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"Energy Issues in the Western Hemisphere"

Mr. Chairman, Ranking Member Burton, honorable committee members, it is a pleasure to be here today to testify on energy issues in the Western Hemisphere. We welcome the attention being paid to the key issue of energy by the Committee, and appreciate its support of our efforts to advance U.S. and regional energy security throughout the Hemisphere.

The United States, along with many other countries, is facing a stiff challenge in rising energy prices. The escalating price of oil is a drag on American consumers' pocketbooks and on the U.S. economy and is adding to inflationary pressures. Rising energy prices also are hitting many developing countries hard, including many in our Hemisphere. I know this Committee shares our deep concerns in this regard.

Addressing these challenges requires continued robust engagement, long-term commitment and patience. As President Bush recently noted, global fundamentals are driving the long-term price of oil: "Demand for oil has increased, and supply has not kept up with it."

These hard facts and fundamental imperatives are driving our active diplomacy in the Hemisphere. In this region, we have maintained a sharp focus on furthering our national energy policy goals of diversifying our energy suppliers, increasing the flow of energy from traditional suppliers, promoting alternative energy sources such as biofuels, and fostering energy conservation and efficiency, promoting environmentally sound use of energy, and ensuring the stability and security of the international energy supply system.

Conditions exist within the Hemisphere to enable this long-term strategy to succeed. A "revolution of expectations" has lifted the political and economic sights of the citizens of the Western Hemisphere. With a few exceptions, the Americas enjoy shared democratic values, and there is broad support for free markets and economic integration. The region's economies have been growing for the past six years, and all countries in the Hemisphere have a vested interest in developing the capacity needed to fuel further economic growth. A key challenge in meeting burgeoning expectations is to help governments distribute the gains of economic growth to people who are anxious for democracy to provide greater prosperity.

In this context, the Administration has deepened its energy diplomacy in the region. The Western Hemisphere is a region blessed with bountiful energy resources, but also one that is characterized by energy haves and have-nots. We are working to help our hemispheric partners who do not have ready access to hydrocarbons, and are working to encourage responsible economic and environmental stewardship among those that do.

Of course, there is also a legitimate element of self interest in our work. What happens in hemispheric energy markets deeply affects us at home. Nearly half of our total crude oil and petroleum imports, and virtually all of our natural gas imports, come from Western Hemisphere countries. I think many Americans would be surprised to learn that three of our top four oil suppliers are in the Americas. Canada is our largest oil supplier, meeting nearly 20 percent of our daily oil imports. Mexico is our second largest supplier, at about 11 percent, and Venezuela is our fourth, providing 10 percent of our oil imports. Trinidad and Tobago is our top supplier of liquefied natural gas (LNG). The region is also home to the world's two largest biofuels producers, the United States and Brazil, which have begun active cooperation in this field.

Our energy diplomacy in the Hemisphere extends from the Arctic to the Straits of Magellan. To our North, for example, we are working to bring more energy to market from Alaska and Canada. Throughout the region, we are playing a key diplomatic role in encouraging the Organization of American States to make energy an essential area of focus. We have launched a promising biofuels partnership with Brazil that has the potential to transform the energy prospects of many of our neighbors.

While our efforts are wide-ranging, what I would like to cover this morning are four key objectives: 1) maintaining and expanding traditional sources of

energy, 2) developing new sources of conventional energy, 3) developing alternative sources of energy, and 4) using diplomacy to address the Hemisphere's energy challenges.

I. MAINTAINING AND EXPANDING TRADITIONAL SOURCES OF ENERGY

Our starting point in the Hemisphere is to maintain and expand traditional types and sources of energy. We are focused on ensuring that our traditional suppliers are bringing as much energy to market as possible. I would like to address our efforts with respect to three of our most important energy suppliers: Canada, Mexico and Venezuela.

