ASSESSING ENERGY PRIORITIES IN THE MIDDLE EAST AND NORTH AFRICA

HEARING

BEFORE THE

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THE MIDDLE EAST AND NORTH AFRICA

OF THE

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CONTENTS

ASSESSING ENERGY PRIORITIES IN THE MIDDLE EAST AND NORTH AFRICA

WEDNESDAY, JUNE 11, 2014

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE MIDDLE EAST AND NORTH AFRICA,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2172, Rayburn House Office Building, Hon. Ileana Ros-Lehtinen (chairman of the subcommittee) presiding.

Ms. ROS-LEHTINEN. The subcommittee will come to order. Thank you to all of you for being here, and thank you to our audience, and thank you to our witness for being here. I know that you are alone right now, but we hope you won't be for long.

So the subcommittee will come to order. After recognizing myself and Ranking Member Deutch for 5 minutes each for our opening statements, I will therein recognize other members seeking recognition for 1 minute. We will then hear from our witnesses. And without objection, the witnesses' prepared statements will be made a part of the record, and members may have 5 days to insert statements and questions for the record subject to the length limitation in the rules.

The Chair now recognizes herself for 5 minutes.

The Middle East and North Africa region produces over 35 percent of the world's oil supply and over 20 percent of the global natural gas production. We know that energy resources are vital for the region, and as such, they play an important role in the shaping of the geopolitical landscape that impacts our foreign policy.

We also know that the Middle East and North Africa is one of the world's most volatile regions, prone to unrest, instability, political upheaval, and conflict. In Libya, we saw armed groups occupying many of the strategically important oil fields and export terminals for nearly a year until a partial agreement was reached in April. And in Iraq, we have only recently begun to see that country tap the potential of its proven oil reserves, which is the source of 90 percent of its budget. But now that Iraq's second-largest city, Mosul, fell this week to al-Qaeda-affiliated Islamic State of Iraq and the Levant, ISIL, and the increased deterioration of the security situation in that country, there is no telling what the future has in store for its energy sector.

But that just highlights the problem. Most of these countries rely heavily on the sale of oil or gas as their main driver for their economies, and anything that upsets the delicate balance can be extremely detrimental to their economic outlook and has the potential to upend the global energy market.

Then of course we have the recent discoveries of large natural gas fields off the coast of Israel. This has huge implications for our friend and democratic ally, the Jewish state of Israel, because seemingly overnight Israel has gone from energy dependent on some unreliable partners to now commanding a large sum of natural gas that can transform its relations with its neighbors.

The instability in Egypt over the last few years, coupled with the large energy subsidies provided to Egyptians, has seen overconsumption in Egypt and has harmed its energy outlook. Both Israel and Jordan had been reliant on gas from Egypt, but now that Israel has the potential to export large sums of gas that Jordan needs, this could be an opportunity for those nations to strengthen their ties.

Israel's potential could also transform its relationship with Egypt and other Middle Eastern countries as they look for regional solutions to their energy needs. Yet Israel's natural gas boon hasn't just affected its relationship in the Middle East and North Africa region, it has also seen a promising and expanding relationship with Greece and Cyprus. The recent discoveries of large hydrocarbons in the Eastern Mediterranean has helped forge an emerging and strategic relationship between these three countries, and this relationship has the potential to completely alter the political, economic, and security situation in the region. Their cooperation has the potential to increase the global supply of energy from friendly, more stable nations, and reduce the world's dependence on some of these rogue regimes.

And by rogue regimes, we mean always Iran. Under this week's nuclear deal, the administration eased the sanctions on the regime and effectively allowed it to breathe life back into its faltering economy. The Iranian economy is dependent on its oil sales, and Congress had implemented a strong sanctions program, including several bills that I authored that imposed the strictest sanctions on Iran in an effort to get Iran to curb its illicit nuclear program.

According to the JPOA, Iran must not exceed 1 million barrels a day on average for the 6-month term. News reports have suggested that Iran is surpassing this threshold, and if this pace continues, Iran will be in violation of the terms of the agreement. Even if that happens because we eased the sanctions, it will not be easy. In fact, it will be nearly impossible to reinstitute sanctions. Once the genie is out of the bottle on sanctions in Iran, that is it.

The Foreign Affairs Committee held a hearing yesterday on Iran, and one of the major takeaways was that the interim deal and any subsequent deal rely heavily on monitoring and verification. Well, we do have the tools to monitor and verify how much Iran is exporting, yet we don't seem to be doing anything to respond to the violation of the terms. I hope that we can get an explanation on this today, as well as hearing how U.S. policy is adjusting to the changing landscape of the Middle East and North Africa's energy sector, especially now that developments in the U.S. have seen us move from energy dependence to potentially becoming a net energy exporter. The implications are far reaching and quickly shifting, but are our foreign policy objectives adjusting appropriately? We will find out today.

And with that, I will turn to my good friend, the ranking member of our subcommittee, Mr. Deutch of Florida.

Mr. DEUTCH. Thank you, Madam Chairman.

And thanks, Deputy Assistant Secretary Hochstein, for appearing today.

For decades oil was synonymous with the Middle East. Energy resources and needs have long had a significant impact on the state of play in the region. According to OPEC, its member countries control 81 percent of the world's proven oil reserves, with 66 percent of that coming from the Middle East. But developments over the past several years have dramatically altered the world's energy supply.

For many years, critics of American foreign policy accused the United States of being beholden to certain Middle East oil producers because of our reliance on imports for our energy needs. The discovery of significant energy finds here in our own country have set us on the course toward energy independence. The International Energy Agency predicts the U.S. will be oil independent by 2035.

Within the Middle East things on the energy front look quite different than they did 10 or even 5 years ago. Iraq's oil production, dramatically reduced during the Iraq war, has surged, bringing Iraq back up to the number two OPEC producer. Iran's oil output, dramatically impacted by economic sanctions aimed to cut off the financial lifeline of the regime, has been cut by over 60 percent. Iran is now exporting less than 1 million barrels per day with only 6 buyers left on the market for Iranian oil, all of which are pledged to continue to significantly reduce their purchases in order avoid U.S. sanctions. Compare that with the 3.6 million barrels per day that Iraq produced in March.

To help offset the reduction in Iranian oil, Saudi Arabia has increased its production, pledging to make up the difference to avoid a shock to oil prices. The Saudis sit on one-quarter of the world's oil reserves and produce roughly 8 billion barrels per day. We hope to see a return to prewar levels in Libya's output, yet continued fighting and instability has production levels at 10 percent of capacity.

In a stunning development, Israel, long dependent on imports, has found itself sitting on a tremendous amount of hydrocarbons. For years, Israel received most of its gas from the Egyptian pipeline in the Sinai. As a result of the turmoil in Egypt, the pipeline has been attacked 15 times since 2011. The finds in the Tamar and Leviathan offshore fields now stand to make Israel energy independent within 20 years.

Last year, the Israeli Government voted to mark 40 percent of Israel's gas lines for export. Now, it is Israel that finds itself in the position of being the supplier to its more vulnerable neighbors. Israel and Jordan recently signed a deal for Jordan to receive $500 million worth of gas over 15 years from the Tamar field, which started producing last year. Jordan has faced a serious energy crisis, compounded by the state of affairs in its biggest supplier, Egypt, and the increased strain placed on resources by the influx of over 600,000 Syrian refugees. Jordan is set to begin receiving Israeli gas in 2016. The Leviathan field, which has yet to come on line, is said to be twice as big as Tamar.

Now, the million-dollar question is, where will the Israeli gas go? Increased cooperation in the Eastern Mediterranean has made both Cyprus and Turkey attractive and logical destinations to reach the European market. Cyprus has announced its intent to build an LNG terminal, while an undersea pipeline to Turkey could prove cost-effective. The tensions between Israel and Turkey and the longstanding dispute between Cyprus and Turkey has made cooperation in the Eastern Mediterranean challenging. One wonders whether the desperate need for energy could help bridge some these gaps.

U.S. based Noble Energy, the developer of the Tamar field, recently announced its intention to partner with a Spanish-owned LNG plant in Egypt. The 15-year deal is reportedly worth $1.3 billion and would go a long way to meeting Egypt's growing energy needs. According to a recent report by Simon Henderson of the Washington Institute for Near East Policy, the likely route of a pipeline to Egypt from the Tamar field, located 50 miles out to sea from the northern Israeli Port of Haifa, will be on the Mediterranean seabed, making it almost impervious to attack. While Israel has a peace treaty and diplomatic relations with both Egypt and Jordan, this relationship would be nearly unprecedented.

All of this, of course, begs the broader question. Do the geopolitical implications of the world's growing energy needs have the potential to continue to alter relationships in the Middle East?

Finally, I know that you have been actively engaged in resolving the maritime border dispute between Israel and Lebanon. I hope that you can provide us with an update as to how things are progressing. Deputy Assistant Secretary Hochstein, we look forward to hearing from you today to shed light into the current state of affairs and what we might expect in the months and years ahead.

And I yield back.

Ms. ROS-LEHTINEN. Thank you very much, Mr. Deutch.

Mr. Chabot of Ohio, our subcommittee chairman, is recognized.

Mr. CHABOT. Thank you, Madam Chair, for holding this important hearing this morning.

