Testimony of Deputy Assistant Secretary of State Matthew M. Rooney
Before the House Foreign Affairs Committee
Subcommittee on Western Hemisphere
United States House of Representatives
"Energy and the Western Hemisphere"
April 11, 2013

Chairman, Ranking Member, honorable Committee members, it is a pleasure to be here today to testify on energy issues in the Western Hemisphere. We welcome the Committee's attention to this issue and appreciate its support of our efforts to advance U.S. and regional energy security throughout the hemisphere.

The Americas hold tremendous strategic importance to the United States in terms of energy. Latin America is home to the second largest reserves of oil outside the Middle East. Currently, over 50 percent of the United State's oil imports come from countries in the Western Hemisphere. As energy demand continues to grow – both globally and in the region – all countries in the hemisphere have a vested interest in developing energy resources and capacity to fuel sustainable economic growth. But we should also take a broader view of the central role that energy plays in the lives of our citizen. Energy touches everything, and is at the crux of some of the most pressing social, financial, and environmental issues we deal with in the region.

This is why our engagement on energy continues to be a central part of our broader economic policies and engagement strategy in the region. While our efforts are wide-ranging, our strategy is focused. Through both bilateral and multilateral efforts, we are supporting regional energy security by promoting the safe, sustainable development of energy resources; increased access to affordable, reliable energy services; and the development of transparent, effective market structures that incentivize private sector investment and provide opportunities for U.S. businesses in the region.

A Safe, Sustainable Energy Future

In coming years, our energy interdependence with the region will only increase, as oil producers such as Canada, Brazil, and Colombia ramp up output, and Mexico, already a major energy producer, considers important reforms to increase its production. This is why we're focused on working with our hemispheric partners to ensure that hydrocarbon resources – both conventional and unconventional – are developed safely, efficiently, and sustainably. The United States has extensive experience and has developed significant expertise in permitting, regulatory oversight, and incident response planning for conventional and unconventional resource exploration and extraction. The Administration is sharing these environmental,

regulatory, legal, and commercial best practices with other countries in the region to ensure that resources are developed in a responsible and environmentally-sustainable manner.

But while countries like Canada, Mexico, Brazil, and Venezuela have significant hydrocarbon resources, others in Central America and the Caribbean are fully dependent on importing energy, and do so at a high price. In the Caribbean, over 90 percent of commercial energy consumption is petroleum-based, and over 95 percent of all electricity is generated by fossil fuels.[i] This over-reliance on one resource is incredibly expensive, rendering these countries less competitive and unduly vulnerable to price shocks and geopolitics.

This is one of the many reasons it makes sense to focus on the Western Hemisphere's large potential for renewable energy. In many Latin American countries, hydropower already plays an important part in their energy mix; most countries also possess significant wind, solar, geothermal, and bioenergy potential. In Latin America and the Caribbean, where electricity prices are high, renewable energy technologies, such as solar and wind, can be quite cost-competitive with respect to thermal generation. Despite these advantages, countries in the region have historically been slow to adopt the use of renewable energy, with the exception of hydropower and traditional biomass, due to the small scale of individual markets, lack of awareness, inadequate regulatory policies, and a shortage of private investment or other forms of project financing.

In recent years, however, interest in exploiting the region's renewable energy potential has been increasing steadily. Through the Energy and Climate Partnership of the Americas (ECPA), which was launched by President Obama at the 2009 Summit of the Americas, the United States is working with governments, the private sector, and NGOs in the region to promote development and deployment of renewable resources and technologies in places where those technologies can make a difference. For example, through a pilot-project grant to the Organization of American States, we supported the installation of solar panels at the National Energy Commission headquarters in the Dominican Republic, the country with the highest rate of power outages in the region. The Government of the Dominican Republic is now seeking to install solar panels on other government buildings, and has highlighted this project as a best practice to be replicated country-wide.

In South America, governments are taking note of the benefits that renewable technologies can offer, and are integrating them into their grids and establishing renewable energy targets. Coupled with a decrease in technology costs and government incentives for investment, this has spurred growth in renewables, particularly in wind and solar. Industry experts predict that more than 450 megawatts will be generated by grid-connected photovoltaic solar panels installed in Latin America and the Caribbean this year, up from just 100 megawatts in 2012.[ii] Brazil, Chile, and Mexico are expected to be the drivers of the majority of the growth.

It is important to acknowledge that energy development projects, either with conventional or renewable resources, are not without controversy. In recent years, large-scale hydropower projects have begun to attract more concern among human rights and environmental groups. Such projects can require land acquisitions and resettlement of people, lead to soil erosion of surrounding land and adversely affect animal and plant life of the region. The construction of new transmission lines can improve the stability of power markets, lower prices for consumers, and increase access to electricity, but their construction can also have adverse environmental impacts. Communities are often caught in the middle. Our engagement, however, can help bridge these issues. In Panama, for example, an indigenous community in the Embera region was opposing proposed transmission lines that would run through its territory. Our embassy in Panama invited the community's leaders to visit the United States and meet with U.S. government representatives and indigenous groups in the Pacific Northwest to learn how to negotiate with power companies. During their visit, they told us: "We know this is a business proposition, and we know that no one will benefit if the line is not built. But we also want development, and we also need energy." Since their visit, the Interconnection Colombia Panama consortium has been working with the community, which has now approved the initial stages of environmental assessments for the transmission lines, and the government is taking steps to address their energy needs through the Government of Panama's Department of rural electrification.

