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U.S. ENERGY SECURITY: ENHANCING PARTNERSHIPS WITH MEXICO AND CANADA

HEARING

BEFORE THE

SUBCOMMITTEE ON
THE WESTERN HEMISPHERE

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

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U.S. ENERGY SECURITY: ENHANCING PARTNERSHIPS WITH MEXICO AND CANADA

THURSDAY, MARCH 14, 2013

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 9:30.m., in room 2172 Rayburn House Office Building, Hon. Matt Salmon (chairman of the subcommittee) presiding.

Mr. SALMON. This is the Subcommittee on the Western Hemisphere, a subcommittee of the whole Committee on Foreign Affairs. The subcommittee will come to order.

I will start by recognizing our distinguished chairman of the full committee, Ed Royce, who is here today. We are very honored and pleased to have him here. I would like to open the gallery for him to yield as much time as he may consume.

Mr. ROYCE. Well, let me begin by thanking Chairman Salmon, and I just want to mention that this hearing is very, very important for several reasons. But one of them certainly goes to the issue of national security.

U.S. energy security has become part of national security. This also has been with our partnership here in this hemisphere with Canada and with Mexico. And I appreciate the leadership here on this critical issue at a very critical time.

Energy security is the lynchpin for our economic growth. Jobs are being created in the energy industry here in the United States, and companies, both American and foreign, often prefer to manufacture in the U.S. because of our consistent and well-priced electrical power supply.

But I will share with you, energy prices here are about 20 percent less than they are in Asia. This is one of the few areas where we are truly competitive. Unless we are careful, we could inverse that equation. Unless we are careful, that pipeline which we are discussing today could go west to Vancouver in order to take that petroleum to Asia. That would make manufacturing in Asia even more of a challenge for our competition here in the United States because it would inverse that equation and make energy cheaper in Asia than it is in the United States.

When we reflect on this, I think we should think about the multiplier effect that dollars earned in the Northern Hemisphere that are spent in the Northern Hemisphere have in supporting additional jobs and adding to our tax base. Because the studies also show that, because of most of what Canada purchases, they don't do a lot of manufacturing. Eighty-five percent of what we spend in Canada comes back to the United States in our economy. And so, as we consider purchasing this oil from Canada, rather than our reliance on the Middle East and Venezuela for oil, this is another consideration.

This pipeline is 875 miles from Canada through Montana, South Dakota, and Nebraska. It is going to allow, if we can do it, delivery of 830,000 barrels per day of crude oil to American refineries. It is going to create jobs. And you have seen various estimates from a high of 200,000 to a low of 20,000. I think the best estimate is it is about 130,000 jobs that would be created, from the studies I have seen.

But I am going to return to the argument that it is going to enhance our national security. All 24 of the majority members of the full House Foreign Affairs Committee wrote to the President last month, and here is the argument we made: By providing secure access to petroleum from Canada, we would reduce our reliance on energy imports from countries in the OPEC cartel. The U.S. would be less vulnerable to political and security-related disruptions of our energy supply. Further hesitation in approving Keystone XL would not only ensure higher economic costs, but enhance the fortunes of economic rivals, as Chinese state-owned oil companies and others race to secure permanent access to North American energy sources.

The role of the State Department in the approval process is to determine that the border crossing and its resulting conditions would serve the national interest. The State Department's Draft Supplemental Environmental Impact Statement on Keystone Pipeline could not assert that there was an environmental reason to not approve the pipeline.

Since there are clear economic and national security reasons to support Keystone, the only rational move for the administration to make is to go ahead and approve the pipeline. It is squarely in our national interest to do so.

The State Department's Draft Statement becomes final on April 14th, and after that, the administration should be out of excuses to delay approving this pipeline. They must not come up with new excuses.

The time, I think, Mr. Chairman, for approval is now. And I appreciate your yielding me the time.

Mr. SALMON. Thank you, Mr. Chair.

I would like to recognize myself to speak and give myself as much time as I may consume. And then, afterwards, Mr. Sires, I want to recognize you. And then, we would like to hear from the Honorable Lee Terry.

Good morning and welcome to this second hearing of the Subcommittee on the Western Hemisphere. During our first hearing we discussed the challenges that we face in the region, but there are also many opportunities that exist right here in our own backyard in the Western Hemisphere.

Building on our first hearing, I want to take a closer look at some of these opportunities, and whether the administration, as a matter of policy, is making the most of those opportunities for the

American people. I want to seize the momentum created by our first hearing to talk about our relationship with our neighbors directly to the south and directly to the north of us, Mexico and Canada.

The U.S. already enjoys vibrant trading relationships with both Mexico and Canada. That said, we need to identify ways to complement those partnerships in the pursuit of energy security, as the chairman just referenced, jobs for the American people and enhanced regional democracy, prosperity, free markets, and peace.

It is my intention that this subcommittee should be a voice in promoting and increasing trade as well as building on existing free trade agreements throughout our hemisphere. Free trade policies go beyond benefitting the American people by increasing access to a greater number of goods at lower prices. Free and open commerce with our neighbors helps foster economic development in poorer countries while reinforcing with our neighbors the value of freedom and the rule of law. I think that the most important thing that we export as a nation is our freedom and our ideals.

For example, I have always believed that a safe and prosperous Mexico is in the United States' national interest. We already have the vibrant commercial partnerships with Mexico and Canada. We have the world's largest free trade area under NAFTA, made up of about one-third of the world's total Gross Domestic Product.

What I would like to see is an enhancement of that already-close relationship where we can expand on existing bilateral trade to achieve North American energy security and independence by making us less dependent on oil from the Middle East, from Venezuela, and other unpredictable, more unstable areas. This, in turn, will make our region more prosperous and more stable.

To that end, I am very interested in taking a close look at the proposed Keystone XL pipeline project with Canada to determine why exactly the administration continues to stall on this project. As we know, Canada is already our largest supplier of oil and is the world's fifth-largest petroleum producer. This project, once approved, would result in a true synergy toward energy security, a system to transport crude oil from Canada down to the Gulf Coast refineries equipped to refine the heavy crude.

What's more, approval of this pipeline will create jobs in the United States. With our domestic economy still struggling and 12 million Americans still looking for work, it is, frankly, unconscionable that this project has been essentially stalled for over 4 years by the administration.

I am looking forward to hearing from our witnesses about why the administration continues to put off approval in light of the Draft Supplemental Environmental Impact Statement put out by the State Department earlier this month that stated there would likely be no significant impact—I will repeat, no significant impact—to resources along the proposed route.

In addition, we are eager to receive information on how swift approval of this project will benefit U.S. national interests as well as our bilateral relationship with Canada, or, concurrently, how continued delays may, in fact, strain that close relationship.

I am eager to hear from the witnesses about the Trans-Boundary Hydrocarbons Agreement signed last year with Mexico and, again, determine why the administration continues to stall on sending this agreement to Congress for approval. I see many opportunities in Mexico. For example, if Pemex can achieve true reforms, open in a way to direct foreign investment in their nationalized energy sector, for the first time in history Mexico will prosper, and U.S. energy security will be enhanced by a more reliable and prolific source of oil from our closest neighbor to the south.

In my opinion, approval of this agreement will pave the way for increased energy cooperation between our two countries and will create jobs and economic development both for the U.S. and the Mexico economies. I believe, with this first step, we will identify other opportunities for energy cooperation and growth with Mexico beyond hydrocarbons.

I want to thank my colleague and friend, the gentleman from Nebraska, Lee Terry, for testifying before us today. Lee has been a tireless advocate for moving the Keystone XL pipeline project forward, and it is a pleasure to have him here to provide his insights.

I know he shares my frustration in the delays that the project has experienced at the hands of the administration. I look forward to working with him to try and find a solution that will ensure swift approval of this timely job-creating energy project.

In addition, I welcome our other witnesses, all of whom are experts in the field of energy and our relationship with Mexico and Canada. I am looking forward to a truly productive hearing. I believe we can come together as Americans and find common ground in the value and the imperative of actively and seriously pursuing policies that will not only enhance our energy security, but also grow our partnerships with Canada and Mexico, so that we can complement each other's efforts to solidify peace and prosperity into the future for our respective nations.

Now I would like to recognize my colleague, Albio Sires, the ranking democratic member for his opening remarks.

Mr. SIRES. Thank you, Mr. Chairman.

Thank you to our witnesses for being here today.

I believe our foreign policy toward the hemisphere has gone by the wayside for far too long. We are falling short of articulating a strategic policy for the region as a whole, especially in regards to energy policy in the hemisphere. Our lack of attention to our neighbors is disconcerting, especially since some of our neighbors are some of our strongest allies.

This is particularly worrisome, given our energy dependence on nations outside our hemisphere. While oil production has increased in the U.S., it has not increased enough to overcome our need to import oil. In 2011, the United States imported four times the amount it exported, and presently we get about half of our oil and petroleum from the Western Hemisphere, half of which is from Canada.

Canada is the single-largest foreign supplier of petroleum and natural gas to the United States. After Saudi Arabia and Mexico, it is the United States' third-largest supplier of petroleum. Together, Canada and Mexico account for nearly all of U.S. natural gas exports. The combined volume of energy trade with Canada and Mexico totaled an estimated $125 billion in 2012.

There is no doubt that maintaining and strengthening our energy relationship with Canada and Mexico is in the nation's interest. I believe that the proposed Keystone pipeline and the Trans-Boundary Hydrocarbons Agreement with Mexico are in the national interests of the United States. This is especially true in light of the declining foreign oil supplies from Mexico and Venezuela, and the fact that we import more than 60 percent of our energy needs.

A pass on the Keystone project is not only a pass on Canada, our largest trading partner, but a pass on an achievable avenue to help meet our energy needs. A study commissioned by the U.S. Department of Energy highlighted the possibility that, if the pipeline is not constructed to serve U.S. Gulf refineries, then there exists the real possibility that market needs will divert Canadian supplies to Asia and probably China. Furthermore, the scale of the project will create jobs and increase investment during construction and provide added downward pressure on world oil prices due to additional supply.

In regard to the Trans-Boundary Hydrocarbons Agreement with Mexico, I am glad that we have progressed on a decade-long process to provide a legal framework to how we manage the resources along our maritime waters in the Gulf of Mexico. Mexico is a key component in the United States energy security framework. The United States is Mexico's largest trading partner and largest foreign investor. Additionally, Mexico is the third-largest U.S. trading partner after Canada and China, and is the U.S.'s third-largest foreign supplier of petroleum.

Mexico's administration has committed itself to reverse its declining oil production and has opened the possibility to pursue joint private ventures with foreign firms in the exploration of its resources. I believe that we can work together in a constructive manner that mutually benefits both our country's energy security and respects the constitutional sovereignty of Mexico resources.

The U.S. does not live in isolation. Clearly, what happens in one part of the world has political and economic repercussions here at home. In that regard, global instability and uncertainty are key threats to our national security of the United States. This is particularly true in terms of energy security and to events in resource-rich countries. As a result, our dependence on oil from the Middle East is concerning.

Additionally, the nations of the Western Hemisphere are not immune to political instability. The recent death of Hugo Chavez in Venezuela will have short- and long-term implications elsewhere in the region, particularly in regards to energy security.

As long as we look to increase our energy ties within the hemisphere, it is important that we address some growing concerns in the energy sector throughout the region. Amongst current non-Canadian sources for fuel in the hemisphere, the prospect for growth in output are tenuous at best. The erratic actions of countries like Venezuela, Bolivia, and Equador, and now Argentina, whose expropriations and nationalizations of private industry have had far-reaching destabilizing effects, are worrisome.

In Mexico, the contraction of Cantarell Field and the many years of inadequate investment in the country's national oil company have resulted in falling production rates. In Venezuela, Chavez was more interested in financing empty U.S. alliances than the state oil company, Petroleos de Venezuela. Years of mismanagement have pushed away foreign investment and led to declines in production.

Similarly, in Bolivia, President Morales nationalized oil and gas in 2006 and gave foreign investors a take-it-or-leave-it option to comply. The same year, Equador's President Correa revoked the contract of Occidental Petroleum, a U.S. company. And recently, in April 2012, Argentina's President Kirchner moved to nationalize oil companies, expropriating 51 percent of the company controlled by Spain's Rexel.

Moreover, the region's strained relationship and increasing pressures of anti-democratic actors such as Russia, Iran, and particularly China, whose self-interests are counter to the strategic concerns of the United States, should not be taken lightly. Economic, political, and energy-related crises occur every day.

The dilemma for us as a nation is, what do we do today to mitigate the risk associated with securing our energy needs? We have a situation in the Middle East that is unsettling, and we have a situation where the upward pressure on the price of oil and, in turn, the price of gas is increasing sensitive to unpredictable global events.

Before us we have a situation that we can remedy, some of this through the Keystone pipeline with Canada and progressing with the Trans-Boundary Hydrocarbons Agreement with Mexico.

I am sensitive to the environmental concerns associated with development of the Keystone project. Efforts to mitigate these issues have been outlined in the recently-released Environmental Impact Statement. Additionally, the conclusion that the approval or denial of any oil transport project will not impact the rate of extraction of the oil sands or affect the demands for heavy crude at U.S. refineries is considerable.

Moreover, the economic benefits that will be derived from the project are significant. Nearly 118,000 jobs will be created and a projected $20 billion would be injected into our economy.

No one single project or initiative is a cure-all for our energy or security needs, and no approval will satisfy everyone's needs or alleviate every doubt. But we must continue to work with our neighbors to develop beneficial energy policies for the region. I am confident that these arrangements are good for Canada, good for Mexico, and, above all, good for the United States.

Thank you, Mr. Chairman.

Mr. SALMON. Thank you very much.

I would like to now get on with our panels. First of all, I would like to introduce Congressman Lee Terry. He is a lifelong Nebraskan. Congressman Terry has worked continually to empower the people of his 2nd District. He has been a leader for Nebraska by advocating American energy security. And we thank you for that.

Congressman Lee Terry currently serves on the Energy and Commerce Committee for the 113th Congress. He is serving as chairman of the Subcommittee of Commerce, Manufacturing, and Trade. This subcommittee casts a wide net over issues that affect every American every day.

Congressman Terry, it is a delight to have you here today, and thanks for your leadership. We recognize you for your testimony.

STATEMENT OF THE HONORABLE LEE TERRY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. TERRY. Thank you, Chairman Salmon and Ranking Member Sires. I appreciate your statement as well.

Thank you for allowing me to testify on U.S. energy security and our partnerships with Canada and Mexico. For over 2 years, my focus has been mostly on our northern neighbor and our need to connect the oil sands of Alberta with our refineries in the United States. Specifically, we have been waiting over 1,600 days for the U.S. State Department to approve the Keystone XL pipeline. Despite the strong ties between the United States and Canada, the foot-dragging over a Keystone XL pipeline has irritated many Canadian leaders and sparked talks about sending output of Canadian oil sands to China.

According to the U.S. State Department, "The United States and Canada share the world's largest and most comprehensive trading relationship," which supports millions of jobs in each country. Canada is the single-largest foreign supplier of energy to the United States. Recognition of the commercial viability of Canada's oil sands has made it the world's third-largest holder of oil reserves, after Saudi Arabia and Venezuela, and is the only non-OPEC member in the top five.

Canada and the United States have one of the world's largest investment relationships. The United States is Canada's largest foreign investor, and Canada is the fifth-largest foreign investor in the United States. U.S. investment is primarily in Canada's mining and smelting industries, petroleum, chemicals, and the manufacturer of machinery and transportation equipment; Canadian investment in the United States is concentrated in finance, insurance, manufacturing, banking, information, and retail trade, and other services.

To me, this begs the question of why would we want to damage that relationship. The politicalization of the Keystone XL pipeline has done that. In an interview with Bloomberg News, Canadian Prime Minister Stephen Harper said that approval of the Keystone is "a no-brainer." After the decision to delay the earlier decision, Harper told the AP, "This highlights why Canada must increase its effort to ensure it can supply its energy outside of the U.S. and into Asia, in particular."

Jack Mintz, the head of the School of Public Policy at the University of Calgary said, "The Keystone decision was a slap in the face to Canada, and it is making Canadians rethink the relationship."

Richard Waugh, Chief Executive Officer of the Bank of Nova Scotia, said, "The Keystone ruling shows that we need to diversify away from the U.S. to Asia."