Political unrest and unstable energy supplies in the Middle East and North Africa will have a serious impact global energy markets. This is only intensified by an enormous growing demand for energy in Asia—and I, of course, chair the Asia and the Pacific Subcommittee—and an uncertain supply of energy in Europe. I hope this hearing will address the changing energy sector in the Middle East and its effect on U.S. policy in the region.

Unfortunately, I have another hearing, in Judiciary. I know it. It started at the same time. We have oversight over the FBI. So I need to go over there, too. So in case I don't get back to ask questions, if the panel could address a couple of things.

One, I am particularly interested in how the administration plans to improve Iraq's reliability in the production of oil, especially with some of the political instability going on there.

Secondly, what progress has been made in resolving the maritime disputes between Lebanon and Israel and the energy claims in the East Mediterranean.

And thirdly, Iran is limited to a million barrels of production of oil a day under the Joint Plan of Action. They are producing 1.3. What countries are exceeding those limits, and what, if anything, do we plan to do about that?

Thank you, Madam Chair.

Ms. ROS-LEHTINEN. Thank you, Mr. Chabot.

Mr. Connolly is recognized.

Mr. CONNOLLY. Thank you, Madam Chairman.

And welcome, Mr. Hochstein.

Three things in particular strike me about this topic that I hope you will address. One is I hope you will put to bed the issue of our Iranian sanctions. Some of the President's critics are a little bit free and loose with implying or outright stating that the sanctions have been loosened to the point where obviously Iran can become a major supplier again. I believe that is not true, but I am looking forward, Mr. Hochstein, to a declarative statement with respect to that.

Secondly, the shift going on here in the United States toward energy independence, really, we are going to rival Saudi Arabia as a producer, what impact does that have on the region? How does that change U.S. foreign policy from being dependent on Middle East oil to now being a net exporter potentially ourselves.

And thirdly, what are we doing to help our allies identify alternative supplies and suppliers? You look at Turkey, 65 percent of its crude oil comes from three countries, Iran, Iraq, and Saudi Arabia; 74 percent of its natural gas comes from Russia and Iran. How are we helping allies like Turkey look toward alternative sourcing for political stability purposes?

Thank you, Madam chairman.

Ms. ROS-LEHTINEN. Thank you, Mr. Connolly.

And, Dr. Yoho, would you like to make an opening statement?

Mr. YOHO. No, ma'am, I would just like to hear the witness. Thank you.

Ms. ROS-LEHTINEN. Thank you. Like you said, let's go. Thank you. And we are so pleased to—oh, Mr. Kennedy, Mr. Kennedy, we are so pleased to yield the floor to Mr. Kennedy.

Mr. KENNEDY. Sorry. Thank you, Madam Chair.

Thank you to the witness. It is great to see you again. Just quick three points that if you can touch on, great, and if not, I will follow up in the questions. New York Times piece today, just this morning coming out about insurgency in Syria has gone over and seized towns—Mosul—in northern Iraq, major oil pipeline and gas pipeline that is close to that city. I am wondering if we could get your thoughts on that and, to the extent that you can, comment about the continued instability in that region. So first.

Second, to the extent that you can touch on the President's executive order and the new EPA guidelines that have come out and what that means in terms of some of the strategic importance of these sources.

And then third—and I know this is a kind of a bigger topic—but you have heard from comments from some of my colleagues, if I can, from the Middle East looking westward. What other countries are looking to tap some of these countries as suppliers? What is China's influence here, in reaction to obviously the big gas deal signed between Russia and China? How active is China playing in the region as well? Thank you.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Kennedy.

And we are pleased to welcome our witness, Mr. Amos Hochstein, who is the Deputy Assistant Secretary for Energy Diplomacy at the Department of State. In this role, he oversees the Office of Middle East and Asia and issues related to energy and security. Mr. Hochstein has had extensive experience in energy policy in various high level positions, including for senior Members of Congress, and as a senior policy advisor in the House Foreign Affairs Committee.

Welcome back, Amos. Thank you for being with us. And your prepared statement will be made a part of the record. Feel free to summarize.

STATEMENT OF MR. AMOS J. HOCHSTEIN, DEPUTY ASSISTANT SECRETARY FOR ENERGY DIPLOMACY, BUREAU OF ENERGY RESOURCES, U.S. DEPARTMENT OF STATE

Mr. HOCHSTEIN. Thank you, Madam Chair and Ranking Member Deutch and members of the subcommittee. Thank you for the opportunity to testify before you today. It is an honor and a privilege to appear before you not only because the issues of energy, as you all articulated, in the Middle East are so crucial at this moment, but because, as you said, Madam Chair, I began my career here on the committee, and it is good to be home.

Energy resources play a critical role in the Middle East and North Africa. As you know, and as you have mentioned, for decades the fortunes of governments and societies in the region have been closely tied to the availability of energy resources and their ability to bring them to market. Today we find ourselves living in a transformational era for energy markets and the geopolitics of energy, and the capacity of any country to be dynamic and play in this changing global context will determine its success going forward.

We are familiar with the energy debate here at home and including in that implications of the U.S. shale boom that you all described. That boom, together with Russia's deplorable actions in Ukraine, has highlighted the critical nature of energy plays for Europe's security and economic competitiveness. In my testimony today, I would like to address how countries in the Middle East and North Africa fit into this global energy puzzle and how the United States, in particular the State Department, is working to encourage the development of global LNG markets, build energy linkages in the Eastern Mediterranean, stabilize Libya's oil and gas sector, and support commercial opportunities in countries such as Algeria.

Energy in the Middle East is a big topic and could cover several hours. In the 5 minutes that I have, allow me to touch on these subjects, and I look forward to discuss them in more depth in the Q&A.

Energy demand around the world is changing rapidly. Consumption growth has shifted away from the traditional OECD markets and consuming countries and moved increasingly toward the world's emerging economies. Even as Europe, North America, and the advanced economies in Asia reach increasing levels of efficiency in use of energy, high growth rates in China and India and elsewhere have led to rises in energy consumption. Increasingly, we are in a world where prices and commodity flows are driven by the demands of emerging non-OECD consumers.

Around the world new energy suppliers are entering the market. We are moving from a world with a small number of well-defined producers, many of them in OPEC, to a world that welcomes new supplies and production increases from North America, Africa, Asia, and South America. New technology and improved production methods have unlocked previously inaccessible energy resources, fundamentally altering the energy landscape. North America has seen major increases in oil production, as has West Africa, and recent discoveries in East Africa and the Mediterranean are frontier areas with bountiful new energy and gas resources.

New suppliers are emerging, including countries such as Israel, that were until very recently assumed to be bereft of energy resources. As all of you keenly are aware, the United States is in the heart of this supply shift around the world. We have added 2 million barrels a day of oil production just in the last 2 years, an amount greater than Nigeria's crude oil production in total. We have become the world's largest producer of natural gas and now anticipate that we will become a net exporter of LNG in 2016 and an overall net exporter of natural gas by 2018.

Because these shifts in demand and supply have major global implications, the United States can and should continue to play a role in ensuring the stability and reliable flow of energy resources to all consumers, so it is striking to me how often I get asked whether increased production levels at home means we are becoming energy independent and disengaging from the Middle East.

But let me be clear: Nothing can be further from the truth. Our relations and interests in the Middle East have always been and will continue to be strong, multifaceted, deep, complex, and strategic. We live in an international global economy with interdependent energy markets, and even if all products we at home consume would originate beneath our own soil and oceans, we would still not be "independent." A disruption anywhere in the world would have consequences everywhere, including here at home. The American economy is intricately linked to the global market, and we are dependent on the prosperity of others, as they are on us.

The Middle East is adapting to this new dynamic. We have already seen changes in OPEC, which shifted from exclusive focus on maximizing prices to an organization that is increasingly interested in overall market stability. Iraq is a country that we are, as you discussed, watching very closely and working with them to build improved reliability in their energy sector, but security is paramount, as we have tragically witnessed this week. In the Persian Gulf, Qatar established its massive LNG from a niche commodity into a globally traded product, and we continue to work with them.

One area where I have personally focused much of my work and attention is the Eastern Mediterranean. New discoveries of gas offshore Israel and Cyprus and great potential in Lebanon, Greece, Egypt, and the Palestinian Authority have great promise not only for economic growth, but for regional cooperation. And in February of this year, the State Department facilitated a landmark agreement between Noble Energy from Houston selling gas from Israel's offshore fields to Jordan starting in 2016. I am happy to go into more detail as we go into the Q&A.

But developing frontier resources is a risky and capital-intensive undertaking, and companies will be deterred from making necessary investments if they believe that risk is too high. When investments can be made in places like North Dakota with little or no political risk, it becomes very difficult to convince boards of directors to approve investment in high-risk areas. In North Africa, Algeria is pursuing the next phase of development in its oil and gas fields and producing from its offshore and unconventional resources, but it has to get that investment climate right for that to work and to encourage companies to come and invest. The United States Government and U.S. companies are eager to help wherever we can provide the most useful assistance.

In conclusion, there are exciting developments in the Middle East, in the Persian Gulf, and in the Eastern Med, as well as in North Africa. It is in our national interest for reasons of security and economic growth to do all we can to make sure these opportunities are realized and that we promote cooperation in this field rather than conflict. We also strive to ensure these resources are developed in a way that will benefit all the people in these countries in an open and transparent manner.