Canada

Canada remains our leading supplier of imported petroleum, natural gas, and electricity. Ours is an integrated market, supported since 1988 by a bilateral Free Trade Agreement and since 1994 by the North American Free Trade Agreement, facilitating the flow of all energy commodities in both directions. It would not be an exaggeration to say that the United States and Canada enjoy the largest bilateral energy relationship in the world. The Canadian energy sector is developing its oil sands reserves, with production now at 1.2 million barrels per day and projected to reach 3 million barrels per day by 2015. These oil sands reserves are anchoring Canada as a pillar of hemispheric energy security.

Faced with static production by OPEC and generally struggling non-OPEC production, Canadian oil is increasingly important to U.S. and global energy markets. According to the International Energy Agency (IEA), Canada accounted for over half of the increase in non-OPEC oil production last year. In 2003, for the first time, the Oil and Gas Journal recognized Canada's oil sands as "proven reserves." With this important delineation, Canada's proven crude oil reserves are now estimated at nearly 180 billion barrels, making it the world's largest holder of oil reserves after Saudi Arabia. We realize, of course, that development of Canadian heavy oil reserves is more energy and capital intensive than the traditional reserves of the Persian Gulf, but their proximity to the United States makes engagement with Canada on energy all the more crucial to our energy security.

As Canada's oil production grows, so does the need for enhanced energy supply routes between the United States and Canada. The Department of State has

the responsibility of issuing presidential permits for trans-border petroleum pipelines. As a way to increase the diversity of energy supply routes, this Administration has moved to streamline and modernize the permitting process. Under an Executive Order signed by President Bush, we are affording our neighbors greater consultation, setting a reasonable 90-day interagency review period, and strengthening environmental protection by instituting a comprehensive review process, including vetting by the EPA. Our efforts come at a key juncture, just as we prepare to receive greater volumes of Canadian oil. This is an important recent example of how we are increasing energy integration and supply route diversification in North America.

I want to assure you that we also are mindful of the importance of Canada's oil sands being developed in an environmentally sensitive manner, and that we are aware of the concerns that the oil sands have raised. The environmental footprint of heavy oil development has been improving. For example, the amount of energy and water used in extracting these reserves is trending down, and we are engaged in a dialogue with Canada to encourage continued progress.

These and other issues were thoroughly discussed at the annual U.S.-Canada Energy Consultative Mechanism, which I recently co-chaired with senior Department of Energy and Canadian officials at the State Department. I also visited Ottawa earlier in the year and Department of State and Energy officials stay in close contact with Canadian officials on energy issues. This regular engagement enables us to raise bilateral issues and concerns, and to manage our very broad, important and stable energy relationship. As in any complex energy relationship, there are areas where we disagree, and we have expressed our concern that Canada has not cooperated fully in the maritime assessment of proposed LNG projects in Maine which would require LNG tankers to transit the Head Harbor Passage between Maine and New Brunswick, Canada.

Mexico

Mexico traditionally has been another of our leading energy and trading partners. Energy trade with Mexico is not a one-way street. We import crude oil, about 1.3 million barrels per day thus far this year, and some electricity from Mexico, but we also supply Mexico with nearly 20 percent of its refined petroleum products needs and we remain a net natural gas exporter to Mexico.

Mexico's oil production is declining, and aging fields like Cantarell have already passed their peak. The International Energy Agency projects that

production will fall from current levels of 3.2 million barrels per day at present to 2.6 million barrels per day by 2013. Under the Mexican constitution, foreign control and upstream investment in oil resources are prohibited. As the first clause of the NAFTA energy chapter states, we respect each of our partner's constitutions, and they respect ours.

Mexico will make its own decisions on whether or how to reform its energy sector. Mexico has taken some steps to liberalize transportation, distribution, and storage of natural gas, and has successfully attracted domestic and foreign investment to that sector. In recent years, integration has increased at the border, with the addition of more cross-border gas pipelines, and LNG terminals in Mexico. U.S. companies are participating in some of these projects, which will help Mexico increase its natural gas supply gas in the medium-term, and contribute to its goal of becoming an exporter of gas to the United States in the longer-term.