The individuals objecting to the project based on the thought that, if you stop the pipeline, you stop oil sands development in Canada are both shortsighted and wrong. Case in point: Faith Birol, Chief Economist at the IEA, told Bloomberg, "I am sure that if the oil sands production is not used in the United States, they will be used in other countries."

Dave Pumphrey, deputy director of the Energy and National Security Program at the Center for Strategic and International Studies, and 29-year veteran of the U.S. Department of Energy, suggested that the rejection of the Keystone XL project last January introduced new uncertainties into our economic relationship with Canada.

And how did we get there? In the last 6 years, there have been five applications to the State Department for a major U.S.-Canadian import pipeline. The State Department has approved three pipelines, denied one, and is reviewing another. The first one, the Southern Lights Pipeline, was approved in 14 months. The next two were approved in 23 and 27 months, respectively. And here we are, more than 65 months into the review of the Keystone XL pipeline, and we don't have a commitment. We don't have a timeline.

The Draft Supplemental EIS issued March 1 by the U.S. State Department summary of impact stated that, "The analysis of potential impacts associated with the construction and normal operation of the proposed project suggests that there would be no significant impact to most resources along the proposed project route."

So, what have we done? We are in the midst of drafting and will introduce a bill that will give the power to Congress to deem the permit.

Now, while the State Department is working through their process, I want to go on record by stating to this committee that I have zero confidence that the State Department will act in a timely fashion with regards to the DEIS issued on March 1st, 2013.

So, Mr. Chairman and Mr. Ranking Member, I appreciate this opportunity to testify in front of your committee.

[The prepared statement of Mr. Terry follows:]

Statement of the Honorable Lee Terry
Before the House Committee on Foreign Affairs
Subcommittee on the Western Hemisphere

U.S. Energy Security: Enhancing Partnerships with Mexico and Canada

March 14, 2013

Chairman Salmon, Ranking Member Sires, thank you for allowing me to testify about U.S. Energy Security and our partnerships with Canada and Mexico. As many of you know, for over 2 years, my focus has been mostly on our northern neighbor and our need to connect the oil sands of Alberta with our refiners in the United States. Specifically, we have been waiting over 1600 days for the US State Department to approve the Keystone XL pipeline. Despite the strong ties between the United States and Canada, the foot dragging over the Keystone XL pipeline has irritated many Canadian leaders and sparked talk about sending output from Canadian oil sands to China.

According to the US State Department:

"The United States and Canada share the world's largest and most comprehensive trading relationship, which supports millions of jobs in each country. Canada is the single largest foreign supplier of energy to the United States. Recognition of the commercial viability of Canada's oil sands has made it the world's third largest holder of oil reserves after Saudi Arabia and Venezuela and is the only non-OPEC member in the top five.

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To me, this begs the question of why we would want to damage that relationship? The politicization of the Keystone XL pipeline decision has done that.

In an interview with Bloomberg news, Canadian Prime Minister Stephen Harper said that the approval of Keystone is a "no-brainer".

After the decision to delay the earlier decision – Harper told the AP:

"This highlights why Canada must increase its efforts to ensure it can supply its energy outside the U.S. and into Asia in particular."

Jack Mintz, head of the School of Public Policy at the University of Calgary suggested:

"The Keystone decision was a slap in the face to Canada and it's making Canadians rethink the relationship."

And Richard Waugh, chief executive officer of Bank of Nova Scotia said,

"The Keystone ruling shows that we need to diversify away from the U.S. to Asia."

Individuals objecting to the project based on the thought that, if you stop the pipeline, you stop oil sands development in Canada are both shortsighted and wrong. Case in point -

Fatih Birol, chief economist at the International Energy Agency, told Bloomberg,

"I am sure that if the oil sands production is not used in the United States, they will be used in other countries,"

David Pumphrey, deputy director of the energy and national security program at the Center for Strategic and International Studies in Washington and a 29 year veteran of the US Department of Energy suggested that the rejection of the Keystone XL project last January introduced new uncertainties into our economic relationship with Canada.

So, how did we get here?

In the last six years, there have been five applications to the State Department for a major U.S.-Canadian import pipeline. The State Department has approved three pipelines, denied one and is reviewing another. The first one, the Southern Lights pipeline was approved in 14 months. The next two were approved in 23 and 27 months, respectively. And now here we are - more than 65 months into the review for the Keystone XL pipeline and we don't have a commitment for a timeline to come to a decision.

The Draft Supplemental EIS issued March 1 by U. S. State Department summary of impacts stated:

"The analysis of potential impacts associated with the construction and normal operation of the proposed project suggests that there would be no significant impact to most resources along the proposed Project route"

So, last week, I released a bipartisan discussion draft with Chairman Upton and Whitfield along with Congressmen Matheson and Barrow to get the Keystone XL pipeline built. This bill will move through regular order and a legislative hearing will be noticed in the House Energy and Commerce Committee soon.

The purpose of the bill is simple: to build the pipeline, get Americans to work and strengthen our economic and energy security.

This bill:

- Declares that no Presidential Permit shall be required and
- Deems the final environmental impact statement issued by the Secretary of State on August 26, 2011, to satisfy all requirements of the National Environmental Policy Act of 1969 and the National Historic Preservation Act. This also takes into consideration the Nebraska re-route evaluated in the Final Evaluation Report by the Nebraska Department of Environmental Quality in January 2013.

Further it

- Includes a Judicial Review section that mirrors the language included in the Alaska Natural Gas Pipeline Act that became law in 2004.
- Addresses the challenges under the Endangered Species Act over the American burying beetle.
- Grants a right-of-way and a temporary use permit across 42 miles of BLM land in Montana.
- Grants necessary permits under section 404 of the Clean Water Act and section 10 of the Rivers and Harbors Act for construction and operation of the pipeline and prohibits interference from EPA. This occurs no later than 90 days after an application is filed with the Army Corps of Engineers. It allows for the Secretary of the Army to set additional conditions and the discretion to waive procedures in order to comply with the deadline. If the Secretary does not act within the 90-day deadline, then the permits shall be considered issued.
- Grants a special purpose permit under the Migratory Bird Act.

While I'm aware that the State Department is working through their process, I want to go on the record by stating to the committee that I have zero confidence the State Department will act in a timely fashion with regards to the DEIS issued on March 1, 2013.

Thank you for the opportunity to testify. I look forward to working with all committees on this legislation to ensure that it eventually becomes law.

Mr. SALMON. Mr. Terry, thank you very much for your testimony. We greatly appreciate it.

Pursuant to Committee Rule 7, the members of the subcommittee will be permitted to submit written statements to be included in the official hearing record. And without objection, the hearing record will remain open for 7 days to allow for statements, questions, and extraneous materials for the record, subject to the length of limitation in the rules.

So, Mr. Terry, thank you very much. We greatly appreciate all your work and your wonderful testimony. Thank you.

Mr. TERRY. I appreciate that.

Mr. SALMON. We will take time now to seat the next panel.

Thank you very much, gentlemen.

I would like to introduce our second distinguished panel of witnesses.

The first is Dr. Duncan Wood. Dr. Wood is the director of the Mexico Institute at the Woodrow Wilson International Center for Scholars. For 17 years, Dr. Wood was a professor and the director of International Relations Program at the Autonomous Institute of Technology in Mexico City. He has been a senior associate with the Simon Chair and the Americas Program at the Center for Strategic and International Studies (CSIS) in Washington, DC. His research focuses on Mexican energy policy, including renewable energy, and North American relations. He studied in the UK and Canada, receiving his Ph.D. in political studies from Queens University, Canada, in 1996.

The next distinguished member is Mr. Daniel Simmons. He is the director of Regulatory and State Affairs at the Institute of Energy Research. Before joining IER, Mr. Simmons served as the director of the Natural Resources Task Force at the American Legislative Exchange Council (ALEC). Those of us that are former State legislators know ALEC well and we appreciate all the great work that body does. Prior to working for ALEC, Simmons was a research fellow at the Mercatus Center at George Mason University. Previous to working at the Mercatus Center, Simmons served on the legislative staff for the Committee on Resources in the U.S. House of Representatives, where he handled endangered species and forestry issues.

Glad you haven't had to do any controversial stuff. That's good.

Simmons holds a B.A. in economics from Utah State University and a J.D. from George Mason University School of Law. He is a member of the Virginia State Bar.

And we appreciate you being here today.

I am a graduate myself of BYU. So, nice to meet somebody that studied in Utah as well.

Mr. Kyle Isakower, he serves as the vice president for Regulatory and Economic Policy at the American Petroleum Institute. He oversees API's programs that review proposed environmental rules and advocate for reasonable regulations. Mr. Isakower possesses 27 years of energy and environmental policy experience, including work in consulting and government positions. Mr. Isakower holds an M.S. in earth science from Adelphi University and a B.S. in biology/geology from the University of Rochester.

Dr. Michael Levi—is it “Levee” or “Levie”? I want to get it right.

Mr. LEVI. Levi.

Mr. SALMON. Levi. I apologize.

Okay. Dr. Michael Levi is the David M. Rubinstein senior fellow for Energy and Environment at the Council on Foreign Relations (CFR) and the director of the CFR Program on Energy Security and Climate Change. Before joining CFR, Dr. Levi was a non-resident science fellow and a science technology fellow in foreign policy studies at Brookings Institution. Prior to that, he was director of the Federation of American Scientists' Strategic Security Project. Dr. Levi holds a B.S. in mathematical physics from Queens University-Kingston and an M.A. in physics from Princeton University, where he studied string theory and cosmology. He holds a Ph.D. in war studies from the University of London, Kings College.

Let me just explain briefly the lighting system. I am sure, with all your education, it won't be difficult to figure it out, but I have to explain it anyway. Before I recognize you to provide your testimony, I am going to explain this system.

You will each have 5 minutes to present your oral statement. When you begin, the light will turn green. When you have 1 minute left, the light will turn yellow. And like my kids think, yellow means speed up; I think that is probably a good thing. Speed up at that time. And when your time has expired, the light will turn red. I ask you to conclude your testimony when the red light comes on.

After our witnesses testify, all members here on the subcommittee will have 5 minutes each to ask questions. I urge my colleagues to stick to the 5-minute rule to ensure that all members get the opportunity to ask questions.

Dr. Wood, you are recognized.

STATEMENT OF DUNCAN WOOD, PH.D., DIRECTOR, MEXICO INSTITUTE, WILSON CENTER

Mr. WOOD. Thank you. Chairman Salmon, Ranking Member Sires, members of the committee, it is a privilege to join you today. I really appreciate the invitation.

I have been asked to talk to you all today about the opportunities for energy cooperation between Mexico and the United States. For the past 17 years, as the chairman said, I lived and worked in Mexico as a university professor. And for the past 6 years, I have worked intensively on policy research relating to Mexico's energy sector. I have worked closely with the government, with Pemex, and with the private sector on multiple issues relating to the Mexican energy industry. Between 2007 and 2009, I ran the Red Mexicana de Meija, a group of leading Mexican energy experts who advocated for a more open and inclusive discussion of energy reform in the country.

Last year I was fortunate enough to lead a group of experts which produced an influential report that lays out the guiding principles for the oil industry reform that is expected later this year under the Pena Nieto government.

Looking ahead to the next 4 years of interaction between the governments of the U.S. and Mexico, there is potential for an enormously fruitful relationship in energy affairs. Much of this depends on two key factors: Political will and the internal changes that are underway in Mexico's energy sector.

In the past, political sensitivities concerning U.S. involvement in the Mexican hydrocarbons industry have limited the extent of collaboration in the oil and gas sectors. This continues to be a cause for concern in any U.S.-based discussion from either public or private sectors of Mexican energy policy and the potential for collaboration. But in recent years there has been a notable relaxation of sensitivity in this area.

Partly in response to the perceived need for international assistance in resolving Mexico's multiple energy challenges and partly as a result of a productive bilateral institutional relationship between Federal energy agencies, there is now a greater potential for engagement than at any time in the recent memory.

I have identified three main areas in which bilateral energy cooperation holds great promise in the short- to medium-term.

First, given the importance of the theme for both countries, there is great potential in developing collaboration through the Trans-Boundary Hydrocarbons Agreement signed in early 2012.

Second, the two countries should work together toward the creation of a truly-integrated market for electric power at the regional level, and that should be a priority for both countries, with a special emphasis on the question of a more complete cross-border transmission network.

Third, in the area of natural gas, where Mexico's impressive potential for shale gas can only be realized after a significant reform of the sector to allow for greater private participation, U.S. firms have the opportunity to be leaders in the development of the resource, building on their experience in the Eagle Form Formation. In the meantime, major investments are needed in pipeline infrastructure, both to bring gas across the border from the United States into Mexico and within Mexico to bring the gas to the millions of potential customers who are currently without access to natural gas.

Underlying all three of these areas are broader concerns about regional economic competitiveness and the consolidation of economic development in Mexico. The first of these concerns derives from the hugely important comparative advantage that the North American Economic Region has derived in recent years from low-cost energy, driven by the shale revolution.

In order to maintain this comparative advantage and to ensure that the integrated manufacturing production platform in all three countries benefits from low-cost energy, the gains of recent years must be consolidated by fully developing Mexico's energy resources.

With regards to the second concern, economic development, a number of commentators, analysts, and political figures in Mexico have identified energy reform as a potential source for driving long-term economic growth and job creation, and the potential opportunities for foreign firms are considerable.

While the United States cannot play an active role in driving the reform process itself, the implementation of any future reform will benefit from technical cooperation with the U.S. in areas such as pricing, regulation, and industry best practices.

In the time that remains, I would like to focus my attention on the Trans-Boundary Hydrocarbons Agreement. While I understand that there have been delays in presenting the treaty for ratification and that last year's electoral cycle was partly responsible for this, it is now important to focus on the implications and optimal timing of the ratification process.

In terms of the implications, we should consider two points. First, that approving the treaty will create new levels of legal certainty for U.S. and Mexican firms operating in the Gulf border regions, encouraging them to engage in the risk-taking required to produce oil from deep waters. Second, the agreement has far-reaching implications in terms of regulatory cooperation between the two countries that is fundamentally necessary in the aftermath of the Macondo disaster and crucial for boosting Mexican standards.

In terms of timing, I would argue that ratifying the agreement before the Mexican energy reform debate begins in earnest will encourage the process forward. However, a ratification that occurs during the reform process may be viewed in such a way in Mexico that it actually complicates the debate.

I would be happy to elaborate on any of these or other points of interest in the bilateral energy relationship in the Q&A that follows.

And once again, I would like to thank you for the opportunity to be here today. I consider it a singular honor.

[The prepared statement of Mr. Wood follows:]

Statement by Dr Duncan Wood

Director of the Mexico Institute

Hearing Before the Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs, House of Representatives

March 14 2013

Thank you, Mr. Chairman. Chairman Salmon, Ranking Member Sires, members of the committee, it is a privilege to join you today. I appreciate the invitation.

I have been asked to talk to you all today about the opportunities for energy cooperation between Mexico and the United States. For the past 17 years I lived and worked in Mexico as a university professor and for the past 6 years I have worked intensively on policy research relating to Mexico's energy sector. I have worked closely with the government, with Pemex and with the private sector on multiple issues relating to the Mexican energy industry, and between 2007-2009 I ran the Red Mexicana de Energia, a group of leading Mexican energy experts who advocated for a more open and inclusive discussion of energy reform in the country. Last year I was fortunate enough to lead a group of experts which produced an influential report that lay out the guiding principles for the oil industry reform that is expected later this year under the Enrique Pena Nieto government.

Looking ahead to the next four years of interaction between governments of Mexico and the United States, there is the potential for an enormously fruitful relationship in energy affairs. Much of this depends on two key factors, political will and the internal changes that are underway in Mexico's energy sector. In the past, political sensitivities concerning U.S. involvement in the Mexican hydrocarbons industry have limited the extent of collaboration in the oil and gas sectors. This continues to be a cause for concern in any U.S.-based discussion (from either the public or private sectors) of Mexican energy policy and the potential for collaboration, but in recent years there has been a relaxation of sensitivity in this area. Partly in response to the perceived need for international assistance in resolving Mexico's multiple energy challenges, and partly as a result of a productive bilateral institutional relationship between federal energy agencies, there is now a greater potential for engagement than at any time in recent memory.

