for the last several years the U.S. has been the premier destination for oil and gas investment, attracting billions of dollars in exploration, production and refining of oil, natural gas, and hydrocarbon gas liquids. The United States is exporting more crude oil, oil-derived products, and natural gas than ever before and is poised to be a net exporter of energy by 2022, under certain assumptions. Crude oil exports from the United States averaged over 1 million barrels per day in 2017, while finished product and liquid exports averaged over 5 million barrels per day, and natural gas exports were over 3 trillion cubic feet in 2017.

The most direct linkage between U.S. oil and gas competitiveness and geopolitics is the contribution it makes to global and U.S. energy security. In this regard, U.S. oil and gas production provides some significant benefits and augments global energy security in at least three important ways. First, it provides additional supply to a global market that had been tight for several years as global oil producers raced to keep up with growing Chinese oil demand. In 2008, U.S. crude oil production stood at around 5 million barrels per day compared to the 10.7 million barrels per day average production level expected for 2018, just 10 years later.² This is the largest increment of oil production growth ever and its volume is equivalent to the production of the second largest country in OPEC. The addition of almost 6 million barrels per day of crude oil production is a small but important part of the global crude market that today is about 81 million barrels per day.³ Second, U.S. tight oil adds a new kind of oil supply to the market that takes months, rather than years to ramp up from investment to production. This so-called short cycle oil has the potential to serve as a relief valve when markets are tight, with the ability to bring new supplies to market much more quickly than in years past.

¹ Short-Term Energy Outlook, May 8, 2018, Energy Information Administration, <https://www.eia.gov/outlooks/steo/>

² Energy Information Administration, https://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbbl_m.htm

³ Monthly Oil Market Review, May 16, 2018m International Energy Agency.

Third, the new oil and gas supply source has added a sense of resource optimism to the market. Broadly speaking, the advent of tight oil and shale gas development has ushered in an era of perceived resource abundance. Today, producers, consumers, and investors understand that given the right price environment and investment conditions, new oil and gas supplies can and will be brought to market. This is happening at the same time that alternatives to oil and gas are also growing more cost-competitive. The net result has been an energy market that is much more competitive for energy producers with a great deal more variety and options for consumers.

The U.S. oil and natural gas supply surge is also good for the U.S. economy and national security. First, oil and gas production in the United States is an important source of job creation. Oil and gas production has made important contributions to economic growth and provided crucial stimulus to the economy during the post-Great Recession period. As noted earlier, it has encouraged investment in low-cost oil and gas as both a final product and as feedstock for refining and petrochemical ventures. Finally, increasing exports and declining imports of oil and gas has served to improve the U.S. trade balance. On national security grounds, while the United States still faces significant energy vulnerabilities, it is arguably more energy secure today than it was a decade ago because of the oil and gas supply abundance within the U.S. border.

The benefits of U.S. oil and gas competitiveness should not, however, obscure the risks that still exist to U.S. energy security. Despite the rising level of exports, the United States still imports a good deal of oil and natural gas. In fact, the U.S. is more engaged in global oil trade today on a gross basis than ever. This means the U.S. economy continues to experience the impact of oil price changes, just in increasingly complex ways. In addition to price shocks, the United States is still vulnerable to oil and gas supply disruptions. As we approach a new hurricane season it is important not to forget the oil, gas and electricity supply disruptions that resulted from Hurricanes Harvey and Irma in 2017. Hurricane Harvey reduced gross inputs to Gulf Coast refiners by 3.2 million barrels per day, while Hurricane Irma cut power to nearly two thirds of Florida's electricity customers and led to higher gasoline prices. Nearly 22,000 people are still without power in Puerto Rico to this day.

Finally, even the abundant supply of domestic oil and natural gas is not a direct proxy for security – delivery systems are needed to get resources from the point of production to the point of consumption. Logistical bottlenecks in pipeline contracting, siting, permitting, and construction continues to impede rapidly growing oil and gas production in the Permian Basin in Texas from reaching end markets. While this bottleneck is temporary, it once again illustrates the strategic importance of midstream and delivery infrastructure towards realizing the full commercial and strategic value of these resources.