Thank you again for the opportunity to testify before you today, and I look forward to questions you may have.

Ms. ROS-LEHTINEN. Thank you very much, Mr. Hochstein.

[The prepared statement of Mr. Hochstein follows:]

WRITTEN STATEMENT
AMOS J HOCHSTEIN
DEPUTY ASSISTANT SECRETARY OF STATE FOR ENERGY DIPLOMACY
U.S. DEPARTMENT OF STATE

HOUSE FOREIGN AFFAIRS COMMITTEE
"Assessing Energy Priorities in the Middle East and North Africa"
June 11, 2014

Introduction

Chairman Ros-Lehtinen, Ranking Member Deutch, and members of the Subcommittee,

Thank you for the opportunity to testify before you today. It is an honor and a privilege to appear before you not only because the issues of energy and the Middle East are so crucial at this moment, but because I began my career serving on the HFAC committee staff. It is good to be home.

Energy resources play a critical role in the Middle East and North Africa; as you know, for decades the fortunes of governments and societies in that region have been closely tied to the availability of energy resources and their ability to bring them to market. Today we find ourselves living in a transformational era for energy markets and the capacity of any country to be dynamic and play in this changing global context will determine its success going forward. We are familiar with the energy debate at home, including implications from the U.S. shale boom. That boom, together with Russia's deplorable actions in Ukraine, has highlighted the implications of energy for Europe's security and economic competitiveness. In my testimony today, I would like to address how countries in the Middle East and North Africa fit into this global energy puzzle, and how the United States, and particularly the State Department, is working to encourage the development of global liquefied natural gas (LNG) markets, build energy linkages in the Eastern Mediterranean, stabilize Libya's oil and gas sector, and support commercial opportunities in Algeria. Energy in the Middle East is a big topic and 5 minutes will only allow me to touch on these subjects. I look forward to discussing them during the Q & A.

Global Shifts in Supply and Demand

Energy demand around the world is changing rapidly. Consumption growth has shifted away from the traditional OECD consuming countries and moved increasingly towards the world's emerging economies. Even as Europe, North America, and the advanced economies in Asia reach increasing levels of efficiency in the use of energy, high growth rates in China and elsewhere have led to inexorable rises in energy consumption. Increasingly we are in a world where prices and commodity flows are driven by the demands of the emerging non-OECD consumers.

Around the world, new energy suppliers are entering the market. We are moving from a world with a small number of well-defined producers, many of them in OPEC countries, to a world that welcomes new supplies and production increases from North America, Africa, and Asia. New technology and improved production methods have unlocked previously inaccessible energy resources, fundamentally altering the energy landscape. West Africa and North America are seeing major increases in oil production, and recent discoveries in East Africa and the Mediterranean are frontier areas with bountiful natural gas resources. New suppliers are emerging, including countries such as Israel that were until very recently assumed to be bereft of energy resources. As all of you are keenly aware, the United States is at the heart of this supply shift. We have added 2 million barrels per day (bpd) in oil production in the last two years, an amount greater than Nigeria's crude oil production. We have become the world's largest producer of natural gas, and now the EIA anticipates the United States will become a net exporter of LNG in 2016 and an overall net exporter of natural gas by 2018.

Because these shifts in demand and supply have major global implications, the United States can and should continue to play a role in ensuring the stable and reliable flow of energy resources to all consumers. So it is striking to me how often I am asked whether increasing production levels in the United States means we are becoming "energy independent" and therefore will disengage from the Middle East. Let me be clear: nothing could be further from the truth. Our relations and interests in the Middle East have always been – and will continue to be – strong, multifaceted, deep, complex, and strategic. We live in an international global economy with interdependent energy markets. And even if all products we consume would originate beneath our own soil and oceans, we would still not be "independent." A disruption *anywhere* in the world would have consequences *everywhere*, including here at home. The American economy is integrally linked to the global market and we are dependent on the prosperity of others, just as they are dependent on us. As a major oil and gas producer, the United States will continue to have a vested self-interest in maintaining market stability because disruptions anywhere affect prices everywhere, even in the U.S.

Developments in the Middle East

The Middle East is adapting to this new dynamic. We have already seen changes in OPEC, which has shifted from an exclusive focus on maximizing prices to an organization that is increasingly interested in overall market stability. The United States, as one of the world's largest oil and gas producers, shares this interest and this creates opportunities for future engagement. Within this context, Iraq has emerged from decades of mismanagement and sanctions to resume its role as a major oil supplier. The country is still developing, but we are intensely focused on helping Iraq build in improved reliability in its energy sector, and to sharing best practices related to oil and natural gas production, distribution, and export.

In the Persian Gulf, Qatar established its massive liquefaction facilities, transforming LNG from a niche commodity into a globally traded product. Even though most natural gas still moves by pipeline, the growth in the LNG trade has been enormous. This has given all consumers an increasingly viable alternative to coal, oil, and pipeline gas. The ability to ship an LNG cargo anywhere in the world has made natural gas, which has lower greenhouse gas emissions than coal or oil, a more viable option for consumers who had previously hesitated due to worries about the reliability of supplies. Due to the breakthroughs in LNG processing and shipping by Qatar, LNG imports are a fundamental part of strategic energy planning and a core ingredient in the future energy mix of many countries, particularly in Asia and Europe.

One area where I have personally focused a lot of my work is in the Eastern Mediterranean. New discoveries of gas offshore Israel and Cyprus and great potential in Lebanon, Greece, Egypt, and the Palestinian Authority have great promise for not only economic growth, but for new regional cooperation. In February of this year, a State Department-facilitated landmark agreement was announced in which Houston-based Noble Energy will sell natural gas from Israel's offshore fields to Jordan starting in 2016. The deal is a strong first step toward providing Jordan with critically needed affordable energy supplies after losing supplies from Egypt due to repeated terrorist attacks on the Sinai pipeline and due to the changing nature of Egypt's production and consumption patterns. Collaboration will enable development of these resources in the most economically viable manner, while also building new bridges for potential future cooperation on a wider range of issues. Companies operating offshore Israel and Cyprus now face decisions on how best to monetize their remarkable investments. This is where geopolitical realities and economic imperatives need to converge. We will continue to work with Israel, Cyprus and the other countries in the region to assist in any way we can.

Developing frontier resources is a risky and capital-intensive undertaking. Companies will be deterred from making the necessary investments if they believe that the risk is too high. When investments can be made in places like North Dakota with little legal or political risk, it becomes very hard for developers to find investors for projects in countries with less developed political and judicial systems. A case in point is Libya, which is among a handful of countries blessed with giant, low-cost, and easy to extract oil and natural gas deposits. Unfortunately, political instability and pervasive insecurity have had a devastating effect, and the country's production potential suffers from massive underinvestment. At 150,000 bpd, Libya is only producing 10 percent of what it had achieved just over a year ago, and even the previous amount of 1.5 million bpd is still well below what would theoretically be achievable in a better investment climate.

Also in North Africa, Algeria is pursuing the next phase of development in its mature oil and gas fields and producing from its offshore and unconventional resources, but has to get the investment conditions right. With the correct incentives in place, Algeria has the unique opportunity to reinforce its role as one of Europe's most reliable suppliers, a point of critical importance as one component in a multifaceted solution to Europe's energy diversification efforts. This will require new infrastructure, new exploration, and new ideas. The United States Government and U.S. companies are eager to help wherever we can to provide the most useful assistance to Algeria.

Conclusion

In conclusion, there are exciting developments in the Middle East, in the Arabian Gulf, in the Eastern Med, and in North Africa. It is in our national interest, for reasons of security and economic growth, to do all we can to make sure these opportunities are realized and that we promote cooperation in this field. We also strive to ensure these resources are developed in a way that will benefit all people in the countries involved.

Thank you again for the opportunity to testify before you today and I look forward to any questions you may have.

Ms. ROS-LEHTINEN. And I will start with the question-and-answer segment.

The terms of the Joint Plan of Action limits the amount of oil that Iran is allowed to export, and reports indicate that the regime has surpassed the 1 million barrels per day that it must average for the first 6 months. Why is Iran, according to reports, exceeding this cap, and are we going to ensure that over the remaining months it reduces its exports to meet the requirements of the JPOA? Also, what countries are receiving all of this Iranian oil? Rumor is that Iran is shipping hundreds of thousands of barrels of oil to Syria. Are we counting and monitoring this?

Next, the natural gas discoveries off the coast of Israel are a potential game changer not just for Israel, but for Greece and Cyprus, too, who have played important roles in developing Eastern Mediterranean hydrocarbons, and they will continue to play vital roles in its distribution. Thanks to our good friends from Florida, Mr. Bilirakis and our ranking member, Mr. Deutch, we in Congress have had many opportunities through their Congressional Hellenic-Israel Alliance to discuss what this means for Israel, for Greece, for Cyprus, for their relationship, how this can help improve their economies and security going forward.

But the discovery of these large natural gas fields has also led to the speculation that Lebanon may have similar resources off its shores, and that, too, would be a game changer for that crisis-ravaged nation. However, there is a dispute between Lebanon and Israel over their maritime borders, and it appears that it is at an impasse. Could you give us an update about where we stand on this, what is the administration doing to help resolve this, and what outstanding issues remain to be resolved?