I have identified three main areas in which bilateral energy cooperation holds great promise in the short to medium-term. First, given the importance of the theme for both countries, there is great potential in the developing collaboration through the Transboundary Hydrocarbons Agreement, signed in early 2012. Second, the two countries should work towards the creation of a truly integrated market for electric power at the regional level should be priorities for the two countries, with a special emphasis on the question of a more complete cross-border transmission network. Third, in the area natural gas, where Mexico's impressive potential for shale gas can only be realized after a significant reform of the sector to allow for greater private participation, U.S. firms have the opportunity to be leaders in the development of the resource, building on their experience in the Eagle Ford formation. In the meantime, major investments are needed in pipeline infrastructure, both to bring gas across the border from the

United States into Mexico, and within Mexico to bring the gas to the millions of potential consumers who are currently without access to natural gas.

Underlying all three of these areas are broader concerns about regional economic competitiveness and the consolidation of economic development in Mexico. The first of these concerns derives from the hugely important comparative advantage that the North American economic region has derived in recent years from low-cost energy, driven by the shale revolution. In order to maintain this comparative advantage, and to ensure that the integrated manufacturing production platform in all three countries benefits from the low-cost energy, the gains of recent years must be consolidated by fully developing Mexico's energy resources. With regards to the second concern, economic development, a number of commentators, analysts and political figures in Mexico have identified energy reform as a potential source for driving long-term economic growth and job creation, and the potential opportunities for foreign firms are considerable. While the United States cannot play an active role in driving the reform process, the implementation of any future reform will benefit from technical cooperation with the U.S. in areas such as pricing, regulation and industry best practices.

In the time that remains I would like to focus my attention on the Transboundary Hydrocarbons Agreement. While I understand that there have been delays in presenting the treaty for ratification, and that last year's electoral cycle was partly responsible for this, it is now important to focus on the implications and optimal timing of the ratification process. In terms of the implications, we should consider two points: first that approving the treaty will create new levels of legal certainty for U.S. and Mexican firms operating in the Gulf border regions, encouraging them to engage in the risk-taking required to produce oil from deep waters; second, the agreement has far-reaching implications in terms of regulatory cooperation between the two countries that is fundamentally necessary in the aftermath of the Macondo disaster and crucial for boosting Mexican standards. In terms of timing, I would argue that ratifying the agreement before the Mexican energy reform debate begins in earnest will encourage the process forward; however, a ratification that occurs during the reform process may be viewed in such a way in Mexico that it complicates the debate.

I would be happy to elaborate on any of these, or other points of interest in the bilateral energy relationship in the Q&A that follows and, once again, I would like to thank you for the opportunity to be here today: I consider it a singular honor.

Mr. SALMON. Thank you very much, Dr. Wood.
Mr. Simmons?

STATEMENT OF MR. DANIEL R. SIMMONS, DIRECTOR OF REGULATORY AND STATE AFFAIRS, INSTITUTE FOR ENERGY RESEARCH

Mr. SIMMONS. Mr. Chairman, Ranking Member Sires, and members of the subcommittee, thank you for the opportunity to talk today about energy security and enhancing partnerships with Mexico and Canada.

The United States, Canada, and Mexico are energy-rich countries. Total recoverable oil in North America exceeds 1.7 trillion barrels. For comparison's sake, the U.S. uses roughly 7 billion barrels of oil annually. Total recoverable North American natural gas is approximately 4.2 quadrillion cubic feet. That is 4200 trillion cubic feet. And the U.S. uses about 24 trillion cubic feet annually.

And North America has about 500 billion short-tons of recoverable coal. The U.S. uses about 1 billion short-tons of coal annually. So, North America is not limited by our energy resources, but, instead, by access to those resources. Trade between the U.S., Canada, and Mexico only makes our nation stronger and raises our combined economic welfare. Canada and Mexico are not only America's closest neighbors, but also very important trading partners and America's closest energy allies. In 2011, Canada and Mexico were the largest sources of oil exports to the U.S., and Mexico is the largest recipient of U.S. gasoline exports. Mexico's heavy oil production is falling, but that means more spare refining capacity in the Gulf Coast if Canadian oil can be transported to the Gulf Coast.

The Trans-Boundary Hydrocarbons Agreement and Keystone XL pipeline will work to tie our countries together and grow our economies. The Trans-Boundary Agreement could lead to oil and natural gas production of 1.5 million acres in the Gulf of Mexico that was previously off-limits due to border issues. This production alone will not lead to a revolution in hydrocarbon production for the United States and Mexico, but more important than the oil and natural gas resources along the border is the potential for greater cooperation between Mexico and the United States.

Mexico has long been a leading oil producer, but oil production in Mexico has fallen. Again, this is not because of a lack of resources. Mexico has an estimated 10.5 billion barrels of proven oil reserves. But that amount could double when unconventional and deepwater resources become proven reserves.

The United States is a leader in accessing unconventional and deepwater resources, as seen by huge new oil discoveries in places like offshore Brazil that were made using technology developed in the U.S. Working together, we can increase Mexico's oil production and reverse their oil production decline. This is especially true if U.S. hydraulic-fracturing technologies are used to access Mexico's oil shale and gas resources. For example, one of America's most prolific shale fields, the Eagle Ford, extends into Mexico from Texas, but all the activity so far is on the U.S. side of the border.

The Obama administration successfully finalized negotiations on the Trans-Boundary Hydrocarbons Agreement, but now needs to follow through and submit the agreement to Congress for approval, hopefully quickly.

Much has been said about the Keystone XL pipeline. The fundamental question under Executive Order 13337 is simple: Is the pipeline in the national interest? After 4 years of study, I believe it is clear that the pipeline, indeed, is in the national interest, just as all the trans-border energy pipelines are.

More oil from Canada, instead of from overseas, seems to obviously be in our national interest. We actually benefit more financially from a barrel of oil from Canada than from any other foreign source. Canada is America's largest trading partner and the largest source of oil imports.

The Keystone XL will create thousands of jobs and oil supplies at a lower cost to Americans and improve our energy security. Lastly, the State Department studies have not shown that it would have a detrimental impact on the environment. It is clear the pipeline is in our national interest.

There is much more that could be done to benefit our continent, which happens to sit on the largest sources of hydrocarbons in the world. Affordable, reliable, and secure energy is our common bond, and the U.S., Canada, and Mexico can all benefit from its development.

The administration has been too slow on approving the Keystone XL and on submitting the Trans-Boundary Hydrocarbons Agreement to Congress. Positive movement on these fronts would help other energy projects move forward, to the benefit of all of our people.

Thank you for your time. I will gladly answer any questions.

[The prepared statement of Mr. Simmons follows:]

INSTITUTE FOR ENERGY RESEARCH

BEFORE THE SUBCOMMITTEE ON SUBCOMMITTEE ON WESTERN HEMISPHERE

COMMITTEE ON FOREIGN AFFAIRS

HEARING ON U.S. ENERGY SECURITY: ENHANCING PARTNERSHIPS WITH MEXICO AND CANADA

MARCH 14, 2013

TESTIMONY OF DANIEL R SIMMONS

THE INSTITUTE FOR ENERGY RESEARCH

The Institute for Energy Research (IER) is a non-profit organization that conducts intensive research and analysis on the functions, operations, and government regulation of global energy markets. IER articulates free market positions that respect private property rights and promote efficient outcomes for energy consumers and producers. IER staff and scholars educate policymakers and the general public on the economic and environmental benefits of free market energy. The organization was founded in 1989 as a public foundation under Section 501(c)(3) of the Internal Revenue Code. Funding for the institute comes from tax-deductible contributions of individuals, foundations, and corporations.

Introduction

The United States, Canada, and Mexico are energy rich countries, especially when the combined oil, natural gas, and coal endowments are considered together. Total recoverable oil in North America exceeds 1.7 trillion barrels. The total recoverable North American natural gas is approximately 4.2 quadrillion (4,244 trillion) cubic feet and North America has over 497 billion short tons of recoverable coal. For comparison's sake, the U.S. uses roughly 7 billion barrels of oil, 24 trillion cubic feet and 1 billion short tons of coal annually. North America is not limited by energy resources, but instead by access to these vast energy resources. Trade between the United States, Canada, and Mexico only makes our nations stronger and raises our combined economic welfare.

Canada and Mexico are not only America's closest neighbors, but also very important trading partners and America's closest energy allies. Canada is America's largest trading partner and Mexico is America's third largest trading partner.[1] In 2011, Canada and Mexico were the largest sources of oil exports to the United States[2] and Mexico is the largest recipient of U.S. gasoline exports.[3] Both Canada and Mexico import natural gas from the U.S. and export natural gas to the U.S. Because of their proximity to the United States, they are the largest recipients of U.S. natural gas exports.[4]

The energy trade between the United States, Canada and Mexico is growing, especially for America's finished petroleum and natural gas exports. Mexico's heavy oil production is falling, but that means more spare refining capacity on the Gulf Coast if Canadian oil sands can be transported to the Gulf Coast.

The energy and economic welfare of the United States, Mexico, and Canada are intertwined by our shared geography, geology, and peoples. The Transboundary Hydrocarbon Agreement and the Keystone XL pipeline will work to tie our countries together and grow our economies. North America does not lack energy resources, but what we do lack, at times, is the necessary political will that could lead to greater economic growth and prosperity.

North American Energy Inventory

North America has vast energy resources and more discoveries continue to be made. The United States alone has the world's largest combined oil, natural gas, and coal resources,[5] and both Canada and Mexico have large oil and natural gas resources. To better understand the North America's energy potential, The Institute for Energy Research compiled the North American Energy Inventory[6] in which we catalogued the known oil, coal, and natural gas resources in Canada, the United States, and Mexico using government reports. In the report we found that:

- North America is blessed with enough energy supplies to promote and sustain economic growth for many generations. The government's own reports detail this, and Congress was advised of our energy wealth when the Congressional Research Service of the Library of Congress released a report showing that the United States' combined recoverable oil, natural gas, and coal endowment is the largest on Earth.
- The amount of oil that is technically recoverable in the United States is more than 1.4 trillion barrels, with the largest deposits located offshore, in portions of Alaska, and in shale in the Rocky Mountain West. When combined with resources from Canada and Mexico, total recoverable oil in North America exceeds 1.7 trillion barrels.
- That is more than the world has used since the first oil well was drilled over 150 years ago in Titusville, Pennsylvania. To put this in context, Saudi Arabia has about 260 billion barrels of oil in proved reserves. For comparative purposes, the technically recoverable oil in North America could fuel the

present needs in the United States of about seven billion barrels per year for around 250 years.

- Moreover, it is important to note that that "reserves" estimates are constantly in flux. For example, in 1980, the U.S. had oil reserves of roughly 30 billion barrels. Yet from 1980 through 2010, we produced over 77 billion barrels of oil. In other words, over the last 30 years, we produced over 150 percent of our proved reserves and still had over 20 billion barrels of oil reserves.

- Restrictions in the form of federal bans and leasing combined with declining offerings of lease acreage mean only about 2.2 percent of America's offshore acreage is currently leased for production.

- Proved reserves of natural gas in the United States and throughout North America are enormous, and the total amount of recoverable natural gas is even more impressive. The EIA estimates that the United States has 304.6 trillion cubic feet of proved reserves of natural gas.[7] The total amount of natural gas that is recoverable in North America is approximately 4.2 quadrillion (4,244 trillion) cubic feet.

- Given that U.S. consumption is currently [as of December 2011] about 24 trillion cubic feet per year, there is enough natural gas in North America to last the United States for over 175 years at current rates of consumption.

- Total supplies of natural gas in North America dwarf those of other countries. The United States, Canada, and Mexico have more technically recoverable natural gas resources than the combined total proved natural gas reserves found in Russia, Iran, Qatar, Saudi Arabia, and Turkmenistan.

- With respect to total recoverable resources, however, North America's combined coal supplies are even more staggering. The United States, Canada, and Mexico have over 497 billion short tons of recoverable coal, or nearly three times as much as Russia, which has the world's second largest reserves. North America's recoverable coal resources are bigger than the five largest non-North American countries' reserves combined (Russia, China, Australia, India, Ukraine).

- North American recoverable coal could provide enough electricity for the United States for about 500 years at current levels of consumption.

- While the United States and North America contain enormous energy wealth, U.S. policies have increasingly made exploration, development, production and consumption of that energy more difficult.

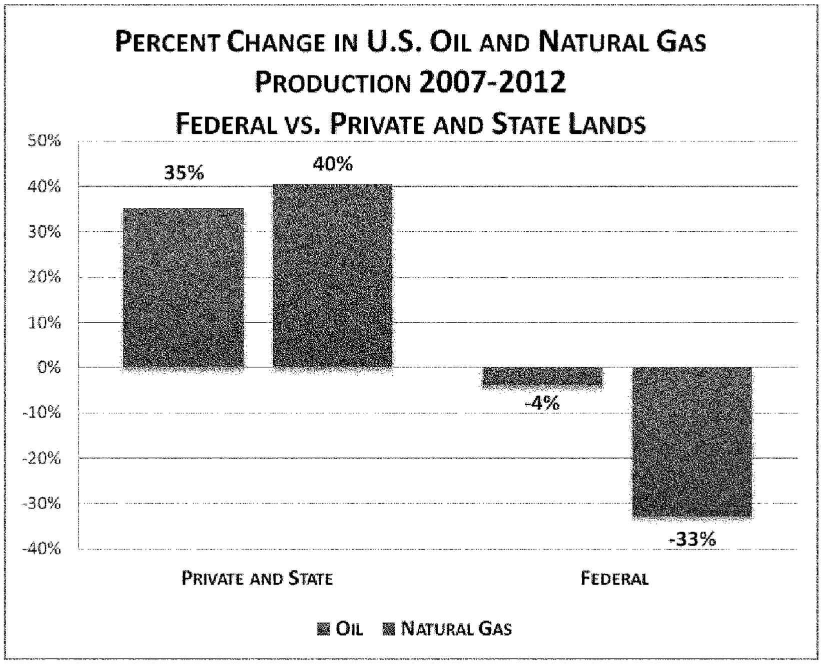
- Therefore, a scarcity of good policies, not a scarcity of energy, is responsible for U.S. energy insecurity.

U.S. Oil and Natural Gas Production Trends

The federal estate contains vast energy resources, but the federal government allows energy production on a very small percentage of taxpayer-owned federal lands. The Interior Department has leased just 2 percent of federal offshore areas and less than 6 percent of federal onshore lands for oil and gas development.[8] This is particularly important because, while the entire U.S. including Alaska and Hawaii is 2.271 billion acres, the government owns mineral access to 2.4 billion acres because of the Outer Continental Shelf.

Despite a large endowment of oil and natural gas resources on federal lands, which include offshore resources, oil and natural gas production is declining on federal lands in the United States. According to a recent report from the Congressional Research Service, from 2007 through 2012, oil production fell 4 percent and natural gas production fell 33 percent on federal lands.[9]

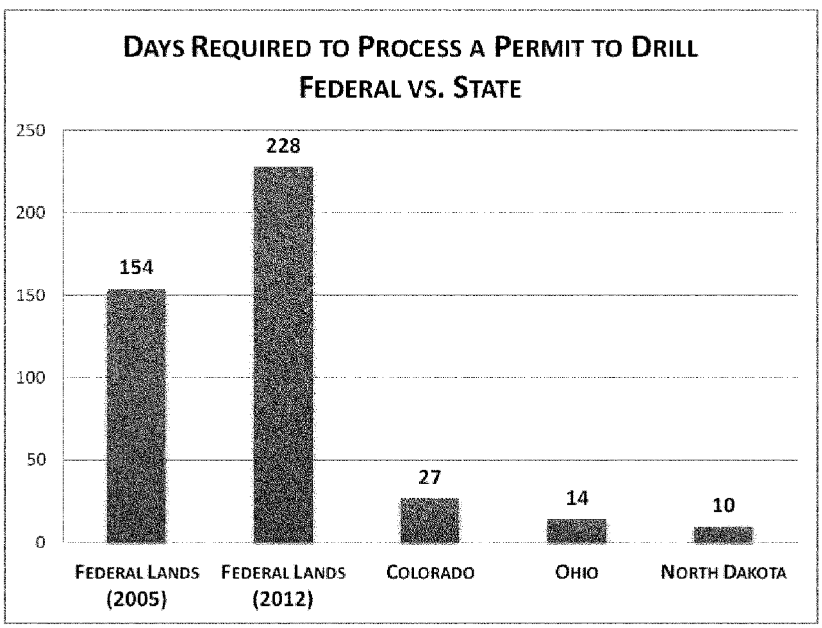
The falling production on federal lands is in stark contrast to the dramatically increasing production on private and state lands. Over the same time period, oil production grew by 35 percent and natural gas production grew by 40 percent.



