Testimony of
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MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am pleased to appear before you today. Thank you for giving me the opportunity to address the current situation in the world oil market, and the short and long-term solutions that have been advanced by the Department of Energy and the Administration to respond to the situation with which we are now faced. The measures that we have taken are substantial and they seek to protect our economic, security and national interests.

The Administration is concerned about oil price volatility. Oil inventories have fallen to levels that could put global economic growth at risk unless OPEC and other producers increase production soon. OPEC will have its chance to act when it next meets on March 27.

Many of you, and your constituents, are asking how did this happen, why are prices so high and what is our government doing about it. My testimony will seek to respond to each of these questions. I hope that I will be able to reassure you and the American people that the Department of Energy led by Secretary Richardson, is concerned, is taking measures to deal with the problem, and that we do have an energy strategy in place to deal with the current situation and to respond in the future.

The Administration is concerned about the impact of the recent price spikes on consumers, businesses, and truckers. When prices jump like this, there's little warning and options are not plentiful. We have been monitoring the situation carefully since we first saw indications of a problem in October and are acting aggressively to address the problem.

But it's important to keep this price spike in context and not overreact with policies that will worsen the situation or create a different set of problems. I am pleased to note that oil futures prices closed at $27.46 on Wednesday and I feel this is an indication that the market believes that more production is forthcoming.

On the whole, competitive markets have provided consumers low average prices, but clearly there is concern about the price volatility that we have been seeing in the market. This volatility brought us $10 per barrel a little over a year ago and over $30 per barrel oil earlier this month. This volatility hurts both consuming and producing nations. We felt the sting here at home. In America's oil patch, wells were shut in and independent oil producers were going bankrupt when prices were low.

The nations of the Middle East watched $50 billion of investment vanish in Asia, and their oil revenues plummeted. In Venezuela, 70 percent of annual federal revenue was at risk. Other developing countries were harmed by dramatic decreases in oil revenue. What we want is a more stable market, and our energy policies are focused on ensuring stability in the long-term and addressing the recent volatility that we've been seeing.

Let me take a moment to briefly outline the basis for our energy policy.

Our energy policy is based on:

- Market forces -- not artificial pricing.

- Pursuing diverse sources of supply and strong diplomatic relations with energy producing nations.

- Working to improve the efficiency of production and use of traditional fuels through new technology development.

- Working to diversify our energy sources through long–term investment in alternative fuels and energy sources.

- Maintaining and strengthening our insurance policy against supply disruptions – the Strategic Petroleum Reserve.

These are the foundations of the Clinton Administration's energy policies – and over the long-term they work to provide affordable, secure supplies of energy.

The Reason Behind the Hike

As you are well aware, people are hurting with today's higher prices and we need to address the underlying problem creating these artificially high prices.

The problem we're facing today is low inventories caused by cutbacks in production by OPEC nations. We have low stocks at the same time the world is consuming 75 million barrels per day while producing only 73 million barrels per day. I think it is important to note that these production cutbacks were not intended to be antagonistic. Rather, they were a defensive response to the extremely low prices last year that were eroding the economies of the oil producing nations. While OPEC may have overshot their mark, I think the Secretary has convinced most members that volatile or excessive prices are not in anyone's best interest.

What we need to do is increase production, rebuild stocks, and work to increase efficiency in the way we use energy. That means looking for oil producers who have what's called "excess capacity" –– the ability to increase production immediately without additional drilling or exploration. And it means reducing the energy waste in our economy.

OPEC has 5.5 million barrels per day of excess capacity and that is why Secretary Richardson and others have been working intensively with OPEC nations to get them to bring that excess capacity on line. And we've been making some very important progress in this area.

Energy Diplomacy

The United States was out in front in recognizing the problem. Signals from our Energy Information Administration prompted the beginning of early diplomatic action. And because of our efforts we are no longer the lone voice calling for action – there is now a growing consensus among leading oil producers to increase production.

I think there has been a shift of producers' views in the last month, in fact, since I testified before the House Committee on International Relations last month. Just a month or so ago, many energy producing nations believed there was no problem in the oil markets – that stock levels were adequate, prices were fine, the world's economy was not suffering.