And then next, last month this subcommittee held a hearing on the GCC about the deepening risks, the emerging challenges, and one of the topics that came up was the possibility of friction between the U.S. and some of our Gulf partners because they believe or they perceive that we are moving away from our traditional relationships and leaving them alone and out to dry, especially as it relates to Iran. Has this energy boon in the United States impacted these traditional alliances that we have with states in the region, particularly the Gulf states?

Thank you, sir.

Mr. HOCHSTEIN. Thank you, Madam Chair. Let me take those one at a time.

On Iran, and I am glad you asked the question, and as you and your staffs are all aware, I come up here regularly in a classified forum to discuss specifically. So I will stick to what I can say here in this format.

Under the JPOA, the agreement that was signed, the tenets of that agreement were that Iranian exports will remain at current levels, and we have worked to make sure that that happens. As you know, based on the congressionally mandated sanctions that have been rigorously implemented over the last 2 years, Iran's exports were reduced by 50 to 60 percent, and the current levels that we saw, the time that we reached the JPOA, were somewhere in the range of 1 million to 1.1 million barrels a day. It is very difficult to set hard numbers when it comes to oil. That is over the period of 6 months of the entire time of the JPOA, January 20 to July 20.

So far, as we look at the numbers, we are comfortable that at the moment those numbers are being kept and that Iran's exports are kept to that range of 1 million to a 1.1 million barrels a day. Part of the explanation that you see a discrepancy in some of the public reporting is two major issues. One is that in many of the countries that report their oil purchases from Iran, or from any country, when they say crude oil or oil, they lump together a number of products, and it is not just crude. It is crude plus other things such as condensates. And condensates were not included in the congressional sanctions for exceptions, and therefore we continued that process of looking at this, breaking this down as what is crude oil. If you isolate out the crude oil, the numbers are quite different.

The second is an issue that you raised later, which is the Syria question, and it is true that over the last few months Iran has begun to direct shipments of crude oil to Syria for the first time. They were done every once in a while before that. That is because Syria's ability to get crude oil on the market and from traders has vanished, and as a result Iran has had to step in.

But that is a very different kind of delivery because, unlike the other six customers that they still have, Syria doesn't pay. So this doesn't contribute to the overall economic benefit to Iran and therefore does not remove the economic pressure that the sanctions sought to bring. So when we look at what is the current levels of exports, we mean people who are buying.

One more point on that, that is important to say. That even when they do sell these 1 million to 1.1 million barrels a day to these six customers, they are not getting the money and the access to the cash. That money is still going to accounts that are blocked in those countries and have to remain, under certain conditions, in those countries.

So, with that, I think that we are still comfortable. We are concerned about some of the reports. We continue to engage vigorously and regularly with every single one of the countries that you mentioned.

On Lebanon, you are correct, with the discoveries in offshore Israel and Cyprus it has become clear that many countries in the region want to look at their offshore, and Lebanon clearly has a good potential, and we think that is a good thing. And we are hopeful that Lebanon can reach a point where they can come together as a country, put together a transparent bid round, have international high standard oil companies come and explore in that region.

There is also a dispute on the maritime boundary between Israel and Lebanon. It is an area of about 860 square kilometers. I have been going back and forth to Lebanon and Israel for over a year now. We have shared some ideas for a pathway forward between the two countries. It is quite difficult when you have two countries that are in a state of war with each other. And yet we think that there is some progress being made that will allow both countries to independently continue to explore, in the case of Israel, and for Lebanon to begin to explore for natural resources off its coast.

It is not going to be easy. It is going to continue to be difficult. But we think that without some kind of mechanism that allows both countries to understand and live within a boundary that they accept, it would be difficult for companies to enter the Lebanese market and explore in an area that would have a political and legal challenge to its products.

Ms. ROS-LEHTINEN. Then the last question was on the Gulf states and how the energy question has impacted our relationship.

Mr. HOCHSTEIN. As you and the other members of the subcommittee mentioned, in the Gulf energy and hydrocarbons are the lifeline of these countries, and they account for significant percentages of their economies, and many of them understand the need to diversify. We follow the relationships between these countries. These are, just like in any place in the world, these are both strong and complex at the same time. And so far we have not seen that spill over into energy issues. I think there is, even in areas of disputes, in some areas there is cooperation and others, including in energy.

They have mechanisms and ways to talk to each other. We have good and strong relations with all of them. We also have some areas of agreement and some areas of disagreement as we do with many countries. So I think so far I have not seen any sign that there is any geopolitical change in the region that would lead to a change in energy capacity.

Ms. ROS-LEHTINEN. Thank you very much, sir.

Our ranking member, Mr. Deutch, is recognized.

Mr. DEUTCH. Thank you, Madam Chairman.

Let me stick with the Gulf states for a second. The deal between Israel and Jordan is the first time that Israel is going to be an exporter to an Arab country. What have you heard from other exporters in the region? Has there been backlash from the Gulf states? What has the response been?

Mr. HOCHSTEIN. No, on the contrary. The deal that was reached and that was helped mediated by the United States was widely covered in the Middle East and throughout the Gulf in the press on the day that it was announced just matter of fact, this is the deal. I think that when it comes to natural gas, it is very difficult to deliver natural gas if you don't have mechanisms. It is not like oil, you can just put it on a tanker and go. So there are very few countries that are able to fill the gap that was left by the terrorist attacks in the Sinai and the calls on Jordan.

Mr. DEUTCH. When do you expect Israel to make a decision about the destination for its gas, and the pros and cons of an underwater pipeline or LNG facility via Cyprus, which would take years to construct, or a pipeline to Turkey? And do you think Turkey is clear-eyed about the approach here and the need for regional cooperation on these issues?

Mr. HOCHSTEIN. So these are, as you said, I think, the million-dollar questions. But I think that it is important to separate out when we talk about the decisions, what is Israel's decision versus what is the business side's decision. Because we have two areas that have to coincide, one is the economics and the other is the geopolitics, and the most important and first and foremost that has to happen is the economics. So Noble Energy and Delek and Ratio, the consortium that developed Leviathan, the consortium for Tamar, have to decide what is in their economic interest to monetize their multibillion-dollar investments, whether it is pipelines to Egypt, pipelines to Turkey, and obviously Jordan is already happening, an LNG facility.

But at the end of the day, once those business decisions are going to be made, this is an area in the world where government-to-government understandings or agreements are going to have to be reached. And what you saw in the announcement that was mentioned about the letter of intent that was signed between Noble and Union Fenosa in Egypt was not a government decision. It is not even a corporate agreement yet. It is a letter of intent that the negotiations will continue.

From an economic perspective, two LNG facilities in Egypt that are basically running dry at the moment because Egypt has taken all its gas destined for exports and using it for domestic, it makes sense, if you have the infrastructure already built and the capital investment is there, to use that. Can the geopolitics manage it is the next question that we have to see if we can answer.

On Turkey, there are only two ways to get a pipeline from offshore Israel to Turkey. One would have to go through the EEZ of Lebanon and Syria, which is less than likely, in my opinion, at the moment, or go through the EEZ of Cyprus. So for that there are other geopolitical hurdles that have to be reached.

So I think we have to sometimes take a step back from enormous amount of statements and conferences and books that are being written about the potential and agree on one thing. The cooperation in the Eastern Mediterranean, energy is a huge boost for that, and that is the way that this region will monetize and capitalize on these new resources. But it is going to take a lot of work and it is going to take a lot of effort and creative thinking to be able to get there. We hope it is an incentive to solve some of the other issues that have been ongoing and lingering for a long time.

Mr. DEUTCH. And I want to just get back to the exchange you had with the chairman, and I wasn't clear from the response. There have been press reports over the past several months that Iranian exports are going to be higher than the levels permitted, the 1 million barrels, those set forth in the JPOA. Are those reports accurate? Let's start with that. Are those reports accurate?

Mr. HOCHSTEIN. I won't talk about the future. I am talking about right now as where we are today we feel comfortable that the crude oil exports of Iran are remaining in 1 million to 1.1 million-barrel-a-day average, as we anticipated under the JPOA.

Mr. DEUTCH. Okay. So they haven't gone over, or they have gone over but you are averaging it out over. How do you calculate that?

Mr. HOCHSTEIN. We take a look at what is actually being exported. We look at crude oil, and often in some of the reports that you are referencing the crude oil actually means other products are mixed in. And we isolate out——

Mr. DEUTCH. What kinds of other products?

Mr. HOCHSTEIN. Such as condensate, which is, outside of the world of sanctions, that is normal for the industry to mix them together and to report them. It is not unusual. But since we are in the unusual place of isolating out crude oil only——

Mr. DEUTCH. Hold on a second.

Mr. HOCHSTEIN. Sure.

Mr. DEUTCH. Outside of the world of sanctions, they combine them when talking about it. Is that right?

Mr. HOCHSTEIN. It is not uncommon that countries reporting their customs reports would commingle crude oil with other products.

Mr. DEUTCH. When talking about their exports?