The historic increase in oil and gas production from non-federal lands is the reason President Obama could say in his State of the Union address, "We produce more oil at home than we have in 15 years." We produce more natural gas than ever before—and nearly everyone's energy bill is lower because of it."

The President is right, but the federal government has had nothing to do with that success. The reason that oil and natural gas is increasing on private and state lands while falling on federal lands is because of a major difference in policies. The states understand that it is possible to protect the environment and produce oil and natural gas, while red tape on federal lands continues to increase.

Consider one example of the time required to get a permit to drill on federal land versus some energy producing states. It takes an average of 228 days for the Bureau of Land Management to process a permit to drill, up from 154 days in 2005,[10] but only 27 days for Colorado,[11] 14 days for Ohio,[12] and 10 days in North Dakota. It should come as no surprise why oil and natural gas production is rapidly increasing even while energy production on federal lands is declining. The federal government has vast energy resources, but the federal government's current energy plans result in limiting energy production on federal lands.



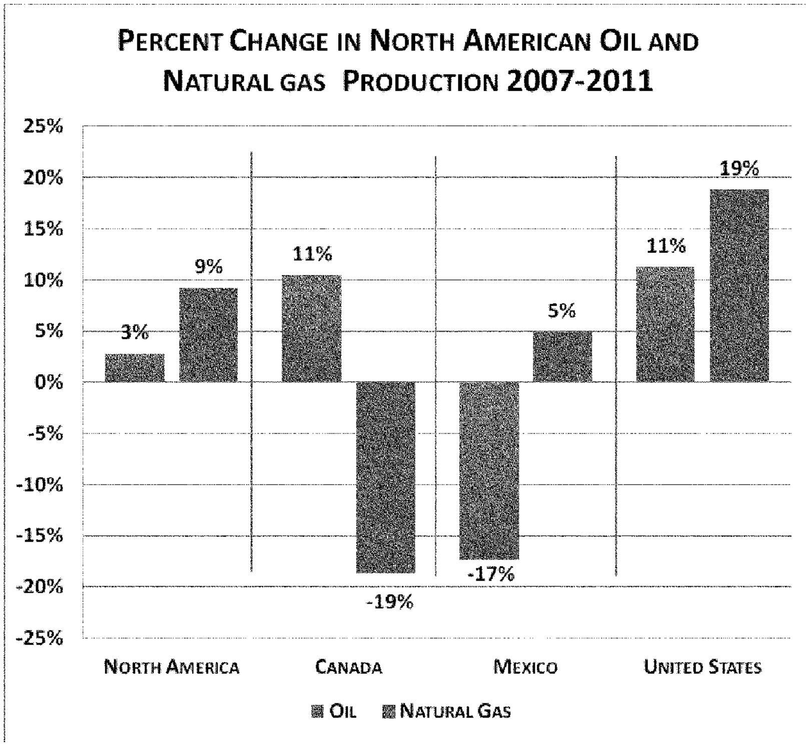
The federal government's land use policies have reduced oil and natural gas production on federal lands because federal regulations make it much more difficult to work on federal lands. Instead of following the example of the states, the federal government continues to slow down energy production.

Some argue that the reason oil and natural production is increasing on federal lands is because shale resources are located on private lands.[13] There are a few problems with this argument. First, it overlooks that the fact that it is more expensive to produce oil and natural gas from unconventional resources like shale. Because it is less expensive to produce oil and natural gas from conventional resources, undoubtedly conventional oil production would be occurring in the Pacific, the Atlantic, parts of the Gulf of Mexico, offshore Alaska, in ANWR, in the National Petroleum Reserve-Alaska if the federal government had allowed access to these conventional resources.

Second, oil and natural gas producers go to where there is access to the resources. With the federal government restricting access, oil production is increasingly occurring on private and state lands where access is permitted and delays allow investment dollars to be spent. This is why the shale revolution is occurring in the North Dakota, Texas, Arkansas, Louisiana, and Pennsylvania—and not on federal lands or in states like California. The Monterrey shale in California is larger than the Bakken and the Eagle Ford combined, but production is occurring elsewhere.

Third, with 982 billion barrels of recoverable oil shale, if R&D is successful, what matters is a path to commercial production because there is no guarantee the federal government will permit commercial leasing if R&D does indeed go well. Companies will not be willing to invest the hundreds of millions and billions of dollars necessary to make production economical if they are not able to reap the rewards from production. The government's approach is akin to inviting pharmaceutical companies to invent new drugs without a patenting system. Few believe companies would invest if there was no potential for a reward after all one's risk.

This example of potential resources in the United States shows that the regulatory environment is critical to exploration, and oil production increases can occur if people have access to resources. We know it can happen because it is happening.

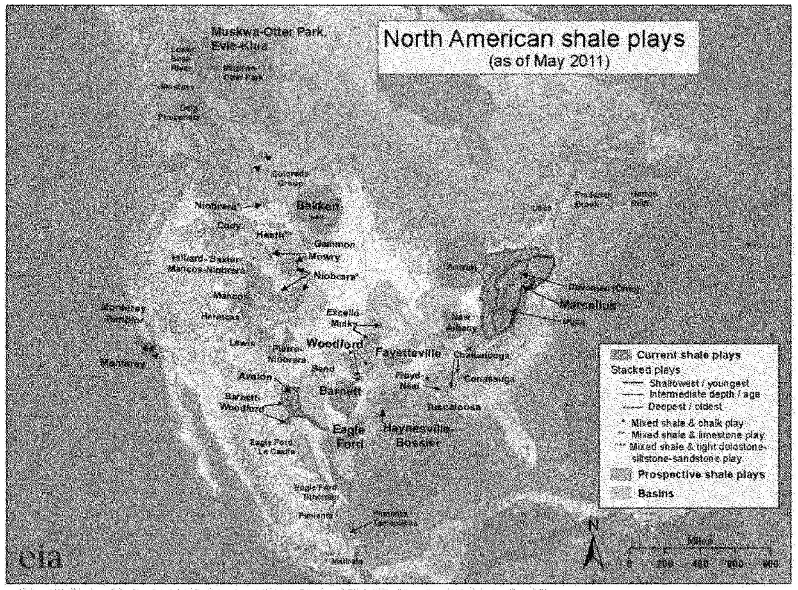


Mexican Oil and Natural Gas Production Trends

In Mexico, oil and natural gas production is controlled by Petróleos Mexicanos or Pemex—the state-owned oil company. According to the Energy Information Administration, over the past 5 years, oil production in Mexico has fallen by 17 percent,[14] while natural gas production has increased by 5 percent.[15]

According to Mexican Finance Minister Luis Videgaray, there is no plan to privatize Pemex, but the company's performance shows that it "cannot do everything itself."[16] Videgaray continued, explaining "private participation—particularly in those fields where there is opportunity because of nature and geology but where Pemex clearly doesn't have either the capital or the expertise."[17]

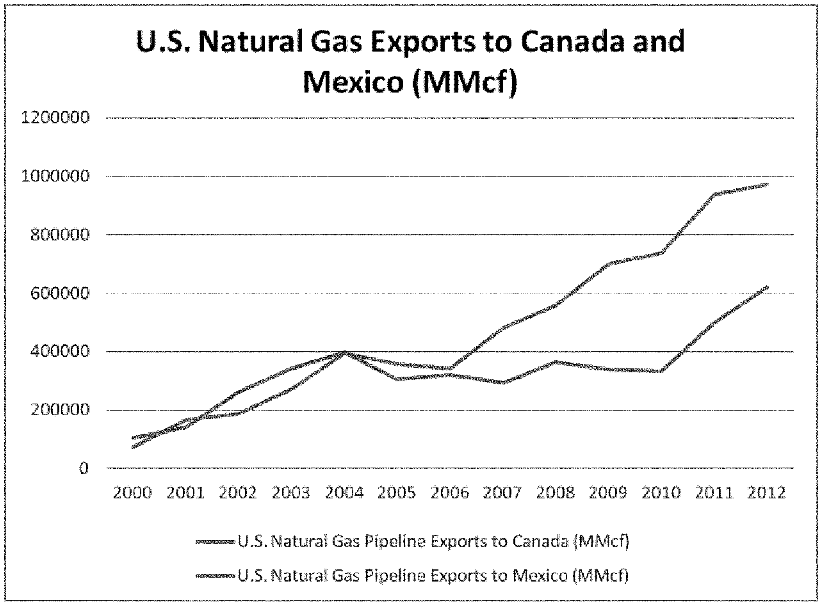
One example of where there is great potential, but where Pemex does not have expertise is in shale plays. The Eagle Ford shale extends into Mexico, but all of the production is on the U.S. side of the border.



Source: U.S. Energy Information Administration based on data from various published studies. Canada and Mexico plays from ARI.
Updated: May 9, 2011

In a way, Mexico has privatized their refining sector. Mexico exports crude oil to the United States and imports gasoline and refined products from Gulf coast refineries. Mexican oil imports to the United States peaked in 2006 and have since decreased by 30 percent.[18] Despite the decrease in Mexican oil imports to the U.S., American gasoline exports have dramatically increased in recent years. From 2007 through 2011, U.S. gasoline exports to Mexico have more than tripled.[19]

Despite the rise in Mexico's natural gas production, Mexico is a net natural gas importer.[20] U.S. natural gas exports by pipeline have increased by 86 percent from 2010–2012.[21]



Further Enhancing U.S. Canadian Energy Partnerships: Transboundary Hydrocarbons Agreement

The Gulf of Mexico is one of the most prolific hydrocarbon-producing areas for both the United States and Mexico. Oil production, especially in deepwater on the U.S. side of the border, has moved closer to the U.S.-Mexico maritime border in recent years. Until last year, there was no agreement on how to divide resources between the United States and Mexico for resources that straddle the border.

The Transboundary Hydrocarbon Agreement comes after decades of indecision between Mexico and the United States. This decision allows oil and natural gas production on 1.5 million acres in the Gulf of Mexico that was previously off-limits because of border issues.

The Transboundary Agreement itself will not lead to a revolution in hydrocarbon production for the United States and Mexico. This is not to say that the hydrocarbon resources are not important—they are. But more important than the oil and natural gas resources along the border is greater cooperation between the United States and Mexico.

Mexico has long been a leading oil producer, but as explained above, oil production in Mexico is falling. This is not from a lack of resources. Mexico has an estimated

10.5 billion barrels of proven oil reserves, but that amount could double when unconventional and deepwater resources become proven reserves.[22] The Transboundary Hydrocarbon Agreement is important for the production of some of these deepwater resources.

As Sen. Lugar wrote last year:

> I strongly encourage the Obama administration to send the U.S.-Mexico Transboundary Agreement, signed in February of this year, to Congress and urge my colleagues to pass the agreement. The Transboundary Agreement is good for energy security, good for the environment, good for U.S. commercial interests, and, most critically, can open the door to bilateral engagement on shared energy interests.[23]

After the Obama administration did the important work of negotiating the Transboundary Hydrocarbon Agreement, they have failed to either send the agreement to the Senate as a treaty or decide that the agreement is an Executive Agreement. The Administration should decide quickly whether the Transboundary Hydrocarbon Agreement should be considered a treaty or an Executive Agreement. So far, the administration's actions on the agreement are similar to its actions (or really, lack of action) on the Keystone XL pipeline. The United States needs secure energy supplies from its neighbors and allies; it should not take years for the administration to decide whether an agreement is a treaty or an executive agreement or whether one additional pipeline is in the "national interest" of the United States.

Canadian Oil and Natural Gas Production Trends

In Canada, unlike the United States, the federal government owns very little land. For example, in Alberta, 81 percent of the land is owned by Albertans through the provincial government and only 11 percent of Alberta is owned by the federal because (it is held in trust on behalf of First Nations).[24] Because the federal government exercises less control than in the United States, energy production is far easier in pro-energy provinces such as Alberta.

From 2007 through 2011, Canada's oil production increased by 11 percent, but its natural gas production decreased by 19 percent. Oil production from the oil sands will continue to increase. Also, like the United States, Canada has many shale plays. For example, the Bakken extends into Canada. In the future, Canada's shale oil production will likely increase.

Canada is the largest recipient of U.S. natural gas exports. Over the past 5 years, U.S. natural gas exports to Canada have more than doubled.

Further Enhancing U.S. Canadian Energy Partnerships: Keystone XL Pipeline

Just 5 years ago, the United States was importing almost 60 percent of its oil needs, while today, we import only 40 percent[25] with less than a fifth of our imports[26] coming from outside the western hemisphere.[27] We import almost 3 million barrels per day from Canada,[28] the most oil imported from a single country. Canada's oil reserves are estimated at 175 billion barrels[29]—the third largest in the world.

The Keystone pipeline will enable more oil imports to come from Canada and reach refineries on the Gulf coast of Texas, which is critical for North America to reach energy independence. Gulf Coast refiners will then be able to substitute crude from our reliable northern neighbor for unreliable Venezuelan crude, both of which are heavy crudes.

For four years, the Obama administration has been trying to decide if the Keystone XL pipeline is in the "national interest." If approved, it will run from the Alberta oil sands fields to Gulf Coast oil refineries. The southern portion of the pipeline is already under construction between Oklahoma and the Texas Gulf, employing 4,000 workers.[30] It will carry 700,000 barrels of oil per day when completed later this year.[31] The 1,700-mile route of the northern portion was initially turned down by the administration because it would cross environmentally sensitive areas in Nebraska.[32] The revised route has been approved by the governor of Nebraska, Dave Heineman[33], and is awaiting the administration's approval, which is expected to be decided around the beginning of April. The pipeline has been under consideration for years and would already be operating if it were not for the delays from the State Department.

Parts of the government (the Environmental Protection Agency and the Pipeline and Hazardous Materials Safety Administration) reviewed the plan and voiced no public opposition.[34] The State Department just issued a 2,000-page revised environmental impact statement that provides no environmental reason against the pipeline. While the impact statement states that extracting, shipping, refining and burning oil from oil sands produces more greenhouse gases than most conventional oil (5 to 19 percent more), the study agrees that Canada will continue to develop its oil sands even if the Keystone XL pipeline is not built.[35]

Job estimates related to the pipeline have varied from 6,000 and higher. [36] TransCanada, the company building the proposed pipeline, estimates the Keystone XL project will support 9,000 U.S. jobs through early 2015.[37] Regardless of the exact number, the pipeline will bring billions of dollars in economic activity and tax revenues to the U.S. economy.[38]

Canada has invested more than $100 billion in oil sands development[39] over the last 10 years, which has generated 75,000 jobs that is expected to multiply over the next 25 years as production increases. The Canadian Association of Petroleum Producers estimates that the country's oil production will almost double by 2030, from 3.2

million barrels of oil a day today to 6.2 million barrels a day by 2030, with oil sands representing most of the increase.[40]

Currently, nearly all of the country's oil is exported to the United States. It is expected that more Canadian oil will reach U.S. markets even if the Keystone project is not approved through a combination of rail, barge, truck and pipelines. For example, tank car orders to move crude petroleum by rail is rising with as many as 30,000 new cars to be available by the end of 2014—enough capacity to move 2 million barrels of oil per day.[41] About 40 percent of those orders were made by Canadian entities that are anxious to move their oil.[42] The shortage of pipeline capacity has produced localized supply gluts, forcing the price of Canadian crude to fall well below American and international benchmarks.

The Canadians are growing exasperated with our delays and will eventually turn to other economies to sell the oil to if the United States does not allow sufficient infrastructure to bring it to U.S. markets. Thus, while environmentalists worry about the slightly additional carbon dioxide emissions that it takes to produce oil sands over conventional crude oil (5 to 15 percent from well to wheel), that oil will be produced and consumed somewhere, most likely China. And, if Canada sends its oil by pipeline, train, and tanker to Asia, more carbon dioxide emissions will be generated by transporting it there than transporting it to the United States.

