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ENERGY DIPLOMACY AND SECURITY ACT OF 2007

APRIL 12, 2007.—Ordered to be printed

Mr. BIDEN, from the Committee on Foreign Relations,
submitted the following

REPORT

[To accompany S. 193]

The Committee on Foreign Relations, having had under consideration a bill to increase cooperation on energy issues between the United States Government and foreign governments and entities in order to secure the strategic and economic interests of the United States, and for other purposes, reports favorably thereon and recommends that the bill do pass.

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I. PURPOSE

The Energy Diplomacy and Security Act of 2007 is intended to increase United States diplomatic attention and capacity in matters related to energy security. Through a series of hearings noted in Section III of this report, the committee established that the United States national security is threatened by its current reliance on energy imports, particularly oil, and this reliance is constraining foreign policy options. “No one who is honestly assessing the decline of American leverage around the world due to our energy dependence can fail to see that energy is the albatross of U.S. national security,” Senator Lugar said at The Brookings Institution on March 13, 2006. At the March 30, 2006 hearing, Senator Biden said, “Our foreign policy has been distorted for over half a century

by our dependence on oil from parts of the world with very different interests from our own.”

Energy issues are central to contemporary global politics. Energy resources are more frequently being used for political gain. Foreign governments directly control more than three-quarters of the world’s oil supplies, and an increasing number of these governments are using their oil wealth to entrench corruption and authoritarianism, fund anti-American demagogic appeals, and support terrorism. By stunting development and increasing poverty, high world oil prices contribute to instability that can lead to internal civil strife and regional conflict. Likewise, the unclean use of fossil fuels is a major cause of global climate change, as confirmed by the most recent Intergovernmental Panel on Climate Change (IPCC) report on climate science. The most recent IPCC report on the effects of global warming predicts population movements, disease, drought, famine, and other events, which can threaten United States national security.

The United States quest for energy security must include a vigorous global diplomatic component. The geopolitics of energy today require innovative 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.

S. 193 provides a framework to address the foreign policy implications of energy. The bill calls on the administration to invigorate existing bilateral energy partnerships and seek new ones with key producing and consuming countries, with a special emphasis on increasing the use of sustainable energy sources. The bill bolsters the State Department’s capability to integrate energy security needs into our diplomatic activities. Although our ambassadors and top diplomats are factoring energy considerations into their work, responsibility for energy diplomacy is fragmented between several different offices. Despite the growing importance of energy to our overall diplomatic efforts, there is no Senate-confirmed official in the State Department (or even a deputy assistant secretary) whose sole responsibility is energy. To ensure that the State Department’s energy diplomacy efforts have more robust coordination, S. 193 would create a Coordinator for International Energy Affairs within the Office of the Secretary of State.

The bill also directs the administration to seek formal agreements with India and China that commit those countries to establish their own strategic petroleum reserves that are coordinated with other consumer nations. Such a move would give oil consuming nations more leverage and flexibility during international oil supply disruptions and help stabilize world oil markets. It also directs the President to seek ways to work with other nations to increase energy emergency preparedness. Finally, the bill calls on the administration to weave a more reliable energy security fabric within our own hemisphere, working more closely with Canada and Latin America on emergency preparedness, conservation, sustainable energy, and energy access for the poor.

II. COMMITTEE AND LEGISLATIVE HISTORY

A previous version of S. 193 was introduced in the 109th Congress as S. 2435 by Senator Lugar on March 16, 2006. It was co-sponsored by Senators Craig, Biden, Byrd, Salazar, DeWine, Dorgan, Lieberman, Snowe, Landrieu, Coleman, Harkin, Thune, Hagel, Rockefeller, and Obama.