Mr. HOCHSTEIN. Their imports. In other words, with China or——

Mr. DEUTCH. I understand. And here is what I am trying to figure out. Outside of the sanctions world, if we were trying to judge how many million barrels per day were being exported from Iran, in order to do that we would look at numbers from the importers, which would include condensate?

Mr. HOCHSTEIN. In some countries they include condensate. In others, they separate.

Mr. DEUTCH. And when they include them, what is the breakdown?

Mr. HOCHSTEIN. Not all countries import condensate when they import crude. Some do. Sometimes it is 10 percent of it, 20 percent of it, 5 percent of it.

Mr. DEUTCH. Okay. So why does the sanctions legislation specifically carve out—why is it only crude? Why doesn't it include condensate?

Mr. HOCHSTEIN. I am afraid that is a question I would probably ask——

Mr. DEUTCH. Well, then let me ask you a different question. If we were rewriting the sanctions bill now, should it be crude and condensate?

Mr. HOCHSTEIN. That is not for me to answer.

Mr. DEUTCH. Let me ask a different question. One thing you can't speak to but we can is congressional intent. And the intent here, when we talk about 1 million barrels, we are talking about crude, condensate, whatever is typically included. So you are telling me that the way that this is analyzed, that the reason there are those who say it has been over 1 million barrels per day, in violation of the statute that would trigger sanctions, is because there is an artificial line being drawn between crude oil and condensate that doesn't typically exist outside of the sanctions world.

Mr. HOCHSTEIN. No. Let me correct. I didn't say it is artificial and it is not an artificial operation.

Mr. DEUTCH. Right.

Mr. HOCHSTEIN. These are two different products that are used for two different things, and they are contracted separately. What I said was a number of countries, when they report in their public customs reports, they commingle some products and say when we imported from Saudi Arabia or from Iran or from other places, when we say oil, this is what we imported.

Condensates are not oil, they are not crude oil, and that is why we don't count them together. They are a liquid product that you get when you extract natural gas. Some countries are importers of condensate only and they don't import crude oil, and they use it because they need it for the refining in gasoline, to create gasoline, when they are using crude oil from something else. Some countries develop gas that is very dry gas. Israel is a good example. Their gas doesn't include much condensate. The United States has a lot of condensate in our gas.

So these are different products. The legislation passed by Congress—and we have had this conversation on a number of occasions with Congress—specifically says that the sanctions are in petroleum products, but that to count for reductions, for the significant reduction exception, the administration must look at crude oil only.

Mr. DEUTCH. I am sorry, Madam Chair, can I just finish this?

Ms. ROS-LEHTINEN. Go right ahead.

Mr. DEUTCH. So I am just confused. Let me try this again. We are talking about exports of—how do you define exports?

Mr. HOCHSTEIN. Exports of crude oil.

Mr. DEUTCH. No, no, no. You just said we would include condensate. We focus only on exports of crude oil for determining whether or not sanctions should be imposed, whether you are violating the statute, right? That is just crude oil. That is not condensate. But typically we are trying to get at the export of hydrocarbons more broadly. How else would you define it?

Mr. HOCHSTEIN. Petroleum products.

Mr. DEUTCH. Petroleum products. Right. So if we are talking about petroleum products and we are trying to limit the export of petroleum products because the Iranian Government uses the—the purpose to all of this, of course, was to get at the lifeline of the nuclear program in Iran, which comes from the export of petroleum products, right, not just the export of crude oil.

What are we missing by not including condensate in this calculation? This is actually really helpful for me because we have all had this question for a long time. I think we have actually stumbled upon something that is really helpful. If we meant to focus on petroleum products but the sanctions only apply to crude oil instead of petroleum products, if it included petroleum products, how much beyond the 1 million barrels per day are the Iranians exporting?

Mr. HOCHSTEIN. So first let me articulate carefully. The Congress did in fact go after petroleum products in the sanctions. What I said was that what Congress created was a process of significant reductions before the JPOA.

Mr. DEUTCH. Right, right.

Mr. HOCHSTEIN. The sanctions were on all petroleum products. If you significantly reduced crude oil you got an exception for 180 days from sanctions, from a broader perspective. But you can only get that significant reduction if you reduced the crude oil. Had you included other products in that it may have been easier for countries to get that exception and you would have reached the opposite of what you were trying to achieve.

There are consequences in each way. Condensates, as we have discussed, are not crude oil, and therefore you could not get an exception if you only reduced your condensates. You had to have reduced your crude oil.

Mr. DEUTCH. Right.

Mr. HOCHSTEIN. So today when we look at what the numbers are, when we have to look at the current levels of Iranian exports of crude oil, they have remained roughly at current levels as we have described, as we talked about in November and January when the JPOA was reached. And so where we are today is I believe that we have a lot of concerns and we are actively engaging, but we believe the countries have kept tight.

Now, as far as your question of how much condensate actually is represented, what would the overall number be if we included condensates—I believe that was your question, correct—I think I would rather have that answer to you in a different forum.

Mr. DEUTCH. Okay. Madam Chairman, I apologize to my colleagues.

Ms. ROS-LEHTINEN. No. Go right ahead.

Mr. DEUTCH. But just to finish this, if I understand correctly then, the calculation used to reduce sanctions, the statute includes only the 1 million you get to in the statute, but in the JPOA the 1 million is used, the statute refers to it for one purpose. I guess what I am getting at is the statute uses the crude oil alone without condensate for one purpose, but the JPOA uses it for a different purpose, it seems to me. Hopefully there will be another round and we can continue this conversation.

But I think we finally figured out why, for all of the reports that say it is supposed to be 1 million barrels per day, it is actually more than that. It is more than that, but it is condensate, and we are drawing a line between crude oil and condensate that most of the rest of us, I don't think, understood well enough to be able to do or we would have included it. In another setting, perhaps, we will be able to determine what that ultimate benefit to the Iranian Government is by treating crude oil and condensate differently instead of including all petroleum products.

Again, with apologies to my colleagues.

Ms. ROS-LEHTINEN. No. Thank you very, very much. Thank you, Mr. Deutch.

And we will go to Dr. Yoho.

Mr. YOHO. Thank you, Madam Chair.

Thank you, sir, for your testimony, and to my colleague from Florida also, his questioning there.

Sir, what effect does the increased oil production of the U.S. have, do we have the ability to create energy security for the U.S. when we are involved in a global market like we are? Will it soften the increased price hikes we often see that disrupt our economy? Do you see that happening? I know we are in a global market, but with our increased production do you see us being able to stabilize those spikes that we see often with Middle East conflicts?

Mr. HOCHSTEIN. Unfortunately, as I said in my testimony, I think that the term "independent" that is used often, in my opinion misused often, in natural gas we are becoming self-reliant and we have become a net exporter. In oil, we are still an importer. But even if we were not, if there was a crisis anywhere in the world that created a major disruption, whether it was a national security disruption, such as a closure of a strait, or a natural one, if Macondo in the Gulf Coast happened in the Persian Gulf, that would have a significant impact on the global markets.

Any impact such as those on the global markets will have the same impact here at home. Even if we are producing all that we consume here, you will still have a price shock in the United

States. We are an integrated market, and oil and gas are commodities.

Mr. YOHO. Is there a way to mitigate that or soften that if we were to team up with Canada more and Mexico to where we could supply this region that would be more isolated from a world market? And I understand we are all tied together, but it seems like it would soften that more. Because every time we see a spike in gas prices diesel goals up, everything on the shelves of the grocery stores goes up. Is there were a way, if we were to team and have a consortium between Canada and Mexico, the North Americas, to where we supplied the demand for our continent, in this region, we would be less affected by Middle Eastern conflicts. I mean, that is possible, isn't it?

Mr. HOCHSTEIN. I think that there is no doubt that the increased production in the United States contributes to our national security and contributes to our economic security.

Mr. YOHO. Okay.

Mr. HOCHSTEIN. I just don't want to leave you with the wrong impression that somehow if there is a crisis somewhere in the world we are going to be immune to it. And there is a lot more work being done here at home and in our region, in North America, to work together as we always have. We signed a transboundary agreement for the production between the United States and Mexico, and the Congress ratified that just recently. So we are working more, but there are also signs of trouble here near our borders when it comes to energy security.

Mr. YOHO. Right. There sure is.

And then with the Keystone pipeline, do you see that as a positive benefit for our economy in this region as far as increasing exports and energy security for the United States?

Mr. HOCHSTEIN. As you know, the Keystone pipeline is under review still at the State Department and with other agencies, and we are working on getting through that public comment period.

Mr. YOHO. That is a classic example of paralysis by analysis, I think. We see so much of that.

You were saying that we are an importer of crude oil, but yet we export about 4 million barrels a day, don't we?

Mr. HOCHSTEIN. We are a——

Mr. YOHO. Of gasoline.

Mr. HOCHSTEIN. Of products.

Mr. YOHO. Of product.

Mr. HOCHSTEIN. Yeah, we do. We are an exporter of refined products, of certain refined products.

Mr. YOHO. Okay. And then let me switch over to the Middle East. With the discovery of the natural gas in the Middle East there in the Mediterranean, the geopolitical effect that will have with Israel and the Arabian countries you were talking about, what do you see the future of that is? Do you see them becoming more just secure in that region and less dependent on, like, the other exporting gas countries?