In view of political unrest and uncertainty in the Middle East and terrorist attacks against oil and gas facilities in northwest Africa, the prospect of North American energy independence should be embraced by all. By approving the Keystone XL pipeline along with other policies to encourage oil and gas development in the United States, the administration could accelerate the timeline for North American energy independence while simultaneously stimulating the economy. Further, it would be beneficial to have our oil supplies come increasingly from responsibly managed sources rather than countries where oil wealth benefits few and the costs of extraction are borne by many.

Conclusion

North America is an energy rich continent. Our energy issues are not issues of a lack of supply, but a lack of access to energy resources. The example of the Transboundary Hydrocarbon Agreement and the Keystone XL pipeline shows that politics can get in the way of increasing our important energy ties between the United States, Mexico, and Canada for the good of all three countries. After more than a year, hopefully the administration will soon decide what to do on the Transboundary Hydrocarbon Agreement. The same is true on the Keystone XL pipeline. The administration has taken more than four years to try to decide whether the pipeline is in the "national interest".

Affordable, reliable energy is critical for the welfare of all Americans, Mexicans, and Canadians. Hopefully our countries will work better together in the future to enhance our energy security and our economic welfare as well.

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Mr. SALMON. Thank you, Mr. Simmons.
Mr. Isakower?

STATEMENT OF MR. KYLE ISAKOWER, VICE PRESIDENT, REGULATORY AND ECONOMIC POLICY, AMERICAN PETROLEUM INSTITUTE

Mr. ISAKOWER. Good morning, Chairman Salmon, Ranking Member Sires, and members of the subcommittee.

My name is Kyle Isakower, Vice President, Regulatory and Economic Policy at the American Petroleum Institute.

API represents all segments of America's technology-driven oil and natural gas industry. In total, that is close to 550 companies. Our industry directly and indirectly supports 9.2 million American jobs and almost 8 percent of the U.S. economy. And that is what I want to talk to you about today, spurring job creation and economic growth in cooperation with our North American neighbors, Canada and Mexico, specifically, the contribution of the long-awaited and much-studied Keystone XL pipeline project and the Trans-Boundary Hydrocarbons Agreement.

First, Keystone XL. In the past month, the administration seems to be inching closer to finally approving the Keystone XL pipeline. That is encouraging because it is good economic policy.

At a time of persistent high unemployment, the tens of thousands of jobs created by the pipeline would be a welcome relief to families across the country. Trans-Canada, the company responsible for building the pipeline, estimates that construction of the full Keystone XL pipeline would create 20,000 jobs, with even more jobs created over the long-term. According to the Canadian Energy Research Institute, expanding oil sands production by 830,000 barrels per day, the equivalent capacity of the Keystone XL pipeline, could support 117,000 new American jobs by 2035.

More broadly, the economic benefits of development of Canada's vast oil sand energy resource, to which the pipeline is vital, would be felt in every state except Hawaii. There are at least 2,400 American companies in 49 states already involved in the development of Canada's oil sands.

In short, the Keystone XL project is a job-creator and a catalyst for economic growth nationwide. The good news is that the public understands and supports the project. According to a poll API sponsored last month, 69 percent of registered voters support building the pipeline, with strong majorities among Democrats, Republicans, and Independents. What's more, 83 percent believe the pipeline will strengthen our energy security, and fully 92 percent agree jobs are important when considering the project.

Further, strengthening our energy partnership with Canada is a clear economic winner because roughly 90 cents of every dollar used to purchase Canadian goods and services, including oil, are returned to our economy by Canadians buying American goods and services.

In addition, the Keystone XL pipeline will provide a significant boost to U.S. energy security by increasing our capacity to import oil from a friendly, reliable neighbor, bringing more than 800,000 barrels of oil per day to U.S. refineries. With the pipeline, our crude imports from Canada could reach 4 million barrels a day by

2020, twice what we currently import from the Persian Gulf, and at a time when the U.S. is facing reduced imports from countries like Venezuela.

And in spite of the erroneous rhetoric from opponents, according to the Department of State, the Keystone XL pipeline, when completed, would "have a degree of safety over any other" due to its 57 special additional safety measures approved by the Pipeline and Hazardous Materials Safety Administration.

I want to conclude by briefly touching on the Trans-Boundary Hydrocarbons Agreement with Mexico because it, too, could create jobs and enhance our energy security. The agreement establishes a cooperative process for managing oil and gas reservoirs along the boundary region in the Gulf of Mexico and encourages cooperative agreements between U.S. independent oil companies, or IOCs, and Mexico's state-owned oil company, Pemex, to jointly develop oil resources along boundary areas in the Gulf of Mexico.

Importantly, this agreement will provide legal certainty to U.S. IOCs, which will encourage investment in new energy development, creating jobs and spurring economic growth. It is our view that the President should resolve the lingering uncertainty over whether he intends this agreement to be a treaty or an executive agreement. Appropriate legislative action should, then, quickly be taken to ratify the treaty, if applicable, or pass implementing legislation. While API has no preference regarding how this agreement moves forward, we urge action on this important agreement as soon as possible.

Both issues, the Keystone XL pipeline project and swift implementation of the Trans-Boundary Hydrocarbons Agreement, are important to our nation's energy security and long-term economic growth and highlight how important national leadership is to promoting a positive, forward-looking energy policy that will ensure that in the 21st century Americans are energy-secure, which I believe is the true goal of today's hearing.

Thank you for your time and attention.

[The prepared statement of Mr. Isakower follows:]

Testimony of Kyle Isakower
Vice President, Regulatory and Economic Policy, American Petroleum Institute
Before the House Committee on Foreign Affairs, Subcommittee on the Western Hemisphere Hearing: Energy Security in North America
March 14, 2013

Good morning, Chairman Salmon, Ranking Member Sires and members of the subcommittee. My name is Kyle Isakower, Vice President, Regulatory and Economic Policy at the American Petroleum Institute.

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Importantly, this agreement will provide legal certainty to US IOCs, which will encourage investment in new energy development, creating jobs and spurring economic growth. It is our view that the President should resolve the lingering uncertainty over whether he intends this agreement to be a Treaty or an Executive Agreement. Appropriate legislative action should then quickly be taken to ratify the treaty, if applicable, and pass implementing legislation.

While API has no preference regarding how this Agreement moves forward, we urge action on this important Agreement as soon as possible.

Both issues, the Keystone XL pipeline project and swift ratification of the Transboundary Hydrocarbon Agreement are important to our nation's energy security and long-term economic growth and highlight how important national leadership is to promoting a positive, forward-looking energy policy that will ensure that in the 21st century, Americans are energy secure, which I believe is the goal of today's hearing.

Thank you for your time and attention.

Mr. SALMON. Thank you.
Dr. Levi?

STATEMENT OF MICHAEL A. LEVI, PH.D., SENIOR FELLOW FOR ENERGY AND THE ENVIRONMENT, AND, DIRECTOR OF THE PROGRAM ON ENERGY SECURITY AND CLIMATE CHANGE, COUNCIL ON FOREIGN RELATIONS

Mr. LEVI. Chairman Salmon, Ranking Member Sires, members of the subcommittee, thank you for inviting me to speak with you this morning.

The United States has a historic opportunity to capitalize on changes unfolding across the energy landscape. In doing so, U.S. strategy needs to treat economic prosperity, national security, and the environment and climate change all with care.

The Keystone XL pipeline would not deliver the massive economic and security gains that some have claimed, but allowing the pipeline to proceed would not be the climate catastrophe that many have predicted, either. Ultimately, allowing the pipeline to proceed would likely yield benefits that outweigh the associated costs.

I have provided the committee with a study I published on the Canadian oil sands that focused on six areas in which analysts have claimed that oil might affect U.S. security. The study concluded that many of those have been exaggerated. Buying our oil from Canada would not starve petro-dictators of cash, protect the United States against cutoffs from hostile producers, or do much to shield the U.S. economy from the impacts of the most destructive oil price spikes.

But greater Canadian oil production does create real benefits for the United States. If oil production facilitated by Keystone increases total world oil supplies, that will moderate the global price of oil. And while the impact on each gallon of gasoline would be tiny, the savings would add up.

At the other extreme, if Canadian production were fully offset by cuts elsewhere, the price of oil would not change. But, in that case, the pipeline's climate damages would also be largely mitigated.

In all cases, expanded Canadian oil sands production would create commercial opportunities for U.S. firms. Approving the pipeline would also create several thousand temporary jobs. This should not be dismissed, but it should not be exaggerated, either. The pipeline would not be a large job-creator. Opponents are right to highlight opportunities for job creation in clean energy as well, but this need not be an "either/or" decision.

Those who have raised climate concerns about the pipeline are right to be worried about climate change and to assert that we have not yet done enough to deal with it. But blocking the pipeline would do little to rein-in greenhouse gas emissions. In an extreme case, blocking the pipeline would cut global emissions by less than half of 1 percent. The real-world impact would be lower.

Any project in isolation, of course, has limited climate impacts, which makes what I have just told you a poor reason alone to let the pipeline proceed. More important is that the overall benefits that would result from approving the pipeline would likely exceed the resulting climate costs.

You have also asked me to discuss the U.S.-Mexico Trans-Boundary Hydrocarbons Agreement. The United States benefits from a more robust Mexican economy. U.S. national security also gains from greater Mexican petroleum production. Mexico still relies heavily on the industry for a large part of its government revenues, and a healthy Mexican Government is better able to deal with social challenges that spill over to the United States.

The Trans-Boundary Hydrocarbons Agreement is of relatively little direct consequence to U.S. oil production. It would, however, boost opportunities for U.S.-Mexico cooperation on environmental supervision of offshore drilling. The agreement also comes at a critical time for the Mexican oil industry. The new Mexican President has made constitutional reform that would create opportunities for foreign investment in Mexican oil and gas a priority. U.S. failure to move forward with the agreement could only sour the environment in which these changes will be debated. More consequentially, if opening of Mexico's hydrocarbon sector creates new investment opportunities, a U.S. Government with a credible record of deal-making will be more capable of advocating U.S. interests.

The United States also has important opportunities to cooperate with Canada and Mexico in ways that go beyond the decisions at the center of this hearing. Congress could investigate shale gas cooperation, expansion of clean energy markets, and harmonized emissions standards.

Moreover, while today's discussion is valuably focused on important opportunities for enhanced oil and gas production, the United States ultimately needs to reduce its oil use and curb its greenhouse gas emissions, too. Putting together strong policy on these fronts with gains in oil and gas production would be a win for the economy, security, and environment.

Thank you very much for your time. I look forward to answering any questions you have.

[The prepared statement of Mr. Levi follows:]

COUNCIL *on*
FOREIGN
RELATIONS

March 14, 2013

U.S. Energy Security: Enhancing Partnerships with Mexico and Canada

Prepared statement by

Michael A. Levi

David M. Rubenstein Senior Fellow for Energy and the Environment, and Director, Program on Energy Security and Climate Change

Before the

Subcommittee on Western Hemisphere, House Committee on Foreign Affairs
United States House of Representatives
1st Session, *113th* Congress

Hearing on U.S. Energy Security: Enhancing Partnerships with Mexico and Canada

Chairman Salmon, Ranking Member Sires, members of the subcommittee, thank you for inviting me to speak with you about the potential for U.S. partnerships with Canada and Mexico to help the United States effectively pursue its energy-related goals, and particularly to discuss the Keystone XL pipeline and the U.S.-Mexico Transboundary Hydrocarbons Agreement.

American energy is changing more rapidly than at any time in perhaps forty years. Oil and gas production are both surging. U.S. oil use has fallen strongly, and renewable energy deployment continues to set records. These trends are being reinforced by developments in Canada and Mexico. The United States has a historic opportunity to capitalize on all of these changes, provided that it makes the right policy choices.

In doing so, U.S. strategy needs to treat broad-based economic growth, national security and international relationships, and the environment and climate change, with similar care. Doing this will require creating new opportunities for energy production across the board while implementing smart protections for the local environment. But it will also require limiting or penalizing actions, including excessive oil consumption and greenhouse gas emissions, that create intolerable damage on any of these fronts.

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The Keystone XL Pipeline

Those who have raised concerns about the climate and other environmental impacts of the Keystone XL pipeline are right to be strongly concerned about global climate change and environmental protection. The administration has been prudent in taking time to ensure that local environmental protections along the pipeline route are sound. Still, the world is currently on track to exceed every potentially safe climate threshold. Strong actions are necessary if current trends are to be changed and ultimately reversed.

Yet blocking the Keystone XL pipeline would do little to rein in climate change. The pipeline would carry about 800,000 barrels a day of diluted bitumen from Alberta to the Gulf Coast. In an extreme case – if it proves impossible to build alternative pipelines or other transport routes, and if other producers do not compensate for a Keystone denial by boosting their own oil production – then this would add slightly less than 0.5 percent to global carbon dioxide emissions from energy use. The real-world impact would be lower.

Any project in isolation, of course, has limited climate impacts, which makes this a poor reason alone to give the pipeline the go-ahead. More important for Keystone XL is that the costs that would result from blocking the pipeline would likely exceed the accompanying climate benefits.

In an earlier study of the energy security and climate change impacts of Canadian oil sands production, I identified six areas in which analysts have claimed that oil might affect U.S. national security.[1] I concluded that many of these have been exaggerated, particularly in the context of the Canadian oil sands. Buying more U.S. oil from Canada, for example, would not starve petrodictators elsewhere of cash; they would sell their oil to other customers. Moreover, buying more oil from Canada is not necessary to protect the United Statse against hostile producers: oil-fueled dictators are not capable of cutting off U.S. oil supplies, since the United States can draw oil from global markets and its Strategic Petroleum Reserve (SPR) in the face of any cutoff attempt. Finally, buying more oil from Canada would do relatively little to shield the United States from the impacts of the most destructive oil price spikes. During times of severe turmoil in global oil markets, the price of Canadian oil generally rises just as much as the price of Middle Eastern oil does; that inflicts the same pain on U.S. consumers and similar (though slightly less) damage on the U.S. economy.

But greater Canadian oil production does create real benefits for the United States. To the extent that Canadian oil production facilitated by the Keystone XL pipeline increases total world supplies, that drives down the cost of oil for all U.S. consumers. The impact is likely to be very small – a few dollars a barrel at most and likely much less – but, spread across the U.S. economy, it adds up: a one dollar a barrel decrease in world oil prices saves the United States more than two billion dollars each year. If, at the other extreme, additional Canadian oil production were fully offset by production cuts elsewhere in the world, the price of oil would remain unchanged. In that case, though, climate damages associated with the pipeline would also be largely mitigated, falling as much as tenfold from the high-end estimate. In all cases, expanded Canadian oil sands production would create commercial opportunities for U.S. firms that supply oil sands producers.

[1] See, in particular, Michael Levi "The Canadian Oil Sands: Energy Security vs. Climate Change", Council Special Report No. 47. Council on Foreign Relations, May 2009.

The Keystone XL pipeline decision introduces several additional factors to the equation. Approving the pipeline would, as many have noted, create several thousand temporary jobs. This should not be dismissed but should also not be exaggerated: the Keystone XL pipeline would not be a large job creator.[2] (This does not include indirect jobs that would created in the United States if the Keystone XL pipeline facilitated additional oil sands development.) Pipeline opponents are right to highlight that there are opportunities for job creation in clean energy as well. But this need not be an either-or decision: the fate of clean energy will not be meaningfully altered by the Keystone XL decision.

Rejecting the Keystone XL pipeline would also be a clear negative for U.S.-Canada relations. To be certain, there is considerable controversy within Canada over oil sands expansion. But even among Canadians who are skeptical of the oil sands, many would chafe at what they would see as heavy-handed U.S. intervention.

Denying a permit for the Keystone XL pipeline would not be the unmitigated disaster that some claim – and allowing the pipeline to proceed would not be the climate catastrophe that many have asserted. Ultimately, though, allowing the pipeline to proceed would likely produce benefits that outweigh the associated costs.

U.S.-Mexico Transboundary Hydrocarbons Agreement

The United States benefits economically from expanded Mexican oil production in the same way that it gains from greater Canadian oil output. U.S. national security also gains from greater Mexican petroleum production and from improved efficiency in the Mexican oil and gas industry. Mexico still relies heavily on the industry for a large part of its government revenues, and a healthy Mexican government is one better able to deal with crime, economic growth, and other social challenges that spill over to the United States.

