



Center for Strategic & International Studies
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The U.S.-Saudi Partnership in the Changing Energy World
Luncheon Keynote Address

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The Center for Strategic and International Studies

Participants:

Erik R. Peterson

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The Honorable Jeff Bingaman

Senator and Ranking Member, Energy and Natural Resources Committee
United States Senate

Erik Peterson: Good afternoon. I'm Erik Peterson. I'm senior vice president of CSIS. It gives me great pleasure to introduce today's featured luncheon speaker. Senator Jeff Bingaman has been serving as a senator, as you may know, from New Mexico since his election in the year 1982.

He is the ranking member of the Senate Energy and Natural Resources Committee. He also serves on numerous other committees, including... he's a member of the Subcommittee on Healthcare, the Subcommittee on Social Security and Family Policy, and the Subcommittee on Taxation and IRS Oversight. On the Health, Education, Labor and Pensions committee, Senator Bingaman is the lead democrat senator on Education Standards, Technology, At-Risk Students and Pension Reform. He also serves as a senior member of the Joint Economic Committee.

His leadership posts are numerous, and they include Deputy Democratic Whip, member of the Democratic Steering and Coordination Committee, a member of the Democratic Technology and Communications Conference. He attended Harvard University, earned a bachelor there in government in the year 1965, he then entered

Stanford School of Law, graduating in the year 1968. He served in the Army Reserves from 1968 to '74. After one year as New Mexico Assistant Attorney General and eight years in private law practice, Senator Bingaman was elected Attorney General in the state of New Mexico in 1978, and as I mentioned, in 1982 he was elected senator from that great state.

In welcoming Senator Bingaman, I'd like to note that he has lent his expertise and leadership to CSIS on a variety of occasions, in a variety of projects, most recently in a recent workshop that we held on global water issues, and we're very grateful to him for his leadership in that regard. So ladies and gentlemen, I'd like to ask you to please join me in welcoming Senator Jeff Bingaman.

Senator Jeff Bingaman: Thank you very much for the invitation to be here, and please continue with any of the lunch that's still to be eaten. I saw some great desserts being set down at the table I was sitting at, and I had to stand up right before I started eating mine. But at any rate, let me thank you again for inviting me.

The Center for Strategic and International Studies deserves great credit for the role that it has played and continues to play in international dialogue and international relations, bringing distinguished guests together such as the Minister of Petroleum and Natural Resources, Ali Al-Naimi from Saudi Arabia; our own Secretary of Energy, who I know was here this morning; Secretary Schlesinger who is here at the front table; and a great many other distinguished visitors.

I do think there are a lot of common energy issues that we need to find more and more opportunities to deal with and dialogue about, so this is a major opportunity to do that, and I commend CSIS for hosting this.

Let me just tell you the three points I wanted to make first, very generally.

The first obvious point is that U.S. domestic energy demand is on track to rise during the next decade, and we will continue to be the leading consumer of world oil, in spite of anything that might be discussed in the Congress or enacted during this year or next year.

Second, initiatives in Saudi Arabia to enhance oil production during the next decade are welcome, and they will serve as a stabilizing force in world oil markets. U.S.-Saudi cooperation will be essential as world oil demands stretch the capabilities of suppliers around the globe.

And third, in the long term, the United States needs a strong and a well thought-out energy policy, especially with respect to reducing its oil demand. That energy policy needs to be broader than just oil, obviously. U.S. energy policy needs to fit into the global economic and environmental context, and that is what those of us in the Senate are struggling to do as we consider energy legislation this week and this month in the Congress.

Let me start by discussing U.S. and global energy demand, just for a minute. The core reality for everyone at this conference today is that the United States and the world are going to need all of the oil that Saudi Arabia and other petroleum-exporting countries are able to produce in the coming years. Despite our best efforts to curb the U.S. appetite for oil, rapid U.S. oil and global demand growth will ensure a market for increased Saudi Arabian oil production well through the next decade and long after.

There has been much discussion about the phenomenal growth of Chinese

energy consumption and with many suggestions that China has become the pivotal consumer in the world market. While it is clear that China oil demand increase has had a significant impact on oil markets worldwide, we should not lose focus on the preeminence of the United States as the world's largest oil consumer. The Energy Information Administration in our own Department of Energy forecasts that oil demand in the United States will increase more than oil demand in China will increase between now and 2010.

So I point that out just to underscore that the United States and its policies will remain one of the most important drivers of global oil consumption for many years to come. About 44 percent of our U.S. oil consumption is in the form of gas; gasoline for cars and trucks. The transport sector is of course the single largest consumer of petroleum in our country by a very large margin.