Mr. HOCHSTEIN. This has been an enormous boon for Israel's——

Mr. YOHO. It sure has.

Mr. HOCHSTEIN [continuing]. Economic security and national security, without a doubt, and we have been working very closely with them to try to understand how to use that and what their thinking is on how to maximize all the impacts that that could have.

As I said earlier, I participated in and mediated along the discussions between Israel and Jordan to sign that first agreement. I think that is an example, not only the agreement itself, but the fact that there was very little reaction to it in parts of the world that we would think would have a negative reaction.

There was also—it hasn't been mentioned—but there was a deal signed between the companies operating offshore Israel and the Palestinian Authority to provide natural gas to the Palestinian Authority as they look to build the power plant. That actually happened before the deal with Jordan. The first two export deals that have been reached between the companies operating offshore Israel have been with Jordan and the Palestinian Authority.

So I think if we can use that as models to take energy as a resource for cooperation, I think that would be good for the region and for our own national security.

Mr. YOHO. I agree, and I appreciate your time.

I yield back, Madam Chair.

Ms. ROS-LEHTINEN. Thank you very much, Dr. Yoho.

Mr. Connolly.

Mr. CONNOLLY. Thank you, Madam Chairman.

Mr. Hochstein, I would like to make sure that we have clarity about your lengthy exchange with Mr. Deutch. What are condensates? Can you drink them? Can you smoke them? Can you fill a car up with it?

I mean, because leaving it the way it is right now still allows the inference to be drawn that there is cheating going on, that people are taking advantage of a legal loophole to exceed the allowable amount of exports from Iran, and I am inviting you to clarify.

Mr. HOCHSTEIN. Condensates are not a crude oil or a product of crude oil. They are a product of natural gas. They are a liquid product of natural gas. They are exported mostly separately and occasionally they are exported together with crude oil. That does not make them the same product. It was in the interest of the economic pressure on Iran to articulate that difference between crude oil and the other products, as the Congress did in its final legislation.

Mr. WEBER. Will the gentleman yield for just a minute?

Mr. CONNOLLY. Of course.

Mr. WEBER. Coming from Texas, LNG, lots of Petro-Tex Chemical in my district. Liquid gas, ethanes, propanes, propylenes, methanes, products that are used to produce plastic products. And that has ramifications for plastic explosives, by the way. But I think that is what you are looking at, and just to help clarify that.

Thank you, Madam Chair.

Mr. CONNOLLY. Thank you, and I thank my colleague for the clarification.

But given that long list my friend from Texas just ticked off, isn't that a loophole? Aren't we allowing Iran to earn export dollars with that sort of exception to the sanctions?

Mr. HOCHSTEIN. Again, let me clarify once again. As I said before, it is not an exception to the sanctions. The sanctions are on all petroleum products and as Congress wrote them. Where the distinction came in is Congress articulated directly that crude oil should be the only product that we judge whether countries can receive an exception from the sanctions for a period of 180 days as long as they are significantly reducing. And I will say this provision has been enormously successful and has been the key component to putting that economic pressure on Iran that allowed us to bring their exports down by over 50 percent.

Mr. CONNOLLY. Thank you for that. That is a very important clarification.

Is it the policy that the United States Government, having successfully negotiated phase one of a nuclear stand-down agreement with Iran, are we allowing them some ventilation in terms of crude oil products or hydrocarbon products of any kind beyond the limits that existed prior to that negotiated phase one agreement?

Mr. HOCHSTEIN. The only thing that we have done as a result of the JPOA in this sector has been to no longer ask countries to significantly reduce, but to ask countries to remain at the current levels.

Mr. CONNOLLY. All right.

Mr. HOCHSTEIN. That is the only thing that has changed.

And let me just add one thing. They still don't have any access to the money that results from these transactions. Those moneys have to remain in the bank accounts in those countries.

Mr. CONNOLLY. Mr. Hochstein, the point politically, though, are there people who have perhaps unwittingly suggested that with that agreement the administration or the United States and its allies have taken sort of the boot off the neck of Iran with respect to sanctions. If I understand what you just said, your testimony is that is incorrect.

Mr. HOCHSTEIN. We have made some modifications, but the only one that we have done was to say that we are staying at current levels. The Iranian industry——

Mr. CONNOLLY. Mr. Hochstein——

Mr. HOCHSTEIN [continuing]. Is still under severe economic pressure.

Mr. CONNOLLY. Mr. Hochstein, you are a diplomat, not a politician. Politicians sometimes, like you, enjoy creative ambiguity. This is not one of those times. We need clarity. Did the administration agree to take its foot off the neck of Iran with respect to sanctions, including hydrocarbon exports, for any period of time as a gift or as a reward for entering into phase one negotiations or are the sanctions the same today with respect to this subject as they were prior to the agreement?

Mr. HOCHSTEIN. The sanctions are largely the same. But I do have to say there was one modification to the sanctions as a result of the JPOA that keeps the Iranian oil exports at the levels that they were on the day that we entered the JPOA. They are not increasing, not to increase.

Mr. CONNOLLY. Right. We didn't increase. We froze it at the level that existed prior to the agreement.

Mr. HOCHSTEIN. Correct.

Mr. CONNOLLY. Yeah. In other words, no change.

Mr. HOCHSTEIN. Correct.

Mr. CONNOLLY. Work with me here, Mr. Hochstein. This is not that hard.

Mr. HOCHSTEIN. I understand.

Mr. CONNOLLY. It is really not that hard. When you use language like “largely intact,” please remember the world you are operating in. You are going to have a whole bunch of people seizing on that as, ah ha, when it isn’t true. What you just said finally is the sanctions are the same today as they were before the agreement, we just froze them in place rather than actually tightening them. Is that correct?

Mr. HOCHSTEIN. That is correct.

Mr. CONNOLLY. Thank you.

Madam Chairman, if you would allow me a little indulgence I would appreciate it.

Ms. ROS-LEHTINEN. Yes.

Mr. CONNOLLY. Could you talk a little bit, I mean, because this hearing is supposed to be about energy policy, not just about Iran or Israel, how does the growing independence, if I can use that word, the growing self-reliance, if you will, because of a huge exponential increase in domestic production here in the United States, how does that shift affect your job? I mean, when we look down the road, how will U.S. energy policy in the Middle East be different, say, 15 years from now, 10 years from now than it is, say, today? Clearly, that has got to have some impact in our relations in the region with respect to energy policy.

Mr. HOCHSTEIN. Without a doubt, we are in a new world, not only around the world, but in the United States. And as we look to transition from a major consumer to an exporter, that changes not only the dynamic of our own energy economy at home, but the position that we have broadly and globally.

I think that people are drawing the wrong conclusions from that, as you have heard around in the media and even today in this hearing, that we are somehow changing or reducing our engagement in the Middle East. And as I said before, nothing could be further from the truth. We have very complex and strong relations in the Middle East and they will continue. But that is true globally.

What we can do, what we are in the position to do today, in the years to come as we become an exporter, is think about how that provides part of the answer to some of the questions that we are seeing playing out. We would like to see a world where no country is reliant on a single source of energy. And if we can be helpful in diversifying the energy mix for countries and sources, I think that will benefit not only those countries, but our own national security and global economic security. And that is true whether we are talking about Europe or whether we are talking about nearer to home in Central America and the Caribbean. The reliance on a single source creates great political difficulties, as we have seen played out over the last 3 months, and the United States is going to be part of that as we start exporting.

Mr. CONNOLLY. Okay. A noble goal, and I am thinking of Turkey as an example as I think I said in my opening statement. But, so what does that mean? Does that mean the United States is going to try to help build alternative pipelines? Does it mean the United States is going to find alternative shipments, LNG, or whatever it may be to try to assist these countries to diversify and lessen their reliance on sole or primary sources of energy?

Mr. HOCHSTEIN. We have and will continue to strengthen our work with countries to identify what other kind of infrastructure and mechanisms within their own regulatory systems that would allow and to ease that pressure and to make them more secure.

Whether that is the work that we have done to help the southern corridor pipeline that reaches from Azerbaijan into Europe or the role that we played on the Baku-Tbilisi-Ceyhan pipeline in the 1990s, which the southern corridor is its match. Or if it is on the regulatory side, helping countries develop their own systems so that they can become bigger producers and more reliant.

We have programs where the State Department works together with the Department of Energy in countries to improve their unconventional gas exploration and unconventional oil and to reach those kinds of goals to enhance that security but at the same time working on the governance side in other places in the world to make sure that it is done in an open and transparent way and that those revenues reach all people. This contributes to the security of the region.

So I think the position of the United States as a major producer today, and potentially an exporter very soon, changes not only how we see ourselves, but how other countries see us when we are doing a variety of things around the world. It is important though that people understand that that is on the positive side, not on the negative. We are not disengaging from anywhere.

Mr. CONNOLLY. Very important. Thank you so much.

Thank you, Madam Chairwoman.

Ms. ROS-LEHTINEN. Thank you very much.

Mr. Weber.

Mr. WEBER. Thank you, Madam Chair.

And forgive me, Mr. Hochstein. I wasn't here when you started, so some of these questions may be redundant.

And then let me just say from reading your bio, it says you had 15 years of helping elected officials with energy policy, and I noticed there was a couple of Democrats named there. Did you help any Republicans?