The U.S.-Mexico Transboundary Hydrocarbons Agreement, signed in February 2012 and ratified by Mexico in April 2012, would help encourage progress in that direction. The agreement itself is of limited direct consequence. It would allow development of offshore fields that straddle the U.S.-Mexico maritime boundary, but the Mexican government and industry have made clear that most development of these fields would likely occur even without the Agreement. More important, the Agreement would boost opportunities for U.S.-Mexico cooperation on environmental supervision of offshore drilling activities and on emergency response, reducing the odds of an oil spill and helping mitigate the consequences of any that might occur.

The agreement also comes at a critical time for reform in the Mexican oil industry. The Mexican oil industry has long been largely closed to outside capital. The result has been insufficient investment and technology adoption to sustain (let alone boost) supplies. The new Mexican President, Enrique Peña Nieto, has made constitutional reform that would create new opportunities for foreign investment a priority. U.S. failure to move forward with the already-concluded Transboundary Hydrocarbons Agreement could only sour the environment in which these constitutional changes will be debated. More consequentially, if opening of Mexico's petroleum sector creates new investment opportunities, a U.S. government with a positive record of credible petroleum-related dealmaking will be one that will be more capable of advocating U.S. interests. This could be valuable as new opportunities, not only in offshore development but also in shale gas and tight oil, emerge. The current focus on hydrocarbon reform in Mexico also means that extended U.S. inaction on

[2] For more detail, see Michael Levi, "Five Myths About the Keystone XL Pipeline", *Washington Post*, January 18, 2012.

the Transboundary Hydrocarbons Agreement will be noticed, with potentially negative consequences for the broader bilateral relationship.

Cooperation Beyond Oil Development

The United States has important opportunities to cooperate on energy with Canada and Mexico in ways that go beyond the issues at the focus of this hearing. Areas that Congress could investigate include:

- Shale Gas. Mexico and Canada both have large potential shale gas resources. Mexico would benefit from greater openness to international investment and hence technology. It would also gain from cooperation on gaining a better geological understanding of its resource deposits. Both countries would also benefit from cooperation with the United States in understanding the (still evolving) U.S. experience with managing environmental and community impacts of shale gas development. Congress should provide support for State Department efforts to work with other countries on shale gas and encourage Mexico to participate more actively.
- Clean Energy Markets. Bigger markets for clean energy technologies increase the incentives for innovators and boost opportunities for U.S. exporters. North America already enjoys a highly liberal market for trade in goods and services of all kinds. Some have suggested restricting access to the U.S. clean energy market in conjunction with U.S. government policies to support growth in that market. This would be a mistake that could ultimately hurt U.S. competitiveness and climate goals. Congress should instead look for ways to boost other countries' demand for U.S. clean energy technologies.
- Emissions Standards. Canada is matching the ambitious fuel economy standards adopted by the EPA in 2012; Mexico is attempting to do the same. As the United States pursues additional regulatory measures to reduce greenhouse gas emissions, Congress should encourage the administration to work with Canada and Mexico to seek commensurate measures in those countries. This would boost the net benefits resulting from new U.S. regulations for the economy and the environment.

Confronting Energy Insecurity and Climate Change

Those who are skeptical of oil development in general and the Keystone XL pipeline in particular are right to warn that the United States must confront its broader climate change and energy security problems. The United States ultimately needs to reduce its exposure to volatile oil markets through measures like stronger fuel economy standards for cars and trucks and support for next-generation automobile technologies. It also needs to curb its greenhouse gas emissions, ideally through a market-based policy enacted by Congress, but if that is not possible, through careful regulation under the Clean Air Act. I strongly urge Congress to move forward on these fronts, or to allow the administration to do so through prudent regulation. Strong action here, together with progress on oil and gas production at home and in cooperation with U.S. friends and allies, would be a win for the economy, security, and the environment.

Mr. SALMON. I would like to thank our distinguished witnesses for their wonderful testimony. Both of these issues are of extreme importance to the American people.

I would like to also state for the record that yesterday we were able to meet with folks from the administration. We did invite them to testify before this hearing today, but, on the advice from their counsel, legal counsel, they declined to testify today. But they did meet with me last night, and we had a very meaningful briefing.

Especially on the Trans-Boundary Hydrocarbons Agreement, they signaled that the administration, the White House, is very supportive of moving forward. And we looked at language which would need to be instituted, passed here in the Congress, regarding implementing legislation for the agreement. And it is quite simple language, nothing real complicated about it.

I believe—I have talked with the ranking member—that we are very interested in drafting that language and moving it forward. I intend to speak with the chairman of the Committee on Jurisdiction, Congressman Doc Hastings, and try to move that legislation, at least get it started within the next couple of weeks.

So, our hope is we will get that implementing legislation done post haste and we can get to that great partnership with Mexico, more specifically, with Pemex, and go after all that wonderful, luscious oil that is waiting at our beck and call. So, we are excited about that.

I would like to ask my first question of Dr. Levi. You made a statement, Dr. Levi, that the costs that would result from blocking the pipeline would likely exceed the accommodating climate benefits. It is interesting to note, yesterday President Obama came to the Republican Conference and he said exactly the same thing, in essence. He said, very similar to what you said, that he believed that the number of jobs may be a little bit overblown, but he also said that the impact on climate change is extremely overblown as well.

And when asked by the Conference what they were planning to do with the agreement, he said that there would be a decision within the next couple of weeks. So, we can all cross our fingers that that decision is going to be in the affirmative and we can move forward and get those jobs and work on a great oil policy here in the Western Hemisphere.

But, anyway, I just would like to ask you, can you give any rationale, given the fact that it does appear that the benefits far outweigh the cost—some were speculating that maybe this stall-and-drag-the-feet tactic is kind of beating up on big oil. We are wondering if you have any thoughts as far as why, if it is a good idea and the costs outweigh the benefits, why are we dragging our feet?

Mr. LEVI. Congressman, I don't want to speculate on the administration's decisionmaking.

Mr. SALMON. We will let you.

Mr. LEVI. There are certainly local environmental issues that have had to be confronted over the last year or two, particularly around the pipeline route in the State of Nebraska. Once the pipeline route was shifted, a new Environmental Impact Assessment was necessary. These things take a long time.

I would encourage Congress to combine stronger funding for those that need to handle these sorts of applications with reformed rules that retain environmental safeguards, but streamline the processes, not just for pipelines, but for oil and gas development, clean energy development, energy development in general.

For those who are opposing the pipeline, I think that their assessments of the costs and benefits are often different. They may judge security through a different lens. They may have different assumptions about the economy, but in a lot of cases they weigh climate more strongly in their calculations. That is not unreasonable to do. When I make my net judgment, I am weighing the economy, security, and climate equally and coming to that conclusion.

Mr. SALMON. Thanks, Dr. Levi.

I would like to ask my next question of Mr. Isakower. We have good reason to believe that the Mexican President, Pena Nieto, is very serious about instituting reforms in Mexico, especially including their energy sector, including Pemex, which is the world's most close oil regime. Do you get a sense from the companies you represent that there is an optimism in terms of the degree to which the reforms can have an effect on increased partnerships beyond the Trans-Boundary Agreement between the U.S. energy sector and Mexico?

Mr. ISAKOWER. Yes, Mr. Chairman. Excuse me, Mr. Chairman. Thank you for the question.

And, yes, I do believe that my members do see tremendous opportunity working with Pemex going forward. The Trans-Boundary Hydrocarbons Agreement really is just the first step. It is a foot in the door, so to speak.

In working with Pemex on the Trans-Boundary plays, if that establishes a relationship with Pemex with the IOCs that I represent, we absolutely see that as a very significant step to a regime in a country that has not, as you have said, allowed IOCs to work with them in the past. And this is a tremendous opportunity. Really, this is really just a first step and the real benefit to this is the potential for us working with Pemex long-term on other plays.

Mr. SALMON. Thank you very much.

My time has expired. I recognize Mr. Sires.

Mr. SIRES. Thank you, Mr. Chairman, and thank you for the panel for being here today.

Dr. Wood, maybe I didn't hear you correctly, but did you say that the Trans-Boundary Hydrocarbons Agreement would complicate things? Did you say something to that effect? Can you just elaborate a little bit on that?

Mr. WOOD. Thank you for the question. So, the question is on timing. I think that if, as Chairman Salmon has just said, this goes through in the next couple of weeks, that is fabulous news. People in Mexico are beginning to ask questions about, so why is taking so long? And so, this would be seen as a very positive step forward, and it would encourage, I think, the process of energy reform in Mexico. It would be a feather in the cap of the new administration of Pena Nieto to say that we were the ones that actually managed to get this finally onto the books, even though recognizing this is an internal decision of the United States.

The timing question is sensitive, though. If Mexico begins its energy reform debate in earnest, which we expect to happen at some point during the summer, maybe August–September time, and if at that time the U.S. Congress passed or ratified the agreement, that would be seen as almost being, well, isn't this serendipitous; isn't this kind of a strange coincidence, the United States doing it exactly at this moment?

And it could complicate the discussions in a sense that those people who are opposed to an opening of the sector in Mexico would be able to look at this and to say, you see, the United States, again, all they want is access to our oil; it is not about what is good for Mexico.

And so, that is why I try to nuance that a little bit, to say that it is the timing that is really key. Do it now; it is a good thing. Do it in August–September, and it becomes a lot more complicated.

Mr. SIRES. Now I know you taught in Mexico for what, 17 years? Have you seen a shift in attitude toward the United States' involvement in the energy business in Mexico?

Mr. WOOD. Yes. It is very difficult to back this up with any kind of data. There are some private opinion polls that are out there that suggest that Mexicans are more in favor of a meaningful energy reform—by meaningful, I mean opening of the sector to private participation—than at any time in the past.

One of the little pieces of information, trivia, that I like to put forward is that, back in 2006, there was an opinion poll that was taken on Mexican attitudes toward the world. Mexicans were asked lots of questions, but two stood out. One was, if you believe that it would result in a significant improvement in your standard of living, would you agree to full integration with the United States of America? Now a small majority of Mexicans actually said yes on that, which is an extraordinary result.

A couple of pages down on the opinion poll, there was another one. Mexico's energy production is in trouble. Our oil production is declining. Do you believe that it is okay to allow foreign and private firms into our oil sector? Eighty percent of Mexicans said no. So, they are more likely to sell their country than their oil.

That attitude has changed dramatically, largely because of what happened over the past few years in terms of getting the idea of the problems facing the oil sector into the public consciousness. This process began in late 2007, continued through the energy reform process in 2008. And now, perhaps more than ever, Mexicans are actually willing to accept that we need to make a fundamental change. That will involve increasing private participation, and private participation means foreign participation.

Mr. SIRES. Thank you.

Anyone who wants, you know, who would like to answer the question: One of the biggest negatives that the people who are against this pipeline say is that, if this oil comes from Canada and is going to the refineries in Texas, that it is going to be shipped out, that it is not going to be consumed in this country. Can anyone answer? Can anybody address that a little bit?

Because, to me, you know, I support this pipe wholeheartedly, but I would hate to see this pipe being built and, then, have the oil being shipped to some other country and not relieve the people of this country, pressure in this country.

Mr. ISAKOWER. Actually, what we have in the Gulf region is the largest heavy oil refining complex on the planet. So, if you are bringing in heavy oil—and again, these refineries have been——

Mr. SIRES. I don't mean to interrupt, but this is the same situation that we have with Venezuela? The heavy oil comes into——

Mr. ISAKOWER. Exactly.

Mr. SIRES. Okay.

Mr. ISAKOWER. And as those Venezuelan supplies are dwindling, those refineries in the Gulf of Mexico which have been optimized to run on heavy oil and to process heavy oil, they need a new supply of heavy oil. So, the pipeline would actually bring down another supply of reliable, a reliable supply of heavy oil that those refineries would, then, process. So, there is a very strong economic incentive to keep that oil here in the United States rather than export.

Mr. SIRES. Thank you.

Mr. RADEL [presiding]. Thank you, Mr. Sires.

I recognize myself next, not because I am in this chair, but it actually is my turn.

To me, this is so simple. National security and jobs. National security. Who would we rather deal with here in the United States, Canada and Mexico, our friends to our north and south, or with other countries that might not have our best intentions in mind thousands and thousands of miles away from us?

In terms of jobs, jobs, jobs, jobs; we need them right now right here in the United States. And, yes, this is an answer for real private sector jobs here. But I would say that it also means jobs in Mexico.

We are in a day and age when we know the reality is we still have undocumented workers, undocumented immigrants, coming to our country. Perhaps one of the best ways to solve that issue is to improve the economy in a country like Mexico, which is next to us.

So, for me, again, it is just so simple, national security and jobs. And the President was very kind to come to our Conference yesterday and speak with us, take questions from our caucus. If he is listening now, if his administration is listening now, please send us this agreement.

Now, that said, not being any kind of an expert on Mexico, I would refer to you, Dr. Wood. What would this mean for our economic relationship with Mexico, and perhaps more importantly, what would it mean for Mexico itself?

Mr. WOOD. Thank you.

So, the estimates that we are currently seeing in Mexico are that a meaningful energy reform that will take place there could result in a huge jump in GDP. In terms of the Trans-Boundary Hydrocarbons Agreement, in and of itself, I don't think that is going to actually be the major detonator of jobs in Mexico, but seen as being a step on the path toward energy reform and an opening of the sector. Because I think it is a positive sign, if done right, then we are looking at a big impact.

So, the estimates that we have of a reformed Mexican energy sector are between 2 and 4 percent GDP growth per year extra on top of what they have got right now. That fits in very, very nicely with what the Pena Nieto administration has set as their goal, which is somewhere between 4 and 6 percent GDP growth per year. I mean, that is ambitious. Mexico, over the past 12 years, has been stuck around sort of the 2.5–3 percent GDP growth per year mark.

In terms of what that means for jobs, it is difficult to actually work out. But if we see a meaningful reform of the Mexican energy sector, we are looking at not just new jobs involved in the exploration, production, and refining process, but the real possibility of building up a full oil industry in Mexico that is not just about getting the oil out of the ground, refining it, and sending it on, but all of the other services industry that is built around that. And that is an incredibly exciting prospect for those of us who really care about Mexican economic development.

And I think that, if we look at it in those terms, that is one thing. But if we look beyond that even further, and we say this has a knock-on impact upon the rest of the economy—and I think the best example of this is to see how energy prices have the opportunity to come down significantly, largely because of questions like the shale gas resources that exist in Mexico and, of course, on the U.S. side. Those lower costs for energy for Mexicans, not for the consumer so much, but for Mexican companies, many of which, of course, are owned by U.S. companies, that is a hugely exciting prospect.

We are looking here not just about Mexico, not just about the United States, but really a North American regional economic competitiveness agenda. And integrating energy markets across the region I would say is one of the best ways to actually get that going. So, clearly, jobs here in the United States depend upon Mexico becoming more competitive, and vice versa.

Mr. RADEL. Dr. Wood, I thank you for your time.

I yield my remaining 1 minute, 15 seconds to Mr. Weber from Texas.

Mr. WEBER. Thank you, Mr. Chairman.

This pipeline terminates in Port Arthur, Texas, which just happens to be my district. And so, it is of grave concern.

Trey, can you yield me more than 1 minute, 15 seconds?

Mr. RADEL. Sure.

Mr. WEBER. Great. So, around lunchtime I will be done. [Laughter.]

Let me start with you, Dr. Levi, did you say?

Mr. LEVI. Yes.

Mr. WEBER. Okay. You made the statement that—well, let me back up. The witness before you, Lee Terry, had an interesting testimony. He said there have been five applications for Canada-American import pipelines. Three have been approved; one has been denied, and one is in review. Guess which one that is? It has taken 1,600 days for this review process.

Now you made an interesting analysis, Dr. Levi, in your statements. And you said that, basically, even though climate change needed to be paid attention to, that this had negligible, if any, effect on that discussion, and had a positive effect, no matter how slight, in your opinion. In essence, I took that to mean you felt like it should be going forward. How long did it take you to come to that conclusion?

Mr. LEVI. It took me—I couldn't pinpoint how long it took me to come to that conclusion. I didn't have the same processes——

Mr. WEBER. Did it take you 1,600 days?

Mr. LEVI [continuing]. To go through as the administration.