The U.S. oil and gas supply renaissance is also a good news story for the places where energy intersects with geopolitics. First, as I noted in my June 2017 testimony to the House Foreign

Affairs Subcommittee on the Western Hemisphere, North America is now one of the most energy-advantaged regions on the planet.⁴ The energy resources (oil, natural gas, coal, nuclear, wind, solar, and biomass) contained in Canada, Mexico, and the United States are second to none, and when combined with the region's stable legal system, liberalized trading environment, cross-border infrastructure, high-tech industries, and educated and competitive labor force, it is hard to match in terms of potential. It is important to look to the U.S. relationship with Canada and Mexico as an opportunity to build upon these natural advantages.

Second, U.S. oil and gas supply can add to the diversity of supply available to other countries in helpful ways. One key example is the impact of additional gas supplies available to Europe. The availability of additional supply sources was part of the equation that led to a departure of oil-indexed pricing in long-term gas supply contracts in Europe. As my colleague Nikos Tsafos has recently written, this does not mean Europe is less dependent on Russia for its gas supplies.⁵ In 2017, Europe actually increased gas imports from Russia along with other countries. The additional import options and availability of global supplies are of course good for Europe's gas supply security but has not in reality lessened the energy ties between Europe and Russia, nor has it fundamentally changed the geopolitical dynamics within the region with regard to Ukraine.

Third, major oil producing countries like Saudi Arabia, Russia, and other members of the Organization of Petroleum Exporting Countries (OPEC) have had to reevaluate a number of oil market and geopolitical factors as it relates to U.S. tight oil production. First, the oil price drop in 2014 that resulted from a variety of factors including the rapid onset of U.S. oil supply growth and subsequent period of low prices, caused OPEC to reevaluate its position within the market both in 2014 and again in 2016. In order to be effective, Saudi Arabia, as the leader of OPEC, struck up an alliance with Russia and several other non-OPEC countries to withhold oil supplies from the market in order to stabilize prices until markets came into rebalance. It is unclear how deep and abiding the alliance between Russia and Saudi Arabia is beyond their current market management arrangement, but the relationship has been accompanied by a deepening of Russian diplomatic and investment activity throughout the Middle East. The second effect on major oil supplying countries is in the area of economic planning and diversification. The most notable example of this is the economic and social reform plan launched in 2016 called Saudi Vision 2030. Through this plan, Saudi Arabia intends to revamp its domestic economy to rely less on oil and diversify its sources of income. Leaving the challenges of implementing this vision aside, it is important to note that many countries that depend on oil-derived revenue to fund their government have taken steps to insulate their economies from periods of sustained low prices. This of course has been done in the

⁴ Ladislaw, Sarah. "Energy Opportunities in North America." Statement before House Foreign Affairs Subcommittee on Western Hemisphere. 6 June 2017. https://csis-prod.s3.amazonaws.com/s3fs-public/congressional_testimony/ts170607_Ladislaw_testimony_HFAC.pdf%3FVhTcPJ7pb3NmBbAmfyy03YacJg4B6eqL

⁵ Tsafos, Nikos. "Europe Turns to Russia, and Elsewhere, to Meet Rising Gas Demand in 2017." 18 January 2018. <https://www.csis.org/analysis/europe-turns-russia-and-elsewhere-meet-rising-gas-demand-2017>

face of low oil prices so the sustainability of the reforms may be in question when prices rise again, but the reforms were a direct result of the oil price drop brought on by U.S. oil supply. Notably, countries like Venezuela, once among the largest and most successful oil producing countries in the world, have suffered a great deal under the pressure of lower oil prices after years of neglect and mismanagement under the current and previous leadership.