Venezuela

Venezuela is another country that has been experiencing a decline in output, with production levels falling from 2.52 million barrels of crude oil a day in 2004 to 2.39 million barrels a day in 2007. This decline has been due largely to declining investment in the energy sector. Historically, the United States and Venezuela have enjoyed a mutually beneficial energy relationship. Venezuela, through Petróleos de Venezuela, S.A. (PDVSA, the Venezuelan state-owned petroleum company) and its subsidiary CITGO, owns refineries, asphalt, and petrochemical plants, and a sizable distribution network in the United States. Annually, Venezuela is among our top five foreign oil suppliers. On the other hand, we are also Venezuela's principal customer and largest trading partner by a factor of two. While Venezuelan exports make up 10 percent of U.S. crude imports, over 60 percent of Venezuela's crude exports go to the United States. Accordingly, the State Department seeks to keep open diplomatic channels with the government of Venezuela in an effort to sustain our energy relationship, and we stand ready to work with Venezuela on issues of regional energy security.

II. DEVELOPING NEW SOURCES OF ENERGY

Encouraging increased production of oil and gas is one element of our hemispheric energy strategy but given supply and demand dynamics more needs to be done. In order to address the Hemisphere's growing energy needs, we also have to develop new sources of energy. I want to highlight three general areas of

promise in this regard, including: oil from Brazil and Colombia, natural gas from Canada and Alaska, and a range of potential energy from the Arctic.

Brazil and Colombia

Oil production in Brazil has risen steadily in recent years, climbing from 800,000 barrels a day in 1990 to nearly 2 million barrels a day in 2006, about 200,000 barrels a day of which are exported to the United States. The Department of Energy (DOE) estimates that with current consumption and production, Brazil will become a net oil exporter in the near future. In 2007, the Government of Brazil announced that the Santos basin, located off the country's southeast coast, could contain 30-40 billion barrels of oil – three to four times current proven reserves – potentially putting Brazilian reserves in the top 10 in the world. Bearing in mind that production from any new finds would be several years away, the discovery of billions of new petroleum reserves in our Hemisphere could greatly enhance our energy security, especially considering the market-oriented approach that Brazil has taken thus far.

Colombia is a net petroleum exporter, registering 1.45 billion barrels of proven crude oil reserves in 2007, the fifth-largest amount in South America. Half of Colombia's oil production is exported abroad, with the bulk of those exports, about 155,000 barrels per day going to the United States. In 1999, the Colombian government implemented a partial privatization of state oil company Ecopetrol in an attempt to revive its upstream oil industry. These measures contributed to creating an attractive oil investment regime, generating $2 billion in investment from foreign oil companies in 2006.

As members of this Committee know, there are a number of economic and foreign policy reasons to support the Colombia Free Trade Agreement (FTA). One economic rationale that has not been frequently discussed is the potential impact of the FTA in encouraging further development of Colombia's energy sector. For example, the FTA could increase foreign direct investment in Colombia's energy sector, which could boost Colombia's energy production.

Canadian and Alaskan Natural Gas

Canada holds vast natural gas resources in its Mackenzie Valley. Similarly, the state of Alaska holds vast untapped natural gas resources. Bringing these reserves to market will enhance energy security throughout North America. As an Alaskan resident, I am well aware of the promise that Alaskan reserves hold for

that state and for the entire United States. Alaska has been in a decades-long negotiation with producers to harness this gas, and is now productively engaged in negotiations on the development and transport of that gas. Successful conclusion of these negotiations will be followed by an application to the Federal Energy Regulatory Commission, and also the need for an understanding with Canada on the transit of this gas through its territory, if that is the route chosen. Working with the Office of the Federal Coordinator, the State Department would play an important role in paving the way for a gas pipeline through Canada. We have made clear to our Canadian counterparts that we are ready to move swiftly on this front, and our sustained diplomacy with Canada will help to ensure that this process moves expeditiously. Today, Alaskans are generating significant momentum towards the development of their natural gas. We welcome this and urge all parties to do what they can to advance the day that these much-needed clean, conventional supplies can be tapped to benefit all Americans.