Mr. WEBER. Did it take you 1,600 days?

Mr. LEVI. It did not.

Mr. WEBER. Okay. Have you thought about maybe hiring out to the administration to advise them?

Mr. LEVI. If you would like to provide a recommendation, I would be happy to pass it along.

Mr. WEBER. Okay. I am just saying, you know, the President was gracious and did come to our Republican Conference yesterday, but he made the statement that this all would simply be sent overseas. And I had a chance to have some one-on-one face time with him, and I reminded him, of course, it came to my district and that it created construction jobs. And it doesn't matter whether you believe the numbers, that it is 2,000 or 20,000 jobs, it is 2,000 jobs or 5,000, or whatever the low estimates are. It is going to provide construction jobs. It is going to provide maintenance jobs. We are going to move a product through a pipeline. It would buy up some property, bought at fair market value, that might otherwise be sitting fallow, so to speak.

It would provide quite a stir in our economy. It would provide operation jobs at the ports. I have ports in my district. It would provide offloading longshoremen jobs, maintenance jobs, operations jobs, harbor and ship maintenance fees when foreign ships came in and docked on our ports.

So, I can't, for the life of me, see how whether it provides 2,000 jobs or 20,000 jobs seems somehow to be a deterrent, No. 1. And, No. 2, is it not true that it is the safest way to transport oil as opposed to rail or truck? The environmentalists were concerned about an oil spill. But if they transport it by rail or by 18-wheeler, there are a lot more accidents that occur. No. 3, to what company would we say, "Just because you have a product that is moving through our United States"—and it doesn't matter whether you are Apple Computer or whether you are Nike tennis shoes or Toyota—"you are going to build or produce or move a product in our country. We don't want you to send it overseas."? That is insanity.

This is a positive impact for my district, for our State, for our country. I think that, without exception—and I am not sure about you, Dr. Wood—but I think all four of you at the table are basically saying you have come to the same conclusion. Do I misspeak?

Thank you. I yield back.

Mr. RADEL. Thank you.

And I would ask if the witnesses could provide any written response to that.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM MICHAEL A. LEVI, PH.D., TO QUESTION ASKED DURING THE HEARING BY THE HONORABLE RANDY K. WEBER SR.

The Keystone XL pipeline would have mixed impacts on the United States. Most would benefit from (very marginally) lower gasoline prices; businesses connected to pipeline construction, and refineries in Texas, would benefit too. Those near the pipeline route (and possibly near some refineries) would be exposed to additional environmental risks; all would also be exposed to (very marginally) higher climate change risks.

Mr. RADEL. The Chair recognizes now Mr. Meeks from New York.

Mr. MEEKS. Thank you, Mr. Chairman.

I happen to be—I don't know how many hours it has been—but I am one that has been on the fence, trying to decide what is the right thing. There are a lot of things that I heard the chairman talk about that I agree with. Generally, when you talk about trade, if you are talking about better relationships, particularly with Canada and Mexico, I think that is extremely important.

Dr. Levi, I was listening intently—well, to all of you witnesses, Dr. Wood, Dr. Isakower, and Mr. Simmons, too, very intently. I came to this hearing because I wanted to learn.

I should say quickly, Dr. Isakower, it is always good to see someone who has a degree from Adelphi University, since I am an Adelphi graduate myself.

But let me just start with Dr. Levi because those issues that you talked about are the issues that have caused me to be trying to decide which way to go, which way to lean, because I have some inclinations. But I wanted to make sure that we have the proper rules in place, et cetera.

For example—I will use this as an example—coming from New York City, and also sitting on the Financial Services Committee, I saw the crash in 2008 and I witnessed potential catastrophe, for the inaction of Congress and all the failures of some of the regulatory bodies to move, et cetera.

And I know that we have got to make sure that we have regulations in place to protect the consumers and the environment, but we have also got to make sure that we are not impeding progress in the private sector because of being overregulated. You know, so we have got to find that balance.

Given your expertise in examining trends in future oil sands, what do you think the future will be for oil sands production, given the current political landscape in Congress, the current global oil prices, and the availability of oil worldwide? And from a safety standpoint, have we properly assessed the safety risk of—and I think the question that the gentleman from Texas, that is something interesting to me—the safety risk of transporting oil through the Keystone pipeline to the other oil properties, because that is a concern? If we have addressed those issues, my inclination is to lean that way. And I appreciate the gentleman's comments because they are important to me.

Mr. LEVI. Thank you, Congressman.

It is important to be looking at these different dimensions at the same time and weighing them. To take your last question first, the State Department has thoroughly studied the local environmental consequences of the different options for transporting oil from Canada to the Gulf of Mexico, whether that is by road, by rail, by pipeline. And they have concluded that pipeline is the safest option.

We can debate fine details forever. What is critical is to have those protections put in place. And my understanding is that a wide range of protections have been implemented or would be implemented, if the pipeline went forward.

At prevailing oil prices, and given current Canadian policy, if there are ways to sell the oil from the oil sands, whether by transporting it to the United States or to the East Coast or West Coast of Canada, we will see substantial growth in the Canadian oil sands, on the order of several million barrels a day, which would require pipeline transport beyond the Keystone XL pipeline.

When you think about the broader challenges of dealing with our economic and security goals and with our climate objectives, what I would urge is that we focus on expanding opportunities on the production side, including by providing sustainable environmental protections, but really focus our climate efforts on how we use energy, on reducing our oil consumption, and shifting to lower carbon energy sources. To me, that is the basic way that we capture the benefits from increased production while still dealing with our broad energy challenges.

Mr. MEEKS. Thank you.

Let me ask, I guess I can't let an Adelphi degree graduate get away without me asking him a question. [Laughter.]

You know, some economists will say, for every $10 increase in the price of a barrel of oil, the U.S. economy slows down by 0.2 percent and potentially eliminates 120,000 jobs. Now, with the increased oil production here in the United States and the existing capacity, how do you see the market dictating the demand for the Keystone pipeline, and how do you see global oil prices changing in the product's viability or helping its viability?

Mr. ISAKOWER. Thank you, Mr. Meeks. And it is good to see another Adelphi graduate.

In terms of global oil price, I can't predict price. No one really can. It is the market that is going to dictate it. However, the Canadian Government has certainly indicated that they are going to produce oil sands crude from Alberta with or without the Keystone XL pipeline. So, this is a project that is going to go forward. And putting additional product on the global market, additional crude on the global market will only have a downward effect on global price.

Mr. MEEKS. Thank you. I yield back.

Mr. RADEL. Thank you, Mr. Meeks.

The Chair now recognizes Mr. Duncan from South Carolina.

Mr. DUNCAN. Thank you, Mr. Chairman.

Let me just touch on Keystone pipeline first. It has been over 1,600 days, we heard earlier, since the first application for Keystone pipeline was submitted. Hopefully, we are going to see some movement. Of course, it has been 1,415 days since the United States Senate has passed a budget for our nation, and we saw them present a budget yesterday, and maybe they will pass a budget. So, there is some hope that we can get a Keystone pipeline approved before it goes too much further.

The former Ambassador to Canada from the United States is a personal friend of mine, the former Speaker of the House in South Carolina, David Wilkins. He has introduced me to a lot of the folks from Canada, not only in the oil sands production, but also in the government. And you are right, Mr. Levi, they are moving forward with production of oil and the oil sands. And that oil is going somewhere. It is either coming here through the Keystone pipeline to provide the jobs in Texas and Oklahoma in the refineries, where we have the capacity, or it is going west and it is going to the Pacific Ocean, it is put on boats and it is going to China to be refined. It is going to be refined somewhere.

We need an all-American energy security solution in this country that includes Canada and it includes Mexico, allies and friends. It is time for the Keystone pipeline. And so, I urge the administration to move forward with that, and let's put those guys in Texas back to work in the refineries where the capacity is available.

I want to shift gears to Mexico real quick and just say that Secretary Salazar spoke on April 24th, 2012 in his now infamous "do something" speech. And he said, he listed three things that Congress should do, but he said this: "We are working"—and this is a quote—"We are working with the Congress on legislation needed to implement an agreement reached with Mexico to open trans-boundary oil and gas reservoirs for development." Really? You are working with Congress?

I sit on the Natural Resources Committee. I am on the Energy and Minerals Subcommittee on Natural Resources. For the past year and a half, the Committee on Natural Resources has repeatedly requested the Interior to send over draft implementation language for the U.S.-Mexico Trans-Boundary Agreement, and we haven't seen that yet. It is going to come through the committee. I would have intimate knowledge of whether we voted on something to send to the Floor to approve that language. Send it over. Let's get started with this, and let's deal with this issue.

The question I have—and I would just like to ask the panel as a whole—considering that it has been nearly a year and a half since the administration signed the agreement, don't you believe that it is adequate time for them to have reviewed the agreement, submit to Congress any enacting legislation necessary to implement it? And I will start with Dr. Wood.

Mr. WOOD. I agree 100 percent. It is absolutely time. Any further delay I think is risky. It also sends exactly the wrong message. There is very, very important work that could be happening right now, not just in terms of getting the production process going, but in terms of regulatory cooperation, which is one of the issues that brings to mind a nightmare scenario where you get deepwater exploration in the border region there, and the Mexican regulators don't really know how to control what is going on in E&P and we get another kind of a major leak that they wouldn't know how to handle. That is one of the aspects of the Trans-Boundary Agreement which is very, very important and which we need to work on.

Mr. DUNCAN. Well, let me just expand on that. Other than the opposition of this administration to oil and gas development, why wouldn't they have submitted the agreement to Congress? What do you think? Policies? Politics?

Mr. WOOD. My own interpretation is that—and I have heard encouraging words from the administration throughout the lifetime of this agreement—my feeling is that last year was a complicated year in terms of politics, but there were a lot of other issues. And I understand that there were discussions at the end of the year.

Mr. DUNCAN. I have heard a lot of encouraging words——

Mr. WOOD. Yes.

Mr. DUNCAN [continuing]. Out of this administration on a lot of fronts, and they talk a good game.

Mr. WOOD. Yes.

Mr. DUNCAN. But there is more to governing than talking, and it is walking the walk. And so, I want to see some action out of this administration.

My time is limited here, but I want to just make a note to the committee here that the U.S. Energy Information Administration put out a report, and this was "The Annual Energy Review of 2011." And it says, "Energy consumption per capita in the United States." The graph shows 1949 to 2011, but I want to move forward to about, what it looks like, 1988–89. From that point until now, the graph is fairly flat. Actually, it decreases on the latter years; you are exactly right. So, it did go down.

So, the energy consumption in this country is actually down, but the energy expenditures per capita, what we as Americans are paying for energy, has gone up—maybe they can see that on TV; it goes up like this; it is a true hockey stick—for what it is costing Americans to meet their energy needs. That is not only to heat their home and cool their homes, but that is also gasoline prices.

When the administration took over, gasoline price was what, $1.86, $1.87 a gallon? Diesel fuel is what I buy. It is $4.00 a gallon in South Carolina, $4.00 a gallon for diesel fuel. Can you imagine that those costs are transferred down to the consumer because the 18-wheelers are paying $4.00 a gallon for diesel fuel?

It is time to approve a Keystone pipeline, a Trans-Boundary Agreement, and let's have truly all American energy security dealing with our neighbors to the north and our neighbors to the south.

Thank you for the leeway, Mr. Chairman.

Mr. RADEL. Thank you, Mr. Duncan.

The Chair now recognizes, and this is my first time saying this outloud, Mr. Faleomavaega from American Samoa.

Mr. FALEOMAVAEGA. Actually, Mr. Chairman, I thought you were going to call me John Wayne, but that is all right. [Laughter.]

Thank you very much, Mr. Chairman.

I want to offer my apologies. I missed the actual testimony of my good friend and colleague, Congressman Terry from Nebraska, who was here earlier.

And I do want to thank the members of the panel for their excellent testimonies this morning.

I think, based on the testimonies, we have come to realize how important this issue is in providing jobs, creating stronger relations between our country and Mexico and Canada, lessening our dependence on foreign oil reserves, and creating opportunities for cleaner energy development an overall boost in our economy, to name a few.

But I have to share with my colleagues, and maybe the members of the panel could help me with this, a question that is perhaps rarely asked. What impact does this have on the indigenous peoples who reside in the geographical areas that will be affected by these two monumental projects? Allow me to highlight a few points.

The existing Keystone pipeline is located within 50 kilometers of over 150 indigenous communities in Canada. Trans-Canada Corporation has facilities on a dozen First Nations reserves. Over 100 miles of the pipeline passes through Native American reservations. Many Native Americans and indigenous Canadians are opposed to the Keystone pipeline project for various reasons, including possible damage to sacred sites, pollution, and water contamination which could lead to health risks among their communities.

Indigenous communities are also concerned with health risks passed by the extension of the Keystone pipeline project. Locally-caught fish and untreated surface water, which would be at risk for contamination through tar sand oil production, are central to the diets of many indigenous communities.

While the list goes on with regard to these two monumental projects, as I said earlier, only within the last 2 weeks I have received requests for support from leaders of two of the largest indigenous groups in Guatemala, who have appealed to the Inter-American Commission on Human Rights for the protection of their tribal lands from encroachment of clean energy advocates.

The difference between Mexico and Guatemala is just geography. The similarity is in the trend—that indigenous rights are constantly being pushed aside for the increased expansion and benefit of our modern society, at the expense—at the expense—of the lives of these indigenous communities.

And I would like to ask for your comments on this. Anybody?

Mr. LEVI. You raise an important set of challenges. We have national energy goals that require changes in infrastructure. And you aptly point out that, whether you are focused on oil and gas development or clean energy development, change in our system requires construction, and that creates challenges for different communities.

I would argue that when it comes to the Keystone XL pipeline, we should focus on those aspects of that challenge that are within the United States. This is an issue that is thoroughly debated in Canada, in Alberta, and in the affected communities. We have our fair share of challenges, and I would urge us to focus on those.

Mr. FALEOMAVAEGA. And I want to make it clear, I cannot be a greater advocate and supporter of what my colleague, Mr. Weber, has said, in providing jobs in Port Arthur, Texas, and an economic benefit to the American people.

But, on the other side of the coin, have we taken into consideration the problems affecting the rights of tribal communities who may be affected by this?

Mr. Simmons?

Mr. SIMMONS. One quick note. The issue of energy is one that is very important, obviously, on reservations around the country. And it is one more reminder that at times the Federal Government has not ceded enough authority to the reservations. It happened in North Dakota with some of the leasing that occurred there, where the leasing was leased at a very low rate.

And it is the issue of the pipeline, the issue of energy in general is just one more example of how aboriginal Americans need to have a greater right to control their own lands than they currently have.

Mr. FALEOMAVAEGA. Mr. Isakower?

Mr. ISAKOWER. Yes, I would second. You identified the greater economic opportunity that is available to indigenous peoples, both in Canada and Mexico, as a result of energy development. But I would also note that the Canadian Government has continually increased and upgraded its regulation, its environmental regulations, regarding development of its oil sands. So, I know that the environmental protections there are increasing.

I would also note that in Mexico, with Pemex operating in joint ventures with IOCs, the IOCs operate with U.S.-based standards. And those standards would actually increase, again, the environmental protections and the safeguards that the industry would operate in in Mexico.

Mr. FALEOMAVAEGA. I think my time is just about up. I had 100 more questions to ask, Mr. Chairman, but, unfortunately, there isn't enough time.

I do want to thank our witnesses for their fine testimony.

Thank you, Mr. Chairman.

Mr. DUNCAN [presiding]. You are welcome. Thanks, Mr. Faleomavaega.

Well, okay, gentlemen, that concludes the hearing today. I will thank each of you for coming. Your remarks were—oh, Ms. Jackson Lee has shown up. So, we will hold off on that, and the Chair will now recognize Ms. Jackson Lee from Texas.

Ms. JACKSON LEE. The chairman and the ranking member are enormously gracious. I just came from a Judiciary Committee hearing. So, please accept the fact that I did not delay because of lack of interest.

And I guess it is clear that they pointed me out as someone from Texas who has had a longstanding relationship, just by a geographical relationship to the State, from Mexico.

So, let me just ask some broad questions, because of the courtesies of the chairman and the ranking member, to talk about where we are.