One often hears it asserted that the increased production of U.S. oil and gas has served to lessen U.S. reliance or entanglement in the Middle East. In fact, this has hardly been the case. The perceived U.S. withdrawal from the Middle East was sparked by a desire to draw down the wartime posture in the Middle East and shift strategic focus to striking a security balance in Asia. The U.S. is no freer of entanglements in the Middle East than it was before the onset of the U.S. oil and gas supply revolution, though it is less concerned about energy security thanks to the low oil prices of the last several years. Following the recent announcement of the U.S. intention to withdraw from the Joint Comprehensive Plan of Action (Iran Agreement), the Trump administration showed that the U.S. still relies on Middle East oil suppliers to help guarantee global price stability in the face of supply disruptions.

As I have written in other publications, energy and foreign policy are often inextricably intertwined, but the ability for policymakers to use energy resources as a tool of targeted foreign policy leverage, or even dominance, is misguided. Very rarely do energy resources alone matter enough to override the many economic, political, security and philosophical disputes that underpin relations between and among countries. Energy can certainly be used as one tool among many to implement a strategy to influence another actor's behavior. Indeed, energy is one of the sectors targeted in our many sanctions regimes against North Korea, Iran, Russia and Venezuela (even when done through financial sanctions). But in each of those cases, the sanctioning of energy investments or resources as part of a broader strategy has yielded mixed and inconclusive results to the crises or stand-offs we face in each country. The U.S. has, however, likely felt freer to sanction other countries with significant energy resources without feeling economic harm in a period of low prices and oversupplied markets.

I recently wrote about some strategies and recommendations for the U.S. to make the most of its energy-advantaged position and use U.S. oil and gas competitiveness to the betterment of the U.S. and global market.⁶ First, the United States should continue to support longstanding institutions and arrangements that have served it well over the last several decades. Free trade in energy goods and services is much more in the United States' long-term interest than a purely mercantilist approach to energy deals. It is important to recognize that the United States has a fair number of energy vulnerabilities – related to oil and gas supply disruptions, physical infrastructure protection, and cyber threats. The United States can only be strong if we continue to invest in, and protect

⁶ Portions of this testimony have been taken from an earlier article Ladislaw, Sarah. "Dissecting the Idea of U.S. Energy Dominance." Oxford Energy Forum, Issue 111, November 2017, Oxford Institute for Energy Studies, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2018/01/OEF-111.pdf>

against, those disruptions. The government should think about resilience to physical disruptions like the hurricanes experienced earlier this year. It should contemplate the value of not only its Strategic Petroleum Reserve but of the global system of strategic stocks. Finally, it should devise a strategy for an energy sector that is becoming more and more dependent on digital controls and sensors in the age of cyber warfare.

Second, a truly ‘all of the above’ approach is warranted if the United States wants to use energy to drive economic growth, job creation, and international competitiveness. The U.S. oil and gas supply surge may get a lot of attention, but the growth in jobs and America’s real competitive advantage exists in renewables and other advanced technologies as well. The United States would do well to avoid the promotion of only a certain set of fuels and technologies over others. Developing economies in particular are interested in not only fossil-based energy resources but in distributed solar, wind, storage, microgrids, and a suite of other technologies and services that U.S. companies have to offer.

Third, it is important to understand the value of energy diplomacy. The United States undoubtedly has an energy advantage at its finger tips that can and should be harnessed as much as possible, but it would be a critical mistake to overestimate how much that advantage can be wielded over other countries, or to believe that bilateral trade deals in energy are more important than the fundamental underpinnings of existing trade policy and decades of energy diplomacy in which the U.S. negotiated with other countries using energy as a political tool rather than as a weapon.

The U.S. oil and gas supply revolution has showed us that the more things change the more they stay the same. The U.S. has more economic and security benefits as a result of the increased supply provided by tight oil and shale gas, but it is certainly no panacea for a geopolitically turbulent world to which we are still very much connected.