Secretary Richardson went to Mexico, Norway, Saudi Arabia, Kuwait, and met with the minister from Venezuela. I accompanied him on a number of these stops. He returned from this diplomatic mission with strong joint statements that reflected a common understanding that volatility is bad –– that stability is in the interest of producing and consuming nations. And an agreement from these key producing nations to reevaluate data on current oil market conditions to help avoid market volatility and preserve world economic growth. The momentum continues: Kuwait, Venezuela, Saudi Arabia, Iran, Mexico, and Norway are now all saying they support production increases.

This week, the Secretary's energy diplomacy continues in earnest. He has visited Nigeria, Algeria, and Norway and met with the Organization for Economic Cooperation and Development (OECD) Ambassadors in Paris. We have worked closely with the International Energy Agency, the OECD, and the European Union. And, last week I met with senior officials in Japan and Korea. It is clear that the concern over high prices has reached outside of our borders. We urged the ministers to increase production levels to address the near record low stock levels and to understand that the potential consequences - - a global economic slump, increased inflation, and a bad investment environment are as dangerous for them as they are for us. They know they risk decreasing demand as well as a loss of market share as other producing nations start competing for business from reliable partners.

So we're now in an environment where the question has gone from if or when to increase production to how much.

Why Markets Should Dictate Prices

The Clinton Administration firmly believes that consumers – families, truckers, businesses – are best served when markets dictate prices. We are opposed to government intervention in these markets. I'm sure that many of you remember what happened in the 1970s when the government tried to use price controls to deal with rising oil prices – the results were gas lines and shortages.

Allowing market forces to work – even when dealing with a cartel like OPEC – is the most effective approach over the long run. History has shown that when cartels limit production and raise prices they lose market share.

For example, since the U.S. government has taken a more market-based approach, OPEC's share of world oil markets has fallen, from 49% in 1977 to 40% today. Last year, we imported 4.85 million barrels of oil per day from OPEC, down 22% from the 6.19 million barrels of oil per day we imported from OPEC in 1977.

Improving energy security

Secretary Richardson has worked to improve our nation's energy security since taking the helm at DOE. He was concerned about price volatility when prices were at $10 a barrel and remains concerned today with prices topping $30. When prices were at $10 a barrel, he was concerned about the effects on domestic producers and in February 1999, we took several steps to strengthen domestic production and improve America's energy security for the long term.

To increase our nation's energy security and shore up our insurance policy against supply problems, we began adding 28 million barrels of royalty oil to the Strategic Petroleum Reserve. When prices rose sharply, we renegotiated these contracts to keep more oil in the domestic market.

To support domestic production, we streamlined procedures, provided administrative and accounting relief to small producers, and invested in technology for recovery in endangered or hard to produce oil reservoirs. We started an energy efficient motors pilot program in six states to reduce use of electricity and thereby lower costs of oil production. We established a marginal well producer program to assist small producers; and helped establish an on-line oil and gas permitting pilot program in Texas, to eliminate costly paper filings and permitting.

Diversity of Supply

We've also been working to diversify world oil supplies so we're not dependent exclusively on any one region. This means:

- Maintaining strong relationships with the major oil and gas producing nations, and encouraging their continued movement toward open markets, privatization and regulatory reform;

- Promoting the development of new sources of supply and the infrastructure to support them – in the Caspian and Africa, sponsoring Energy Ministerial meetings; promoting regional integration and infrastructure;

- Encouraging the creation and maintenance of strategic reserves, through organizations like the IEA and APEC; and

- Investing in domestic alternative fuels such as biofuels.

There's concrete evidence that this approach is working. Since 1974, U.S. petroleum consumption has increased 17% while the economy has grown nearly 120%. Our top supplier of oil varies from week to week among Canada, Venezuela, Saudi Arabia and Mexico. We are less dependent on OPEC oil and last year imported crude oil from 40 different countries.

Domestic Response

I've talked a lot about what we are doing internationally to deal with this situation and I would now like to turn to what we are doing domestically.

This past weekend, the President announced a series of steps to address the current situation, strengthen our energy security, and reduce our reliance on foreign oil. To reduce the likelihood that future heating oil shortages will harm consumers as they did this winter, the Administration is proposing the creation of an environmentally sound home heating oil reserve in the Northeast that could supply additional heating oil in the event of a shortage. To ensure that we have the necessary tools available in the event of a crisis, the President also called on Congress to re-authorize the Strategic Petroleum Reserve (SPR) through enactment of an extension of the Energy Policy and Conservation Act, due to expire next week.