We just had a discussion earlier about some of the assets that Venezuela, for example, has in contrast to some of our resources and allies and friends in the Mid-East. I would like to project, we have a difficult dilemma in the United States in accepting the "all of the above" energy policy with respect to real serious issues. I cede the point that the environment is extremely important. I am always convinced that we must have a balance. Mexico has, likewise, had concerns with the environment in the production of fossil fuel.

My question is that we know that it is a job-creator. It is an economy booster. If I can ask each of you, so that I can have a generic question—one, let me say to my good friends that we are introducing the 21st Century Energy Caucus that we hope will be a forum for these kinds of discussions where people of like minds and those who disagree come and focus on the economic engine of energy.

And so, from a diplomatic perspective, what can we do together to make energy in the 21st century, one, an energy booster for the most vulnerable? You see that in Mexico. But, two, how do we collectively work, when we talk about the Keystone pipeline, to balance energy with the environment? What should we be saying, because it is a diplomatic question on both sides of our border? We have activists and interested that are rightly so on both sides of the border.

I will start with you, Dr. Levi, I guess, and go forward. And again, I thank my colleagues for their courtesy.

Mr. LEVI. Thank you, Congresswoman.

What I would argue is that we need something a bit more like a "most of the above" energy strategy. A "most of the above" energy strategy. Not every energy development is good for us, but we do have opportunities across the board. We need to take advantage of those while protecting the local environment, dealing with our oil dependence, and confronting climate change.

And the best way to do that is to expand opportunities to produce energy while having good local protections, but, then, really focusing on how we use energy in order to tackle our oil dependence and the risk from climate change. So, that is roughly how I would separate it. It is not always clean, and you need to make decisions on individual issues, but pushing forward on both fronts at the same time, and weeding out the really dangerous developments, I think allows us to take advantage of as wide a range of opportunities as possible.

Ms. JACKSON LEE. So, not be afraid of confronting the conflict?

Mr. LEVI. What I would say is not every single development has to be good for everything. What we need is a package of developments, a suite of developments, that on the whole help us on the economy, on security, on the environment. If we expect every little aspect of every project to help on all fronts, we will end up doing very little on any of them.

Ms. JACKSON LEE. Thank you.

Sir?

Mr. ISAKOWER. I do think that the "all of the above" strategy is the correct approach. Obviously, we need to balance our energy needs with our environmental protections. The fact of the matter is, globally and within this country, our energy needs are going to continue to increase as the population grows, and we are going to need all forms of energy going forward.

The growth in renewables, while much of that investment is actually coming from my industry, the oil and gas industry, the growth in renewables overall is not going to be enough to displace the traditional forms of energy. Therefore, we need to continue to utilize the traditional forms of energy like oil, gas, et cetera, do so in a responsible manner. And again, we believe that the oil sands in Canada, as well as energy production in Mexico, can be done in a responsible manner. Obviously, we are doing so here in the United States. We need to continue to develop resources in a responsible manner to meet our energy needs.

Ms. JACKSON LEE. Thank you.

Mr. Simmons?

Mr. SIMMONS. Affordable, reliable energy is critical. The poorest among us spend the most of their limited resources on energy. Therefore, for me, one of the most important things is that we have affordable energy for all, and low-cost energy. If we look at what the hydraulic-fracturing revolution has done, it means that now the U.S. has some of the lowest natural gas prices in the world. Sure, that is nice for, it is great for industry that uses a lot of natural gas to produce things. That produces jobs. But it also means that, for consumers, that we have lower natural gas prices. And that is fantastic news for everyone, and that I believe needs to continue.

And one little piece of also good news is that over the past, since 1970, we have almost doubled our use of oil, coal, and natural gas combined, and total pollution emissions have decreased by nearly 70 percent. So, we have used more of these resources. At the same time, our environment is getting cleaner, and that is great news.

Ms. JACKSON LEE. Thank you.

Mr. WOOD. Thank you.

Three very, very quick things. First of all, there is an active discussion between the United States and Mexico on questions of energy efficiency. Mexico has been committed to an energy efficiency agenda over the past 6 years. It is very important that that conversation continues. And I believe the United States and Mexico have a lot to talk about on that. There are positive experiences here that can be shared with Mexico, and vice versa.

Secondly, on the question of renewable energy, there is a region of northern Baja, California called La Rumorosa, which has a huge potential for developing wind energy. That is not happening at the moment because we haven't been able to move forward on the question of cross-border transmission in that area. That energy has a natural marketplace in California to meet their RPS requirements. We can't move ahead until actually the cross-border transmission question is resolved, and that is something that has to take place between the two Federal Governments. That is a priority from my point of view.

And thirdly, I would say, we are looking here at the integration of energy markets in the North American region. Integrating energy markets, which means building infrastructure, pipelines, transmission lines, et cetera, is a crucial element. If you think about, in particular, with regards to shale gas or to natural gas, natural gas being a cleaner fuel, one that can dramatically reduce emissions in the short-term, that is something that we have to work a lot on, to get more natural gas into countries like Mexico, to help them, in turn, to build up their own natural gas production, so that they begin to reduce their emissions as they go through the development process.

Ms. JACKSON LEE. Let me thank you, Mr. Chairman. If I could just say one point, and I will yield back, and I thank you for your courtesies.

First of all, these were excellent answers. I think I am going to pull the transcript, so I can reread them. I don't think we should run away from environmental concerns. I think we should jump right into it, jump right into climate change, and find that balance.

But this is a personnel manner, very quickly, because of your work within the American Petroleum Institute. I ask you to take this back. I ask you to join me in the roundtable discussions. This happens to be Foreign Affairs, and this is an important hearing on the Keystone pipeline. It impacts Texas and other areas in the U.S.-Mexico Trans-Boundary Hydrocarbons Agreement.

But, Mr. Chairman, I think it also is a jobs question as well. And so, if you can just give a quick answer. One of your deficiencies is the level of diversity of your personnel and the lack of partnership with minority companies. Does the industry see, as you grow and we find more supporters of all the above or most of the above, that you will have to diversify and reach out to Hispanic, historically-Black, and redo your workforce? One, you will have to build up a workforce because you are losing senior leaders who are retiring and diversify more. What are you doing about that?

Mr. ISAKOWER. That is a very interesting question because we actually have just initiated an effort reaching out with communities of color, with a number of organizations from communities of color, looking at the opportunities for minority employment within the oil and gas industry.

I would be happy offline to discuss what we are doing with you and look at a path forward.

Ms. JACKSON LEE. I think, with that very genuine offer, let me accept it publicly, and I would like to work with you. I would like to think that Members of Congress should be included who have this great interest in an organization that is an institute——

Mr. DUNCAN. The gentlelady's time has expired.

Ms. JACKSON LEE. And I thank the gentleman. So, let me thank the chairman. And thank you for the offer. And I look forward to working with you, Mr. Chairman. You have been very courteous. Thank you.

Mr. DUNCAN. Yes, ma'am. You were the last one.

And it has been a great hearing. I want to just say that this hearing has highlighted a number of opportunities of the Trans-Boundary Hydrocarbons Agreement. I think you have heard members express frustration with the administration's delay in choosing to ratify this process.

Also, we heard today that we have got tremendous opportunity and the importance of a bilateral agreement with our neighbors to the north in Canada for the Keystone pipeline, 1,600 days since the application was submitted, the number of jobs that could be created in states like Texas and Oklahoma as well as the significance of U.S. and North American energy security.

So, I want to thank you, the witnesses, and all the committee members for their participation here today.

I know that any comments that the committee wants to make can be submitted to the record.

And with that, we will just stand adjourned. Thank you.

[Whereupon, at 11:09 a.m., the subcommittee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Subcommittee on the Western Hemisphere
Matt Salmon (R-AZ), Chairman

March 11, 2013

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs to be held by the Subcommittee on the Western Hemisphere in Room 2172 of the Rayburn House Office Building (and available on the Committee website at www.foreignaffairs.house.gov):

DATE: Thursday, March 14, 2013

TIME: 9:30 a.m.

SUBJECT: U.S. Energy Security: Enhancing Partnerships with Mexico and Canada

WITNESSES:

Panel I
The Honorable Lee Terry
Member of Congress

Panel II
Duncan Wood, Ph.D.
Director
Mexico Institute
Wilson Center

Mr. Daniel R. Simmons
Director of Regulatory and State Affairs
Institute for Energy Research

Mr. Kyle Isakower
Vice President, Regulatory and Economic Policy
American Petroleum Institute

Michael A. Levi, Ph.D.
Senior Fellow for Energy and the Environment, and
Director of the Program on Energy Security and Climate Change
Council on Foreign Relations

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON *The Western Hemisphere* HEARING

Day *Thursday* **Date** *03-14-2013* **Room** *2172 RHOB*

Starting Time *9:30 a.m.* **Ending Time** *11:21 a.m.*

Recesses ___ (___ to ___) (___ to ___) (___ to ___) (___ to ___) (___ to ___) (___ to ___)

Presiding Member(s)

Chairman Salmon, Rep. Duncan, Rep. Radel.

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
Televised ☑

Electronically Recorded (taped) ☑
Stenographic Record ☑

TITLE OF HEARING:

"U.S. Energy Security: Enhancing Partnerships with Mexico and Canada"

SUBCOMMITTEE MEMBERS PRESENT:

Chairman Salmon, Rep. Smith, Rep. Duncan, Rep. DeSantis, Rep. Radel, Ranking Member Sires, Rep. Meeks, and Rep. Faleomavaega.

NON-SUBCOMMITTEE MEMBERS PRESENT: *(Mark with an * if they are not members of full committee.)*

Chairman Royce, Rep. Rohrabacher, Rep Weber, and *Rep. Jackson Lee.

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ **No** ☐
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

Rep. Weber - QFR.

TIME SCHEDULED TO RECONVENE ________
or
TIME ADJOURNED *11:21 a.m.*

Mark A. Walker
Subcommittee Staff Director

MATERIAL SUBMITTED FOR THE RECORD BY THE HONORABLE MATT SALMON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA, AND CHAIRMAN, SUBCOMMITTEE ON THE WESTERN HEMISPHERE

COUNCIL OF THE Americas

TESTIMONY FOR THE RECORD
BEFORE THE HOUSE COMMITTEE ON FOREIGN AFFAIRS
SUBCOMMITTEE ON THE WESTERN HEMISPHERE
HEARING ON U.S. ENERGY SECURITY:
ENHANCING PARTERSHIPS WITH MEXICO AND CANADA
MARCH 14, 2013

The Council of the Americas ("Council") appreciates the opportunity to provide testimony to the House Committee on Foreign Affairs regarding energy security and partnerships with Mexico and Canada. For almost 50 years, the Council has been a leading voice for the private sector in the Americas. Our members include over 200 prominent companies invested and doing business in the Western Hemisphere, with a mandate to promote policy and commercial partnership in the Americas based on democracy, open markets, and rule of law.

Since 2004, the Council has led an Energy Action Group, a leading public-private dialogue focusing on the strategic issues at the heart of hemispheric energy issues, while providing recommendations to policymakers on the Western Hemisphere energy agenda.

North American Energy Integration is Vital for U.S. Energy Security

Energy security is vitally important for the United States. As the world's largest energy user, our needs will increase as our economy and population grow. The shale gas boom has led to a large increase in domestic energy production, with predictions of the United States becoming the world's largest oil producer by 2017 and becoming energy self-sufficient by 2035. Nonetheless, until this time, we will continue to be energy interdependent.

Reducing the reliance of energy from unstable and often hostile nations and regions such as Venezuela and the Middle East can be achieved by looking at neighbors and partners – especially Canada and Mexico. While close relationships with these North American Free Trade Agreement (NAFTA) countries already exist, there are further points of emphasis that can be addressed to deepen these relationships and bolster U.S. energy security.

Canada and the United States already share the closest energy relationship in the world. Canada is the leading and most secure, reliable, and competitive energy supplier to the United States. In 2011, 90 percent of Canada's $120 billion of energy exports were sent to the United States, including crude oil, refined petroleum products, natural gas, electricity, coal and uranium. Canada's oil exports to the United States represent 25% of total imports and this number could increase as the oil sands region of Alberta continues to develop. Approval of the Keystone XL pipeline would buoy U.S. energy security.

Mexico is also a close partner of the United States, and the relationship continues to evolve. Mexico is the fourth largest exporter of crude oil to the United States behind Canada, Venezuela, and Saudi

Arabia, with nearly 1 million barrels per day being exported. Moreover, both countries are interdependent in terms of energy exports, as the United States is the most important source of natural gas to Mexico. U.S. natural gas exports to Mexico grew by 24 percent to 1.7 billion cubic feet per day (Bcf/d), the highest level since data began being collected in 1973. Furthermore, imports account for over 30% of its total supply – and Mexico's natural gas use is at its highest level ever. Mexico also has the possibility of a shale gas boom, but it needs foreign investment to extract these resources. The country is currently discussing potential energy reforms, which are a domestic issue for Mexico to resolve, but are being closely watched by analysts as they could lead to increased foreign investment and production.

The Trans-Border Hydrocarbons Agreement (TBHA) also represents an opportunity for meaningful energy engagement between the United States and Mexico. The TBHA was signed in early 2012, and it would end the current moratorium on oil exploration and production in the Western Gap of the Gulf of Mexico. It should be considered and implemented in a timely manner.

Interdependencies are present in both the United States-Canada and United States-Mexico relationships. Deepening these relationships while at the same time developing domestic sources of energy will lead to greater energy security for the United States, and they are a win-win for North America. Energy trade is as important as any other product when considering trade liberalization. The United States would be well served to continue deepening its ties with its two bordering allies.

North American Energy Integration is Vital for North America's Competitiveness

In its nearly 20 years of existence, NAFTA has helped its members build economic growth and rising prosperity. However, North America now faces the rapid emergence of nations such as China and India in a manner that could not have been predicted accurately when NAFTA was first approved. For North America to remain competitive, the three countries should use trade negotiations such as the Trans Pacific Partnership (TPP) and potentially the Transatlantic Trade and Investment Partnership (TTIP) with the European Union (EU) as a means to consolidate regional competitiveness and growth.

The price of energy directly influences the competitive nature of value chains in North America. At the same time, because energy is a significant input into manufacturing, high energy costs directly influence the competitiveness of export-ready products made in North America for the global marketplace. Therefore, it makes sense to carry out actions that reduce the costs of energy, because this immediately bolsters supply chains from Yukon to the Yucatan. This goal can be achieved with more efficient energy integration, which reduces costs and increases competitiveness across borders.

Several recommendations flow from this analysis. First, it is evident that maintenance of a secure energy supply from foreign sources is a strategic matter for the United States, and energy in North America must therefore be a priority. Increasing partnership in North American energy matters must be an important part of our overall approach, not an afterthought or taken for granted. A balanced, engaged approach is needed.

Second, because of global circumstances, competitiveness is a key issue facing North America. High energy costs such as petroleum or electricity generation impact all energy users, affecting North America's competitiveness, which has repercussions across the value chain. Likewise, investment climates that are less competitive than other regions will not attract the investment required to develop energy resources or the broader economy. Despite sitting on significant reserves, Mexico is a net importer of natural gas and has been since 2000. This directly impacts Mexican, and therefore North American competitiveness, at a time when competition from China continues to grow.

Finally, as the energy supply in North America continues to expand, excess energy will seek new markets. Surplus energy exists in all three countries of North America. Canada and Mexico export crude oil to the United States, while the United States exports natural gas to Canada and Mexico. The symbiosis of energy exports within North America demonstrates that the patterns of production and distribution will be strengthened with greater integration among the three countries. Therefore, export channels would benefit from reducing barriers to produce and sell energy across borders.

This issue comes to the forefront when considering North American energy exports to global markets. In particular, exporting natural gas from the United States to the Caribbean Basin represents a key opportunity to supply the micro-states of the Caribbean with much needed clean and cost-effective energy supplies. Currently, the United States is restricted to exporting natural gas to its free trade partners, including Central America and the Dominican Republic, under the Central American Free Trade Agreement (CAFTA). On both economic and foreign policy grounds, the United States should activity pursue an energy strategy for the Caribbean Basin that builds off a more integrated and efficient North American energy strategy.

Once again, the Council of the Americas appreciates the opportunity to provide testimony on this critical matter before the House Committee on Foreign Affairs and stands ready to assist Committee Members as they further investigate these issues.