Mr. CONNOLLY. Take the Fifth, take the Fifth, Mr. Hochstein.

Mr. WEBER. No drinking, you know, at this hearing. Leave the fifth under the table.

Mr. HOCHSTEIN. I worked on the Democratic staff of the House Foreign Affairs Committee and with a number of other Democratic elected members, but continue to this day to also advise some Republican Members of Congress and Senators as they seek counsel on these issues.

Mr. WEBER. Continue to this day, but during that 15-year stretch, you did not?

Mr. HOCHSTEIN. I was not employed by any Republican members.

Mr. WEBER. See, I am not going to give you as much leeway as Mr. Connolly will on your answers. I am going to get a yes or a no.

In Texas we have lots of LNG and lots of oil obviously. Things are just bigger and better in Texas, and so we are very honed in and keen on energy and the kinds of benefits that it gives to our country and I would say internationally. With the current prevailing attitude that somehow fossil fuels are bad, and I want to make the distinction that I understand the difference between petroleum products, as I kind of laid out, and natural gas products. We see natural gas products, as you know, in plastic bags, plastic bottles, as I say even plastic explosives they have ramifications.

So back to your comments about how we haven't relaxed the sanctions any more. The truth of the matter is, the sanctions that were in place, and I get that you said that some countries could not be induced to support those sanctions unless they had that exclusion, but the truth of the matter is, that there was a loophole. There was a loophole in those sanctions. Would you agree?

Mr. HOCHSTEIN. No, I would not, sir.

Mr. WEBER. You would not agree. So, you think that the countries that were unable to go around and go ahead and export them, plastics, those liquids, those products, we would say natural gas products was okay? Would you agree that that would put more pressure on the sanctions, would have given them more teeth if they couldn't even have gotten those?

Mr. HOCHSTEIN. I think to answer that question you have to fundamentally understand the structure of the sanction. The sanction is on all petroleum products. What allowed them to get an exception from sanctions was if they committed and, in fact, did reduce their exports of crude oil.

Crude oil, if you look at the number, is still the lion's share of the exports of Iran and the lifeline of its economy, and those have come down. So what Congress created was a structure and I don't there was a loophole there, a structure to allow for significant reduction in the exports of Iran's oil products, and that did take place and that is still taking place.

Mr. WEBER. But they do make money by exporting things, those liquids, those ethanes, methanes, propylenes, propanes, everything that we named, they are able to make money when they export that stuff to help underpin their economy. True or not?

Mr. HOCHSTEIN. No.

Mr. WEBER. How is that? They sell those products and they don't get paid for them?

Mr. HOCHSTEIN. They get paid into accounts that are in banks in foreign countries.

Mr. WEBER. The assets are frozen?

Mr. HOCHSTEIN. The assets then can only be used in very restricted ways and cannot underpin their economy, no, sir.

Mr. WEBER. Okay. So you don't think they went to work trying to get around those restrictions in those ways?

Mr. HOCHSTEIN. Oh, I think they went to work very much to try to do that.

Mr. WEBER. I would be shocked if they didn't go different methods. It would be better if we said to those countries they absolutely couldn't get those products. You and I are going to have a disagreement on that point.

Do you think that if America becomes totally energy sufficient, natural gas, oil, that it makes for better international world security?

Mr. HOCHSTEIN. I am sorry?

Mr. WEBER. Do you think that if America becomes totally energy independent, self sufficient, it makes for better international security around the world?

Mr. HOCHSTEIN. I think it would enhance security, if we enhance our production significantly as we have and continue to do so. I do think it would enhance security, yes.

Mr. WEBER. Okay. So if there is some alleged war on fossil fuels on all of the above energy policy—the truth is it has been 5 years since the Keystone pipeline was submitted for approval, that doesn't seem to support the idea that somehow energy independence is a good thing, does it?

Mr. HOCHSTEIN. Again, I think you asked me the question if additional and more production in the United States in oil and gas would enhance our security. I think that further production would.

Mr. WEBER. But not allowing the Keystone pipeline, which incidentally comes into my district, doesn't add a positive effect to that energy independence. It only serves to detract. Agree or disagree; not approving the keystone pipeline?

Mr. HOCHSTEIN. We have not reached the decision yet of approving or disapproving. That project is still in flux.

Mr. WEBER. Okay. Well, it is going to hamper our attempt to becoming energy independent, pure and simple. So I am glad to hear that you agree that energy independence would help us around the world.

What would you say is the percentage of liquids, do you know, that Iran exports? When you say crude oil and the crude oil exports, I get they send them to Syria. We are not going to be able to interrupt that flow. Who else do they send them to that we can't interrupt?

Mr. HOCHSTEIN. Under the guise of the legislation, there is a handful of countries that remain as purchasers of Iranian crude oil. I am happy to name them if that is what you are——

Mr. WEBER. Please.

Mr. HOCHSTEIN. That is China, Japan, the Republic of Korea, India, Turkey and the Economy of Taiwan.

Mr. WEBER. Are they also able to get the liquids?

Mr. HOCHSTEIN. They are the only countries that enjoyed a significant reduction exception per the legislation; and today of the waivers for the JPOA, they are the only countries that can purchase other products because they have that waiver.

All other clients and consumers of Iran prior to the sanctions, there were over 20, were now reduced to only that handful. All others cannot buy any of the other products.

Mr. WEBER. Okay. What do you see in the foreseeable future for Iraqi production; crude oil?

Mr. HOCHSTEIN. Iraq, as the chairwoman said in her opening remarks, Iraq just recently was able to exceed its potential and is starting to reach its true potential. They have exceeded 3 million barrels a day capacity for exports. They consume around 600,000 barrels domestically.

Mr. WEBER. Is that a 42-gallon barrel; do you know?

Mr. HOCHSTEIN. I believe so, but I don't know for sure.

Mr. WEBER. That's all right. Go ahead.

Mr. HOCHSTEIN. I think that with Iraq, we have worked quite hard to work together with the Iraqi Government to see what we can do to be of assistance. It is a matter not of oil reserves, but rather around the infrastructure side and the investment in the fields. It needs an enormous amount of investment both in the field itself and in the infrastructure to get the oil to the export terminals. There is no storage capacity. It needs more exports infrastructure. Just the other day a new SPM became operational, and that will enhance it.

But over all of that, sir, there is the cloud of events of the last several days of the security side.

Mr. WEBER. Assuming that they have the security, just a mediocre guess, average, do they come back up to full line production before the war in a year, 5 years, 10 years?

Mr. HOCHSTEIN. They already exceeded the levels from before the war, so they are in historic levels.

Mr. WEBER. That is the 3 million barrels a day?

Mr. HOCHSTEIN. Yes. But that does not represent the potential based on the reserves. It is based on the—not such great——

Mr. WEBER. That is the potential that I am interested in. Does it take them 3 years to get there, 5 years? Any idea, of rebuilding their infrastructure?

Mr. HOCHSTEIN. I don't think it is a matter of years, sir. I think it is a matter of changing the willingness to invest, to borrow, and put together the kind of investment climate that will encourage and incentivize companies to make these multi-billion dollar investments.

Mr. WEBER. Okay. And when that happens and that starts the clock running, 1 to 2 years?

Mr. HOCHSTEIN. It would be gradual, but I think it would take a few more years than that, but within 1 to 2 years you could have significant increases.

Mr. WEBER. Okay. Final question, do you see the Israelis exporting to more Arab countries?

Mr. HOCHSTEIN. I think the potential to export into Egypt is real, but that would require some more work between the companies and the countries; and I probably wouldn't want to guesstimate that at this point.

Mr. WEBER. Okay.

Thank you, Madam Chair. I yield back.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Weber.

We have just a few more questions if we could follow up. Going back to Syria, and again this is just another example of what is wrong with this nuclear deal; and it goes against any semblance of common sense. Has the administration conveyed to Iran during these ongoing discussions any notion that Tehran must stop sending oil to Assad in Syria?

This notion that, well, Assad is not paying so it doesn't matter is dangerous. Doesn't allowing Iran to continue to support the Assad regime work against U.S. National security interests in seeing an end to the conflict in Syria, an end to the murderous Assad regime? Are we willing to look the other way and say, hey, Syria doesn't pay so it doesn't change any equation here and if we don't push Tehran to do it now, they will never stop.

Mr. HOCHSTEIN. Let me be clear that when we talked before about whether it counted or not, it was toward the overall level of exports.

Ms. ROS-LEHTINEN. Oh, no. I understand on that equation, but the feeling was that we are not doing anything about it because since it is not part of the equation, we don't worry about it, it is no problem. They will just keep—I can't believe we are in this deal with Tehran, and we know that they are sending all of this stuff to Assad, and it doesn't seem to matter.

Mr. HOCHSTEIN. Let me correct that impression again; and if I said it in a way that confused the members, I apologize. It didn't count toward the exports. As far as our Syria policy and so on, I think that we have great concerns about all things that Iran is doing with Syria, so I wouldn't want to leave you with the impression that that was somehow that we were oblivious or did not care about any of their shipments to Syria. It just falls in a different category that we were not discussing during that exchange with Mr. Deutch.

Ms. ROS-LEHTINEN. I am sure we have a strong memo to them.