Energy security and its effects on United States foreign policy was a priority issue for committee activities in the 109th Congress. The committee held the following full committee hearings:

On July 26, 2005, the committee held a hearing entitled “Energy Trends in China and India” to examine the implications for the United States of economic development and growing energy needs in China and India. Testimony was provided by E. Anthony Wayne, Interim Under Secretary for Economic, Business and Agricultural Affairs, Department of State; David K. Garman, Under Secretary for Science and Environment, Department of Energy; Mikkal Herberg, Director, Globalization & Asian Energy Security Program, The National Bureau of Asian Research; Randall G. Schriver, Partner, Armitage International; and Sumit Ganguly, Director, Indian Studies Program, Indiana University.

On November 16, 2005, the committee held a hearing entitled “High Costs of Crude: The New Currency of Foreign Policy” to examine the complexity of U.S. reliance on imported energy sources, particularly oil. Testimony was provided by James R. Schlesinger, Senior Advisor, Lehman Brothers and R. James Woolsey, Vice President, Booz Allen Hamilton.

The committee held three public hearings to examine U.S. cooperation with India on civilian nuclear energy. On November 2, 2005, the committee held a hearing entitled “U.S.-Indian Nuclear Energy Cooperation: Security and Nonproliferation Implications.” Testimony was provided by R. Nicholas Burns, Under Secretary for Political Affairs, Department of State; Robert G. Joseph, Under Secretary for Arms Control and International Security, Department of State; Ronald F. Lehman, II, Director, Center for Global Security Research, Lawrence Livermore National Laboratory; Ashton B. Carter, Co-Director, Preventive Defense Project, Belfer Center for Science & International Affairs, Harvard University; Henry D. Sokolski, Executive Director, Nonproliferation Policy Education Center; and Michael Krepon, Co-Founder and President Emeritus, Henry L. Stimson Center. On April 5, 2006, the committee held a hearing entitled “U.S.-India Atomic Energy Cooperation: The Indian Separation Plan and the Administration’s Legislative Proposal.” Testimony was provided by Secretary of State Condoleezza Rice. On April 26, 2006, the committee held a hearing entitled “U.S.-India Atomic Energy Cooperation: Strategic and Nonproliferation Implications.” Testimony was provided by William J. Perry, Senior Fellow, Hoover Institution, Stanford University; Robert L. Gallucci, Dean, Edmund A. Walsh School of Foreign Service, Georgetown University; Ashton B. Carter, Co-Director, Preventive Defense Project, Belfer Center for Science & International Affairs, Harvard Univer-

sity; Ashley J. Tellis, Senior Associate, Carnegie Endowment for International Peace; Ronald F. Lehman, II, Director, Center for Global Security Research, Lawrence Livermore National Laboratory; Robert J. Einhorn, Senior Adviser, International Security Program, Center for Strategic and International Studies, Gary Milhollin, Director, Wisconsin Project on Nuclear Arms Control; and Stephen P. Cohen, Senior Fellow, Foreign Policy Studies Program, The Brookings Institution.

On March 30, 2006, the committee held a hearing entitled “The Hidden Cost of Oil” to examine costs attributable to U.S. oil consumption that are not accounted for in the market price, with particular emphasis on the costs of imported oil. Testimony was provided by Milton R. Copulos, President, National Defense Council Foundation; Hillard Huntington, Executive Director, Stanford University Energy Modeling Forum; and Gary W. Yohe, John E. Andrus Professor of Economics, Wesleyan University.

On May 16, 2006, the committee held a hearing entitled “Energy Security and Oil Dependence” to examine strategies for reducing dependence on oil. Testimony was provided by Vinod Khosla, Partner, Khosla Ventures and Jason S. Grumet, Executive Director, National Commission on Energy Policy.

On June 7, 2006, the committee held a hearing entitled “Oil Dependence and Economic Risk” to consider the consequences of dependence on oil imports for U.S. economic prosperity, with particular attention to the economic risks to the United States and other global economies stemming from oil dependence, the potential of natural events and the investment decisions of oil-rich governments to destabilize the market price of oil, and the connections between oil price and GDP growth in oil import dependent countries. Testimony was Alan C. Greenspan, President, Greenspan Associates LLC.

