



Statement Before the
House Committee on Foreign Affairs
Subcommittee on Western Hemisphere

“Energy Opportunities in North America”

A Testimony by:

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Good morning Chairman Duncan, Ranking Member Sires, and members of the subcommittee. It is my pleasure to be here today to speak with you about *energy opportunities in North America*. My name is Sarah Ladislaw, and I direct the Energy and National Security Program at the Center for Strategic and International Studies (CSIS). CSIS is a bipartisan, nonprofit organization headquartered in Washington, D.C. The CSIS Energy and National Security Program provides strategic insights and forward-thinking policy guidance that balances economic, environmental, and security priorities in the context of market and geopolitical uncertainties. My remarks and written testimony represent my views and not the views of my colleagues or CSIS as an institution.

One thing Democrat and Republican candidates had in common during our last round of elections is that they recognized that the United States has amazing energy resources that can play an important role in fueling our economy, creating jobs, and advancing our foreign policy objectives. This newfound energy confidence is a shift in sentiment from years past when growing energy import dependence and high prices left the United States feeling vulnerable to global market disruptions and searching for secure alternatives.

For decades, as part of the quest for greater energy security, the United States worked with its neighbors, Canada and Mexico, to cultivate the kind of economic and security advantages that come with an integrated, close-proximity market in energy trade. We signed trade arrangements, fostered cross-border infrastructure, met regularly to discuss energy policy and regulatory issues, and even sought to harmonize standards relating to electric reliability, offshore drilling safety, and a host of other issues.

Because of those efforts, North America is now one of the most energy-advantaged continents on the planet with ample oil, natural gas, coal, nuclear, solar, biomass, wind, and hydropower resources. On the fossil fuel side of the equation, the continent accounts for 14 percent of world oil reserves and 6 percent of global natural gas reserves, from which it produces 23 percent of global oil and 27 percent of global natural gas. North America is the second-largest producer of wind and solar and the second-largest producer of hydropower. North America also accounts for 22 percent of global primary energy consumption.

Even beyond its basic resource base, North America has attributes that make it additionally advantaged. Canada, Mexico, and the United States are generally regarded as stable countries in which to do business and have excellent labor pools from which to draw talent, world-class universities and hubs of innovation, access to financing, and robust private-sector capabilities. As one long-time energy executive once told me: resources alone are not enough; to make any energy project work you must have the “critical math”—a market for the resources; access to finance, technology, and skilled labor; infrastructure; a sound political, legal, and commercial environment; and proper return on investment. North America has this critical math.

Because of this energy advantage and the slowing of our energy demand growth, North America is coming close to achieving energy self-sufficiency. According to the 2017 BP energy outlook,

North America is projected to be energy self-sufficient by 2020.¹ For nearly 40 years, American politicians have set the goal to reach energy independence. Today, the United States, together with its partners in Canada and Mexico, are closer to achieving energy self-sufficiency than anytime during that period. The idea of energy independence has deep roots. Initially conceived in response to America's vulnerability to oil supply disruptions brought about by the Arab oil embargoes, years later the concept was resurrected as American troops headed off to the Middle East for what many politicians believed were oil-derived foreign policy interests in Iraq. And then again the goal took on new prominence as strong Chinese energy demand growth started to raise concerns about resource competition. Energy independence has been a consistent theme of U.S. energy policy because it resonates with the American public and speaks to so many objectives sought by policymakers: insulation from security, economic, and foreign policy vulnerabilities. So, does self-sufficiency mean we have achieved all the promise of energy independence? Definitely not.

Particularly at this moment in time, it is important to note that even as a net exporter of energy, the United States and its partners in North America will continue to be dependent on trading relationships throughout the world for economic and security benefits. Instead of looking to the world for energy resources to fuel our inexhaustible growth, we will be looking to rapidly growing markets to sell our resources and technologies. We will also need our energy trading partners within and outside the hemisphere to achieve economic and security advantages that come from building trade relationships. Indeed, North America's energy advantage does not mean complete independence or isolationism—nor does it mean this emerging idea of “energy dominance” is a viable or desirable mindset even for the most energy abundant regions in the world, especially given that the U.S. has benefited from cooperative trade in energy for many decades and still imports nearly 8 million barrels a day of crude oil, only some of which comes from our North American neighbors

Even with this energy advantage, North America is still faces energy related challenges, many of them having to do with the societal objectives that influence our energy production and use, like economic growth, security, job creation, and environmental sustainability. Many of the challenges are also related to the important changes taking place in the energy sectors of our respective economies, namely oil and gas production, electricity production, transmission and use, and transportation. Indeed, North America's energy sectors are transitioning in terms of the source, amount, location, and transportation of energy production and consumption. Two years ago, the CSIS Energy and National Security Program called attention to the amazing oil supply resurgence happening in the United States and the impacts it was having on the volume, location, and quality of oil supplies on the continent, including implications for future oil production, transportation, and use within North America.² Over a period of two decades, North America's oil production landscape has undergone some profound changes, including the onset of oil sands production in Canada, the decline in oil production in Mexico, and the dramatic surge in U.S. tight oil production. These developments have led to even more dramatic changes in the oil

¹ BP, “BP Energy Outlook 2017: Regional Insight - North America,” <http://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2017/bp-energy-outlook-2017-region-insight-north-america.pdf>.