The President also proposed a comprehensive package of tax incentives to improve our energy efficiency, to promote the use of alternative fuels, and to support increased domestic oil production. He also called on Congress to fully fund the more than $1 billion that the Administration has requested to accelerate the research and development of more efficient energy technologies.

Over the past month, the Administration has also made a number of aggressive, short-term moves to ease the current situation. The President released almost $300 million in funds for low-income individuals to pay their higher heating bills. He asked for $600 million more in Low Income Housing Energy Assistance funds and he's seeking an additional $19 million from Congress for low-income home weatherization. We've addressed the issue of oil supply through a variety of measures including: increased Coast Guard support for tankers, small business loans for heating oil distributors and other small businesses impacted by high prices, and encouraging refiners to produce as much heating oil as safely possible.

The President also directed the Department to study the longer-term issue of heating oil supply shortages and price hikes by examining possible ways to reduce regional reliance on heating oil, mainly through the increased use of natural gas. We are also examining the impacts of interruptible natural gas contracts on heating oil supply. These studies will be completed late next month.

We are also making important investments to increase efficiency and the use of alternative fuels. If we continue to follow current policies on advanced vehicle technologies and alternative fuels, we can reduce oil consumption by 700,000 barrels per day by 2010 and 1.5 million barrels per day by 2020.

We're working to:

- reduce the cost of production of ethanol by accelerating development of new plants to produce ethanol from agricultural forest residues and wastes;

- replace diesel-generated electricity, particularly in rural areas, with renewable energy sources;

- substitute natural gas vehicles for petroleum-based ones, particularly in fleets and niche markets;

- accelerate the development and use of high-efficiency automobiles under the Partnership for a New Generation of Vehicles to triple fuel economy for mid-size vehicles without sacrificing comfort, convenience or safety;

- accelerate R&D to develop more fuel−efficient trucks, ranging from pickups and sport utility vehicles to 18−wheelers −− something that will help truckers hold costs down;

- improve building energy efficiency, particularly where oil is used, through programs like low-income weatherization; and

- improve the federal government's own energy use (2% of all U.S. energy) in 500,000 buildings and 520,000 vehicles through enhanced energy efficiency measures and the use of alternative fuel vehicles.

These are concrete measures whose impact in the future can be significant.

Future Responses

We have already begun the process of analyzing the conditions which have led to the current situation and we want to look closely at what we, as a Department, might do differently in the future should supply shortages occur.

The Department has begun the process of re-establishing an Energy Emergency Office to enable the federal government to work more closely with states to anticipate, plan, and respond in an immediate and more coordinated way when energy crises occur, including heating oil shortages, power outages, and pipeline emergencies. The heating oil reserve proposed by the President will reduce the likelihood that future heating oil shortages will harm consumers in the Northeast.

In January, we convened a meeting in Houston of renowned oil market experts to look at the issue of oil data adequacy and transparency, with a focus on how to get better information on world oil inventories. And the Secretary has suggested the development of global data regimes to give producing and consuming nations an "early warning system" when supplies and production levels get out of balance with demand and consumption needs.

Conclusion

Mr. Chairman, I hope that my review today of the current state of the oil market and our response will reassure you and the members of your Committee.

In just a few short days, the OPEC ministers will meet in Vienna. We expect OPEC and its allies to agree to increase oil production effective April 1st. The oil market seems to share this view, as oil prices have come down over the past two weeks, falling below $30 per barrel. Still, the question remains as to what the magnitude of the production increase and the all-important timetable will be. With enough additional supply, we might expect some further easing of crude oil prices in the next few weeks, though it will take a while for the increased oil supplies to reach customers.

We will have to assess what OPEC does, what non-OPEC producers do, and how the market reacts. Secretary Richardson and the rest of the Administration will assess what additional steps, if any, need be taken at that time.

We have seen in the past few weeks the value of maintaining close consultative contacts with oil producers with which we share broad common interests. We intend to build on this experience and make these discussions part of our regular policy dialogue with oil producing nations.

This concludes my prepared testimony. I would be pleased to answer any questions.