I think there is an emerging consensus that the high oil prices that are reflected at the gas pump are beginning to take a toll on our economy. While the U.S. economy is growing, it is probably doing so at a slower rate because of the high energy prices. Americans are very mindful of gasoline prices and are acutely aware that recent price increases are cutting into their disposable incomes. So this elevated price environment serves as a constant reminder that as the world's largest oil importer, we in the United States rely on the world oil market to fuel the infrastructure of this vibrant economy that we enjoy.

Because oil will continue to play a vital role in U.S. economic security, it's important that we maintain a strong and intense relationship with the Kingdom of Saudi Arabia. For example, I'm informed Aramco has plans to expand its production capacity to 12.5 million barrels per day by 2009, and is studying whether to increase that capacity to 15 million barrels per day. Given strong projected growth in world oil demand it would seem to me that it's in the mutual interest of the United States and Saudi Arabia that this new oil come on-line as quickly as possible. Both of our countries and the world at large would gain from Saudi production increases.

It is also a good thing for our country, and I believe for the world market in general, that Saudi Arabia is retaining its policy of maintaining spare production capacity of 1.5 to 2 million barrels per day. We know that once a decision has been made for Aramco to ramp up production, the spare capacity enables them to do so rapidly, and the ability of Saudi Arabia to play this buffer role is a consequence of some very impressive technical achievements.

Aramco is on the cutting edge of new technology. We have consistently seen that improved oil technology both increases the yield and decreases the environmental impact of oil and gas drilling. We understand that some of the planned Saudi production increase is to come from the Sheba Development in the Saudi empty corridor. Aramco's ability just to move the immense quantities of sand necessary to begin the development at Sheba demonstrates some remarkable technical capabilities and demonstrates its world-class position as an oil company.

While U.S.-Saudi cooperation and Saudi Arabia's own technical achievements promise to have an important effect on stabilizing oil process over the near to medium term, ultimately the United States is going to have to do a better job of getting its own energy house in order. Just before I came over here this noon I was in a markup that we have begun in the Senate Energy Committee on energy legislation. As you know, we've

tried in the last couple of Congresses to enact that legislation. We are trying again, and this time I think with much more promise of success. Several major portions of the bill, of this energy legislation, have been worked out on a bipartisan basis. They have been posted on our committee web site for anyone to read, and we plan to consider these sections this week.

Ultimately if we are successful in committee, the full Senate will consider the legislation, we expect probably in June, and then later in the summer perhaps be in a position to go to conference with the House of Representatives. Energy legislation cannot do much about oil prices or availability of oil in the short term, obviously, but such legislation can set some important long-term directions for where we're headed, and I hope that the Senate can pass an energy bill that represents a thoughtful and a forward-looking energy policy.

To that purpose, let me just mention the four basic goals that I believe we need to keep clearly in mind as we work through this energy bill.

First is, of course, ensuring adequate and affordable supplies, and that means a mix of energy sources that not only include oil but coal, natural gas, nuclear power, and renewables. It's clear that in order to meet our energy needs in the future in an economically sound manner, we will require contributions from all possible energy supply sources, and the energy bill that we're trying to mark up attempts to encourage increased production from all of those sources.

A second goal for the energy legislation is to improve the efficiency with which we use energy. This includes reliability, of course, but the productivity of the electric transmission system, our energy use in industry, in vehicles and appliances and buildings. We have given substantial attention to this need in the legislation and I believe we are proposing some very constructive provisions.

Third, the Senate must keep in mind important policy goals such as protecting the environment and global climate as we move ahead with energy legislation. Energy policy and environmental policy of course are intrinsically linked. Ninety-eight percent of U.S. carbon dioxide emissions are related to energy production and use. Energy policy and climate change policy can be compared to the flip sides of the same coin. So to make policy regarding one, implicitly also makes policy regarding the other.

I believe that it's essential that we try to put in place forward-looking approaches to greenhouse gas emissions, and there will be an effort to do that as part of this energy bill before it leaves the Senate. A thoughtful bipartisan expert private group known as the National Commission on Energy Policy recently released a comprehensive report on energy policy. That report contains some innovative recommendations on how to take the first meaningful steps to combat global warming in the U.S. economy. Their recommendations tried to bridge the gap that has existed for the last five years between the Bush Administration, which walked away from the international dialogue on global warming back in 2001; bridged the gap between them and those who believe that the United States cannot forever abdicate a leadership role in this important area.

I hope that the Senate during the course of considering this energy bill can try to implement some of these innovative recommendations that came out of that national commission report.

The fourth and final goal that I would outline would be to make sure that

consumers' interests are protected. We need to encourage the development of competitive and transparent markets for energy as a way to assist consumers.