On June 22, 2006, the committee held a hearing entitled “Energy Security in Latin America” to examine energy security and foreign policy implications between the United States and Latin American countries. Testimony was provided by Senator Larry E. Craig; Senator Ken Salazar; Domingo Cavallo, Chairman and CEO DFC Associates, LLC; Luis E. Giusti, Senior Adviser, Center for Strategic and International Studies; Eduardo Pereira de Carvalho, President, Brazilian Association of Sugar Cane and Ethanol Producers; and David L. Goldwyn, President, Goldwyn International Strategies, LLC. Additional written testimony was submitted by Eric Farnsworth, Vice President, Council of the Americas; Stephan C. Johnson, Senior Policy Analyst for Latin America, The Heritage Foundation; and Johanna Mendelson-Forman, Senior Associate, Center for Strategic and International Studies.

On June 29, 2006, the committee held a hearing entitled “Russia: Back to the Future?” to examine Russia’s recent energy policies and political trends. Testimony was provided by Stephen Sestanovich, Senior Fellow for Russian and Eurasian Studies, Council on Foreign Relations; Dmitri Trenin, Deputy Director and Program Co-chair, Foreign and Security Policy,

Moscow Center, Carnegie Endowment for International Peace; and Amy Myers Jaffe, Fellow in Energy Studies and Associate Director, Rice University Energy Program.

In conjunction with a series of committee hearings examining corruption and transparency issues related to international financial institutions and multilateral development banks, on July 12, 2006, the committee held a hearing entitled “Multilateral Development Banks: Development Effectiveness of Infrastructure Projects” to consider the role of development banks in infrastructure projects, and the ability of those projects to improve economic and social development. Testimony was provided by Clay Lowery, Assistant Secretary for International Affairs, Department of the Treasury; Jaime Quijandría, Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay, The World Bank; Carlos Herrera Descalzi, Vice-Dean, National Engineers Association of Peru; Korinna Horta, Senior Economist, Environmental Defense; and Manish Bapna, Executive Director, Bank Information Center.

In conjunction with a series of committee hearings on developments in Iran and United States policy options, on May 18, 2006, the committee held a hearing entitled “Iran’s Political/Nuclear Ambitions and U.S. Policy Options” which included examination of the Iranian energy industry. Testimony was provided by Frank G. Wisner, Vice Chairman for External Affairs, American International Group, Inc.; Vali R. Nasr, Professor of National Security Affairs, Naval Postgraduate School; Julia Nanay, Senior Director, PFC Energy; and James A. Phillips, Research Fellow for Middle Eastern Affairs, Douglas and Sarah Allison Center for Foreign Policy Studies, The Heritage Foundation.

In conjunction with a series of committee hearings on the situation in Iraq, on July 20, 2005, the committee held a hearing entitled “Accelerating Economic Progress in Iraq” which gave particular attention to development of the energy industry in Iraq. Testimony was provided by Keith Crane, Senior Economist, RAND Corporation; Fared Mohamedi, Senior Director, Country Strategies Group, PFC Energy; and Frederick D. Barton, Senior Advisor, International Security Program, Center for Strategic and International Studies.

III. COMMITTEE ACTION

S. 193 was introduced by Senators Lugar, Biden, Craig, Salazar, Snowe, Landrieu, Coleman, Lieberman, and Hagel on January 4, 2007. It is also cosponsored by Senator Thune. On March 28, 2007, the committee ordered the bill reported favorably by voice vote.

IV. SECTION-BY-SECTION ANALYSIS

Section 1. Short Title.

This section designates the short title of the bill.

Section 2. Definitions.

This section provides definitions of certain terms in the bill.

Section 3. Sense of the Congress on Energy Diplomacy and Security.