Access to Affordable, Reliable Energy Services

Despite the region's role in global energy production and the wealth of energy resources it possesses, more than 31 million citizens in the hemisphere still lack access to electricity. This impacts the development of communities, the health of families and children, and overall economic prosperity. In rural communities not connected to the grid, it is common practice to harvest wood for cooking in a traditional but unsustainable way. Wood used for in-home or open fire cook stoves causes air pollution and deforestation, and can have serious negative impacts on health. In communities across the hemisphere – from Mexico to Paraguay – thousands of people die each year because of injuries and illness associated with traditional and open-fire cookstoves. The use of cleaner cookstoves and cleaner burning fuels can solve multiple problems at once. Through the ECPA, the Department of State is supporting programs that provide clean cookstoves and increase access to sustainable, reliable, and affordable electricity services. In Central America, the U.S.-based non-profit *Trees, Water, and People* is using a grant from the Bureau of Western Hemisphere Affairs to partner with local organizations to provide training for in-home, off-grid solar technologies and fuel-efficient cookstoves to rural residents. We also support Peace Corps volunteers in eleven countries in

the region working with rural communities to build awareness of renewable, off-grid energy technologies that educate citizens on energy conservation, support small-scale, community-led renewable energy projects, and improve quality of life by generating income while reducing carbon emissions. These projects, and others like them, are critical to alleviate poverty and support low-emissions economic development in the region.

But access to electricity is not our only goal. Electricity must also be reliable and available at an affordable price. In the Caribbean and Central America, electricity costs are three-to-four times more expensive than the United States. In the past 12 months we have seen high prices and the threat of wide-spread blackouts spur social unrest in countries across the region, including the Dominican Republic and Guatemala.

To mitigate the hardships imposed by such high-costs, many governments in the region provide significant energy subsidies to consumers. Throughout the world, market-distorting energy subsidies have proven an inefficient mechanism for protecting the poor since they allow leakages into wealthier social groups and result in higher demand volumes and energy shortages. According to the International Energy Agency, energy subsidies cost Ecuador approximately $5 billion U.S. dollars per year, Mexico $10 billion per year, and Venezuela up to $20 billion a year.[iii] Additionally, subsidies place an increasing burden on governments' accounts and divert scarce resources away from issues such as education spending, healthcare, and citizen security.

We are addressing the issues of access, affordability, and reliability through Connecting the Americas 2022 (Connect 2022), the newest hemispheric initiative under the ECPA. Connect 2022 was launched by the Government of Colombia at the 2012 Summit of the Americas with the vision of providing universal access to affordable, reliable electricity within the next decade. For smaller economies and energy markets, electrical interconnection can decrease the cost to consumers through greater market efficiency and lower generation costs. Interconnection can also minimize shortages and supply disruptions, especially in a region that is highly dependent on hydropower and imported oil and vulnerable to severe climate events. Realizing the vision of hemisphere-wide electrical interconnection and increased access to electricity over the next decade will require strong government action and vigorous private sector investment - and work is already underway.

Transparent, Effective Market Structures

Within the Americas there is broad support for democratic values, market-based economies, and regional integration. These shared values provide a base for robust engagement on energy

sector development. Our geographic proximity, technological expertise, and industry leadership make U.S. energy companies highly competitive in the region's expanding markets.

Our work under ECPA and Connect 2022 supports regional market development and business opportunities. Increased electrical interconnection in the region will open broad opportunities for investment in electrical generation and transmission, as well as in grid management technology - all areas where U.S. businesses are highly competitive. It will also help create a business climate that accelerates development of renewable energy as countries swap power with one another to more effectively utilize clean energy resources.

Additionally, we are working with the Department of Commerce, the Export-Import Bank, and the Overseas Private Investment Corporation to provide better and more readily available information on investment opportunities throughout the hemisphere that may be attractive to U.S. businesses.

We still face major challenges in the Americas. Countries that have pursued statist, non-transparent energy policies have seen their production decline despite high energy prices over the past couple of years. These countries have found it difficult to attract the necessary investments, both foreign and domestic, to help their energy production and economies grow. But our balanced approach of focused technical cooperation and broad policy discussions has provided an avenue for engagement with most countries in the region – even some with which we have significant differences. We continue to advocate open and transparent energy markets, free from corruption and reinforced by strong protections for investments, to help countries enhance output and promote long-term economic growth.

The Future of Energy in Western Hemisphere

As our closest neighbors and strongest trading partners, the energy and economic security of the hemisphere is critically linked to our own. Increased production, diversification of resources, and economic growth have increased regional energy security. We have maintained a sharp focus on furthering our national energy security, promoting alternative and renewable sources of energy, fostering energy efficiency, promoting environmentally sound production and use of energy, and ensuring the stability and security of the international energy supply. Continued progress toward a cleaner, more diversified energy future will require patience, continued commitment, and robust engagement.

Thank you Mr. Chairman, Mr. Ranking Member, and members of the Committee for your time. I appreciate your continued support and attention to this issue and the opportunity to testify. Thank you.

[i] IDB: Renewable Energy Best Practices in Promotion and Use for Latin America and the Caribbean, November 2011.
[ii] Solar in Latin America & the Caribbean 2013, GTM Research.
[iii] Source: IEA World Energy Outlook 2011.