Mr. HOCHSTEIN. And I would refer you to others who are sitting in the room and are negotiating with the Iranians on issues regarding Syria, and they would know the answers to a lot of these questions better than I would on the Syria front.

Ms. ROS-LEHTINEN. That is true. Thank you so much.

And another aspect of what we had talked about. As the dispute over Kurdish oil export grows now that the Regional Government has loaded at least two oil tankers containing 1 million barrels of Kurdish crude oil in a Turkish port city with the intent to sell, Iraq is warning both the KRG and the international community, what is the administration's policy on the Kurdistan Regional Government's independent oil exports, and what are the prospects for a negotiated settlement between the KRG and Baghdad, now that the elections are over and we are set for a new government in Iraq, and what is the administration doing to resolve this dispute?

Mr. HOCHSTEIN. Thank you, Madam Chair.

We don't take sides on this issue. Our primary objective is to help Iraq export as much oil as possible from all parts of the country, whether from the south or from the north, to international markets in a manner that enhances the overall stability and the country's economic gain for the Iraqi people.

The Kurdistan Regional Government is seeking to sell oil from Iraqi Kurdistan region without approval of the central government in Baghdad. This oil has been stored in Turkey, but much of it is now loaded, as you said, on two oil tankers that are at sea in an attempt to find buyers for that oil.

This may be a short-term crisis, but it begs for a much longer term solution; and I think that you hit the nail on the head. This is something that begs for a real solution of a deal of an arrangement that will allow both Irbil and Baghdad to work together and to maximize the benefits of the oil and gas that is in both the south, the central and the north of Iraq. We have been working very hard to try to explore our ideas and to encourage a deal, and we hope that in the process now, as you said in the post election, that we can reach that deal so that we don't have to deal with these kind of small crises.

Ms. ROS-LEHTINEN. Thank you, sir.

Mr. Deutch.

Mr. DEUTCH. Thanks, Madam Chairman.

Just to circle back on a couple of points. Under existing sanctions law, a country is exempt if it makes significant reductions in the importation of Iranian crude oil; not petroleum products, crude oil; right? I just want to make sure I understand.

Mr. HOCHSTEIN. Yes, purchases of Iranian crude oil.

Mr. DEUTCH. Purchases of Iranian crude oil. The JPOA modified that so that instead of requiring the ongoing significant reduction, it froze the levels; right? Waived the requirement that there be continuing significant reductions, froze them at 1 million barrels per day; right?

Mr. HOCHSTEIN. Yes. Froze them at current levels.

Mr. DEUTCH. At current levels, but the number they were using is 1 million barrels?

Mr. HOCHSTEIN. Roughly 1 million barrels, but the JPOA language that you are referencing states current levels.

Mr. DEUTCH. Okay. Which, by the way, is a tweak to the existing law?

Mr. HOCHSTEIN. I don't know if it is a tweak to the law because we didn't amend the law, but we created a waiver in order to impact the JPOA rule.

Mr. DEUTCH. Thanks. Right. I agree with that.

So it was crude oil that was used for that, so here's ultimately what I want to get back to. You had said before that the levels would have been frozen at the levels they were before the JPOA, and you just said that again now. You said that earlier. You said that now. Again, that is for crude oil.

The difference, what I was trying to get at before is there is a difference in deciding whether or not to grant an exemption when you continue to see the numbers come down and whether they are in compliance when you have frozen it. That is just, again, as we look at what time the intent of the law was, I think it is fair to acknowledge that that difference exists.

The real question I have is, and some of this you may need to get back to us on. The countries, if those six importers of Iranian oil, when they report, included crude oil and condensate in all petroleum products because you said some report together; some break them out. If they reported together, then what would we have seen to the numbers month by month since the JPOA went into effect?

Mr. HOCHSTEIN. I think it is probably better to have this conversation, because when we look at the numbers there is differences in how we look at numbers, and I probably shouldn't get into the conversation in this open forum; but I am happy to come back in a classified setting and have that conversation.

Mr. DEUTCH. Okay, great. We will look forward to having that discussion in a classified setting, and I looked forward to it because I think that there is, for all of the discussions about what has happened during the term of the JPOA and the levels having been frozen, distinguishing between crude oil and petroleum products when, I think most of us had always expected petroleum products and crude oil, except for my friends from Texas who would probably understand better, petroleum products and crude oil to be the same thing.

So what is nagging at me, and I am sure the chairman as well, what else have they done to increase their revenue to their economy by perhaps selling more condensate, by perhaps finding other ways to technically ensure that their importers remain in compliance with the law while permitting them to increase sales? That is the discussion I will look forward to having unless there is anything else you would like to comment on, then?

Mr. HOCHSTEIN. No, I think we are happy to have that conversation in another setting. I know it sounds pedantic or semantic, but to underpin their economy or to support their economy, again, those funds, whether they are coming from petroleum products or from crude oil, are still locked up in the banks overseas and not supporting their economy.

Mr. DEUTCH. Well, I understand. We can discuss that further as well, but I appreciate your being here, and I think that the next discussion will be fruitful as well as we go forward.

Thank you, Madam Chair.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Deutch.

And we want to thank you for coming here and testifying. And thank you to the audience and the members of press.

And with that, the subcommittee has adjourned. Thank you.

[Whereupon, at 11:27 a.m., the subcommittee was adjourned.]

A P P E N D I X

Material Submitted for the Record

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

Subcommittee on the Middle East and North Africa
Ileana Ros-Lehtinen (R-FL), Chairman

June 4, 2014

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Subcommittee on the Middle East and North Africa, to be held in Room 2172 of the Rayburn House Office Building (and available live on the Committee website at www.foreignaffairs.house.gov):

DATE: Wednesday, June 11, 2014

TIME: 10:00 a.m.

SUBJECT: Assessing Energy Priorities in the Middle East and North Africa

WITNESSES: Mr. Amos J. Hochstein
Deputy Assistant Secretary for Energy Diplomacy
Bureau of Energy Resources
U.S. Department of State

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 Middle East and North Africa* HEARING

Day *Wednesday* **Date** *06/11/14* **Room** *2172*

Starting Time *10:05 a.m.* **Ending Time** *11:27 a.m.*

Recesses *0* (___to___) (___to___) (___to___) (___to___) (___to___) (___to___)

Presiding Member(s)

Chairman Ros-Lehtinen

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
Televised ☑

Electronically Recorded (taped) ☐
Stenographic Record ☑

TITLE OF HEARING:

Assessing Energy Priorities in the Middle East and North Africa

SUBCOMMITTEE MEMBERS PRESENT:

Reps. Ros-Lehtinen, Chabot, Weber, Yoho, Deutch, Connolly, and Kennedy

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

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.)*

SFR - Rep. Connolly

TIME SCHEDULED TO RECONVENE ________
or
TIME ADJOURNED *11:27 a.m.*

Subcommittee Staff Director

Statement for the Record
Submitted by the Honorable Gerald E. Connolly of Virginia

The energy picture in the United States has undergone transformative change in the last decade defined by a decreased reliance on imports, as well as the promotion of greater fuel efficiency and renewable energy sources. However, no level of energy independence will relieve us of our duty to engage energy policy through our diplomatic activities abroad. Nowhere in the world is this demonstrated more clearly than in the Middle East and North Africa (MENA).

The U.S. is the world's largest producer of natural gas, which is now the number one source of domestically produced energy, replacing coal. The U.S. imports only 12 percent of its total natural gas consumption. Crude oil imports to the U.S. have declined by one quarter since 2005, from 10.1 million barrels per day to 7.7 million barrels per day, and domestic crude oil production increased in 2012 by more than any other year in the history of U.S. crude oil production. The Obama Administration has prioritized fuel efficiency to continue a downward trend in oil consumption, and since 2005, oil consumption has declined by 10 percent. The Administration also set a goal to generate 80 percent of our electricity from various clean energy sources by 2035.

However, our energy policy cannot exist within a vacuum so long as energy continues to be a source of international trade, conflict and prosperity. Despite our reduced direct reliance on countries in MENA for oil and natural gas, we remain engaged in diplomatic mediation on energy issues and have trading partners and allies that depend on MENA energy sources.

For example, Turkey, a close and trusted ally, imported 65 percent of its crude oil from Iran (35), Iraq (17) and Saudi Arabia (13) and 74 percent of its natural gas from Russia (56) and Iran (18) in 2012. Certainly there is a role for our diplomatic apparatus to play in decreasing an ally's energy reliance on a regional bad actor in MENA. To the extent that the U.S. could help strengthen energy ties between Turkey and Israel through a potential pipeline between the two countries, we would be facilitating economic growth for both domestic economies, improving relations between two important allies, and isolating an irresponsible regime in Tehran.

Our witness today is from the Bureau of Energy Resources at the State Department, a bureau created as a result of the Quadrennial Diplomacy and Development Review and tasked with executing our energy diplomacy. I look forward to hearing from Mr. Hochstein about how our diplomatic interests are inextricably tied to energy priorities in MENA, a region that is home to 4 of the world's top 10 oil producers and 3 of the top 10 natural gas producers. Promoting energy stability is necessitated by the interdependence of the global energy economy and it offers the prospect of prosperity for allies and improved relations between energy trading partners.