One of the most important and difficult issues we're going to face is how to reduce the national appetite for oil in the long term. As our domestic oil production declines, our demand continues to increase. We need to be more creative about meeting those energy needs, but Americans remain among the most innovative people in the world, and I'm confident that we can. If we put adequate emphasis on technology development we can make real progress.

We need to also do more with, make more efficient use of hydrocarbons in the transportation sector. I know that there's a lot of controversy in the Congress and here in Washington generally about whether or not to require increased efficiency in automobiles and trucks. I believe strongly that we need to put in place some provisions that will move us toward more efficient use of petroleum in the transportation sector. We have to address the issue. I'm hopeful that a consensus can develop in the Senate on a constructive way to do that.

One provision that we did have good agreement on in the last Congress, I think we do again this year, is a provision that essentially mandates that U.S. petroleum demand be reduced by a million barrels per day by 2015. We have not specified how the administration is to bring that about in the provision, but this oil savings approach had great support in the last Congress. I hope we are able to pass it through the Senate and include it in a bill that goes to the President.

I think clearly dialogue such as the ones you're having today will help greatly to assist this country, assist the United States in meeting its energy needs in the future. Obviously having annual events is not adequate, and also having interaction at the top levels of government is not adequate. What we need is a constant interaction at various levels of government. I hope that is occurring and will continue to occur.

I don't think it's an exaggeration to say that much of the energy security of the world will be affected by the energy policies of both the United States and Saudi Arabia. So I'm pleased that the leaders of both countries are engaged in discussing this important topic. If you come up with concrete suggestions for things we ought to try to include in legislation pending in Congress, now is the right time to be telling us about it. We're in the markup process this week and next week and as I said, we hope to conclude that markup before the end of May and be in a position to consider legislation on the Senate floor in June. If you have suggestions, we're anxious to hear from you and again, thank you very much for letting me come and speak to you for a few minutes this noon. Thank you. [Applause].

Erik Peterson: Ladies and gentlemen, the senator has kindly agreed to take one or two questions.

Senator Jeff Bingaman: Now this may be a loaded question. Bennett of course has successfully shepherded major energy legislation through our Congress, the last time it happened in the early '90's, so he is my master to teach me how to do it. Go ahead.

Bennett Johnston: Thanks, Jeff. I'd like to commend you for your efforts to get a bipartisan bill, I think we need an energy bill, and just as far as suggestions are concerned, there is a provision as you know being considered for states to be able to

petition to allow drilling off their shores where it's not now allowed, and one provision of that would be a gas-only lease. And the alternative to that is a gas-preference lease, where the secretary would determine if it could be safely done. I'd like to submit to you that it would be very difficult to do a gas-only lease. The risk of drilling in the outer continental shelf is so great that to completely rule out any oil production in connection with that, I think would make it very hard, even for those states that would do the petitioning.

I think you could trust the secretary to make that decision as to whether it can be successful. On the question of whether you can safely allow drilling off your shores, I'd like to urge you to bring the committee back to Louisiana, where for over fifty years, and tens of thousands of wells, there hasn't been any oil spill problem yet, and we're producing over a billion pounds of commercial seafood off our shores. So we're for offshore drilling safely and in such a way as to increase our supplies.

Senator Jeff Bingaman: Thank you very much. I think that's a very good point. I agree that we need more offshore drilling. Let me say that the point you made about gas-only is a very difficult thing to do, to accomplish. I've heard that same point made by several in industry, who have said that that is a problematic approach. Mr. Secretary?

Secretary Schlesinger: Senator, you've indicated progress as far as the conference committee. Can you indicate what you believe will happen when you get to the conference committee, and what about MTBE?

Senator Jeff Bingaman: Well, that's obviously the difficult challenge, is what happens once we get to the conference committee. That's where the process has broken down in the last two congresses. We are hopeful that this year will be different, and that we will be able to prevail on the House to do the right thing. Now they may not see it that way. On MTBE, all I can say is their legislation, the bill that the House has passed, does contain a provision that provides protection from liability for manufacturers of MTBE. Our bill will not. That has been the case in the previous Congresses as well, and we will do our best to persuade the House that this is not an essential part of a comprehensive energy bill.

Question: Several of the speakers this morning, Senator, talked about the obstacle that the current plethora of specifications for gasoline causes to the development of refining capacity, and particularly to the advantage of the United States market, take advantage of refining capacity that exists abroad. Is there any chance that the Congress will take any steps in the direction of harmonization, if you will, of the gasoline standards which exist in so many different states now, and so many different ways?