² Frank Verrastro, et al. “Delivering the Goods: Making the Most of North America's Evolving Oil Infrastructure”, February 26, 2015. <https://www.csis.org/analysis/delivering-goods>

delivery infrastructure on the continent, to lifting a decades old oil export ban in the United States, to a historically significant change in the Mexican constitution allowing for private investment. Similarly dramatic changes are taking place in natural gas supply and delivery in North America—with the United States serving as an LNG exporter and major supplier of gas to Mexico—and in the electric power sector where shifts in consumer preference, available technologies, the cost of renewable energy, and a preference for low-carbon energy sources are challenging existing systems and creating new opportunities in electric power markets throughout the continent.

Indeed, these are exciting and complex times in the North American landscape. So, what should North America do with its energy advantage? In my view, we should foster it by promoting much of what has made it successful thus far - working towards greater integration and shared priorities. In order to make the most of these energy advantages Canada, Mexico, and the United States should:

- *Continue to prioritize high-level energy policy dialogues.*
Each of the last three administrations has engaged in tri- and bilateral dialogues to exchange views and even coordinate actions on areas of common interest. These dialogues have helped foster shared understanding during times change of disagreement and have even led to coordinated approaches to electric reliability. They have also been a forum for soliciting private sector and civil society views that can help inform policy and regulatory discussions. Under the Obama administration, the three countries of North America set forth some aggressive joint objectives in the areas of data, regulatory cooperation, clean energy promotion, methane emission reduction, and much more. Not all of these objectives will match the priorities of the Trump administration, but some are worth doing regardless of the potential difference in agendas. Given the amount of change going on in North America's energy sectors, these dialogues should be continued and prioritized.
- *Modernize NAFTA to prepare for the future.*
The United States has signaled its intent to reopen the North American Free Trade Agreement (NAFTA). North America's energy sector has benefitted from but is not overly impacted by the provisions within NAFTA. An excellent paper written by Laura Dawson of the Woodrow Wilson Center points out that oil, natural gas, and electricity are traded duty free, and products related to energy have relatively low tariffs.³ NAFTA affects rules governing investment, services, government procurement, and rules of origin, which in turn impact the energy sector but more tangentially. When it comes to energy and NAFTA a "do no harm" approach should be taken, recognizing that free trade in energy across borders is still in North America's interests. While many of the concerns related to NAFTA have little to do with the energy sector, energy trade can be held hostage to other contentious issues or can be affected by other trade-related measures like the various Buy America proposals being discussed in the United States today. There are things that can be done to address the economic dislocations being experienced in many

³ Laura Dawson, "What do NAFTA renegotiations mean for the North American energy sector?," Wilson Center, April 3, 2017, <https://www.wilsoncenter.org/article/what-do-nafta-renegotiations-mean-for-the-north-american-energy-sector>.

parts of North America and ways to build additional energy advantages among the three countries, but few of these lie within the context of renegotiating NAFTA.

- *Regionalize infrastructure discussions.*
Congress and the administration have indicated that investing in infrastructure is a priority. Regardless of efforts to streamline or invest in the nation's infrastructure, many of the obstacles faced by developers are at the local and regional level and many of these involve cross-border pipelines or infrastructure. Whether pipelines through the Midwest or transmission lines in the Northeast and Southwest, infrastructure development requires a regional approach to overcome emerging opposition to much of the continent's midstream infrastructure. There may also be benefits to creating regional strategies to develop innovation clusters and create ties between states and provinces that are pursuing aggressive low-carbon policies.
- *Assess and address vulnerabilities.*
Despite North America's energy advantages it still has vulnerabilities. For example, all three countries are impacted by global oil supply disruptions, which can drive up prices and create delays and/or shortages for various fuels. As the United States experienced with propane shortages in 2015, market and weather conditions can combine to create shortages even in a country experiencing a period of relative energy abundance. While oil markets are currently well supplied, in times of disruption—whether caused by hurricanes, as was the case in 2003 and 2005, or political instability in other countries, like the Venezuelan disruption in 2000 and Libya outage in 2013—North America benefits from shared infrastructure, strategic stockpiles of oil, and being part of a global network of strategic petroleum supplies.

Another good example is the vulnerability of the continent's energy systems to cyber attacks and more mundane but still serious issues of reliability. Earlier this year the Department of Energy released the second installment of the Quadrennial Energy Review, which offered a number of recommendations about how North America should strengthen its reliability measures (particularly between the United States and Mexico) and to work together to assess and prepare for cyber vulnerabilities as well.⁴

In closing, I want to thank the committee for taking on this important topic. North America is one of the most energy-advantaged continents on the planet. Even beyond its basic resource base, North America has attributes that make it additionally advantaged. North America's energy advantage does not mean complete independence or isolationism. North America's energy sectors are transitioning in terms of the source, amount, location, and transportation of energy production and consumption. In order to make the most of these energy advantages, Canada, Mexico, and the United States should modernize NAFTA and other trilateral mechanisms to prepare for the future; regionalize infrastructure discussions; and assess and address vulnerabilities to continental energy security. Thank you and I look forward to the discussion.

⁴ U.S. Department of Energy (DOE), *Quadrennial Energy Review: Transforming the Nation's Electricity System: The Second Installment of the QER* (Washington, DC: DOE, January 2017), 7-28, <https://www.energy.gov/sites/prod/files/2017/02/f34/Quadrennial%20Energy%20Review--Second%20Installment%20%28Full%20Report%29.pdf>.