This section seeks to enhance recognition of the prominence of energy in U.S. foreign policy and national security, and to improve State Department capacity by:

- Calling for the creation of a Coordinator for International Energy Affairs within the Office of the Secretary of State, who will be charged with ensuring energy security is integrated into State Department activities and to liaise with other federal agencies;
- Calling for the President to ensure there is an effective mechanism to focus and coordinate federal agency international energy activities;
- Defining the policy goal of energy security as reliable, affordable, clean, sufficient, and sustainable energy sources.

Section 4. Strategic Energy Partnerships.

This section seeks to promote energy security through international partnership by:

- Expanding international energy partnerships with major energy producing and consuming countries, and with other appropriate countries;
- Creation of new international partnerships, and development of political backing and strengthen strategic focus for existing activities. These partnerships are meant to address a comprehensive array of international energy activities under the umbrella of energy security, with particular emphasis on increased use of sustainable energy sources;
- Requiring reports on relevant international activities of the U.S. Government and the actions of foreign governments affecting U.S. energy security.

Section 5. International Energy Crisis Response Mechanisms.

This section would expand international mechanisms that protect against petroleum supply disruption. It would:

- Prioritize extension of emergency coordination with China and India through the International Energy Program if possible, including future coordination mechanisms for strategic petroleum reserve drawdown, subject to the achievement by China and India of reserve holding standards set by the Secretary of Energy;
- Enhance emergency preparedness in the Western Hemisphere through increased provision of technical assistance and development of emergency response information sharing and coordination mechanisms;
- Promote extension of emergency protection to non-OECD countries by calling on the President to have the Governing Board of the International Energy Agency examine establishment of an application procedure through which non-member countries

of the International Energy Program could apply for allocation of petroleum reserves in times of emergency.

Section 6. Hemisphere Energy Cooperation Forum.

This section emphasizes the need for pro-active U.S. engagement within the Western Hemisphere on energy issues by:

- Establishment of a standing ministerial energy forum to promote dialogue and partnerships, which would have at least three working areas: preparedness for energy crisis response; an energy sustainability initiative to improve energy supply and efficiency; and a development initiative to increase energy access for the poor in a sustainable way;
- Creation of a Hemisphere Energy Industry Group to improve conditions for private investment and public-private partnership.

Section 7. Appropriate Congressional Committees Defined.

This section defines the term “appropriate congressional committees.”

V. COST ESTIMATE

Pursuant to Rule XXVI, paragraph 11(a) of the Standing Rules of the Senate, the following cost estimate has been provided by the Congressional Budget Office.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

March 29, 2007.

S. 193

ENERGY DIPLOMACY AND SECURITY ACT OF 2007

As ordered reported by the Senate Committee on Foreign Relations on March 28, 2007

S. 193 would authorize the Secretary of State, in coordination with the Secretary of Energy, to foster greater global energy security by establishing and expanding strategic energy partnerships with countries that are major energy producers or consumers. In particular, the bill recommends that the Secretaries establish mechanisms within the Western Hemisphere, and with the governments of China and India, to respond to potential energy crises. Finally, the bill would require both departments to provide several reports to the Congress.

Based on information from the State Department, CBO estimates that the department would require the equivalent of 14 additional full-time employees to meet the requirements of the bill, at an annual cost of about \$2 million (including travel costs), assuming appropriation of the estimated amounts. Enacting the bill would not affect direct spending or receipts.

S. 193 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

The CBO staff contact for this estimate is Sunita D'Monte, who can be reached at 226–2840. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

VI. EVALUATION OF REGULATORY IMPACT

Pursuant to Rule XXVI, paragraph 11(b) of the Standing Rules of the Senate, the committee has determined that there is no regulatory impact as a result of this legislation.

VII. CHANGES IN EXISTING LAW

In compliance with paragraph 12 of Rule XXVI of the Standing Rules of the Senate, the committee has determined that there are no changes in existing law made by the bill, as reported.