Senator Jeff Bingaman: Well, I think that we're certainly willing to do something in that area. Frankly, my position has been, I think that I'm right, that the head of EPA has the authority to substantially reduce the number of different specifications that are out there, through the Clean Air Act provisions, at the current time, and just essentially demanding that states restrict that. I don't know if additional legislative authority or provisions are required to bring that about, I think we're still looking at that. I'm open to doing whatever needs to be done. I think that the problem of boutique fuels is a real one, and one that we hear a lot of talk about. But I don't think there's any obstacle to the administration going ahead and acting on that if they determine to do so.

All right, again thank you very much for the invitation.



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Closing Remarks

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The Center for Strategic and International Studies

Participants:

Robert E. Ebel

Chairman, Energy Program, CSIS

Mr. Abdallah S. Jum'ah

President and CEO, Saudi Aramco

Mr. David J. O'Reilly

Chairman and CEO, Chevron Corporation

Robert Ebel: All right, thank you very much, Senator. Let me take this opportunity to once again recognize and thank our sponsors, Saudi Aramco and Chevron. And also our financial supporters, Conoco Phillips, Exxon Mobil, Foster Wheeler, Platz, and the U.S.-Saudi Business Council. Now Mr. Jum'ah and Mr. O'Reilly have very kindly agreed to offer some very brief closing remarks for our conference, so I would invite Mr. Jum'ah to the podium, and then Mr. O'Reilly.

Abdallah Jum'ah: Thank you, Bob. You know, speeches before lunch are bad, after lunch they're terrible, so I'm going to be very brief. But truly this is a wonderful opportunity for the world's largest consumer and the world's largest economy and the world's largest producers to meet, and talk. Because I think only through the type of dialogue, we can, we know each other and we know the problems and rather than we hear it in hearsay, and I think this is a wonderful opportunity that we have had today, and we hope we continue to do this. From our part, we are

doing a lot of discussions, dialogue, and I agree with the honorable senator that we need more of these dialogues at different levels so that we understand each others' problems, if any, and we support each other. I think we, the success of Saudi Aramco over these years, is really also there is a tribute that has to be paid to our background, because we are today operating on a background of an efficient U.S. business model. And I always tell my friend David that he's grandpa. We operate today and we are successful today because we are building on this model. And we would like to continue to strengthen this model. I mentioned today that this issue of our people continuing coming to the U.S., and having their education in this country, is really paramount and very, very, very important. This is a point I wanted to keep at the end of the day because this is extremely important.

Most, there's a huge number of U.S.-educated in all levels of the government, and as I mentioned, that maybe thirty, forty, fifty percent, maybe forty percent of our professional workforce, has had U.S. education. That link has in the last forty years been a little bit weakened, and we would like to strengthen that link once again. I would like to thank you for joining us today, I would like to thank CSIS really for their wonderful role in bringing us together, and with that, let's see you, maybe not next year, maybe something earlier than that time. With that, thank you very much.

David O'Reilly: Let me begin my thanking CSIS for putting this together. I want to thank the Minister, and Abdallah Jum'ah for being here. Secretary Schlesinger, thank you for also moderating this morning's session. Robin West, Luis Giusti, and of course Secretary Bodman for his presence here earlier at the session this morning. I do thank you for the comments, Abdallah, I thought they were very gracious. It's, I've never been -- I am a grandfather, by the way, but I've never been referred to as a grandpa of Saudi Aramco, but it's something when your grandchild grows to be an order of magnitude bigger than you are, at least and that's what I feel, but we're very proud of the history there. In fact it was seventy-two years this month that my company signed the original concession for the eastern province, and look what it's developed into.

So we're very proud of our relationship, and I think it's a very good thing, that we've had a long, outstanding commercial relationship between the Kingdom of Saudi Arabia and many enterprises like mine. And I think having this dialogue, as has been pointed out, is a very good way. We need to build understanding, we need to build bridges, we are in an interdependent world. Now the interdependency is particularly important between the U.S. and Saudi Arabia. So thank you all for being here, it was a pleasure to be involved in hosting the event.

Robert Ebel: I looked at my watch, and I thought maybe it had stopped. I don't think I've ever been in a conference which had so much to contribute, but which ended so far ahead of schedule, but we've done that, ladies and gentlemen. I thank you for your attention today, for your interest and your participation in the conference. What we heard today, the insights offered by our speakers, not only help us better understand what has taken place in the world oil market in the past months, but will better prepare us to understand the months to come. Surely the insights offered will capture the attention of those far beyond the boundaries of Washington. Permit me to make one last comment. In my capacity as Energy Chairman at CSIS, I want to note that this conference owes so much to the diligence and dedication of Lisa Highland, who is our program coordinator. Lisa, are you in the room someplace? Where are you? Anyway, I guess she must be outside taking care of matters out there. So again I thank you very much, ladies and gentlemen, and we stand adjourned.