Other Arctic Resources

Finally, I would like to mention potential energy exploration in the Arctic. The U.S. Geological Survey recently estimated that the area north of the Arctic Circle holds about 22 percent of the undiscovered, recoverable oil and natural gas resources identified so far in the world. Indeed, very significant amounts may be discoverable under the continental shelf off Alaska. It is important that we tap these resources in an environmentally safe way.

The United States is not a party to the Law of the Sea Convention. The other countries bordering the Arctic Ocean, which are all parties to the Convention, are busy maximizing the international recognition of their extended continental shelves beyond 200 nautical miles from their shores. As a party, the United States would be in the best position to maximize the legal certainty and international recognition surrounding its extended shelf. Furthermore, as President Bush has noted, joining the Convention "... will serve the national security interests of the United States…[and]...will secure U.S. sovereign rights over extensive marine areas, including the valuable natural resources they contain."

III. DEVELOPING ALTERNATIVE SOURCES OF ENERGY

In addition to focusing on traditional hydrocarbons, we are working to develop alternative energy in the Hemisphere.

Biofuels

The IEA recently released an oil market report which nicely summarizes why biofuels are important to the overall liquid energy supply. The IEA states: "[B]iofuels have helped to diversify energy supply. Compensating for the additional supplies that have been met through ethanol and biodiesel supply growth in Europe and the United States since 2005 would require around 1 million barrels per day of crude oil to be processed. Given the poor performance of non-OPEC production and relatively low spare capacity, clearly much higher petroleum prices would be in place now if those biofuels had not been available."

In March of 2007, Secretary of State Condoleezza Rice and Brazilian Foreign Minister Celso Amorim launched an important initiative to advance cooperation on biofuels in the Hemisphere. As the world's two largest producers of biofuels, the goal of this partnership is to highlight the importance of biofuels as a transformative force in the region, diversify energy supplies, catalyze the use of biofuels in the region, bolster economic prosperity, advance sustainable development, and protect the environment.

The initiative seeks to accomplish these objectives in three ways. First, we are seeking to advance bilateral U.S.-Brazilian cooperation on biofuels research and development. Second, we are working with developing countries in the Hemisphere to support feasibility analyses and technical assistance aimed at stimulating private sector investment in domestic biofuels production for local consumption. Third, we are working multilaterally to advance commoditization of biofuels on a global basis. Since the launch of this initiative there has been progress in each pillar and our work is ongoing. We appreciate the Chairman's words of encouragement about this initiative, including calls to deepen and broaden it. A U.S. team will visit Brasilia in August to look for mechanisms by which to do so.

I would like to review progress in each of the three areas on which our partnership focuses.

Bilateral

In September 2007, a Brazilian delegation of biofuels scientists visited U.S. Department of Agriculture (USDA) and Department of Energy (DOE) biofuels research centers in the United States and the two teams have stayed in contact, collaborating as scientists do best. In May 2008, a U.S. delegation of USDA and DOE biofuels scientists visited top Brazilian universities, public laboratories, and

private sector research and development facilities. These visits have facilitated exploration by our respective scientific communities of several areas for joint cooperation. These include possibly sharing biomass samples to unify bilateral research opportunities, and facilitating scientific exchanges to strengthen Brazilian analytical methodologies. The scientists are preparing a follow-up plan that will include a list of priority research areas and a work plan for future collaboration.

Our two countries have also benefited from a candid exchange of views on biofuels through other channels, including the U.S. – Brazil CEO Forum, and meetings of business people, academics, and citizens groups. With Assistant Secretary of State for Western Hemisphere Affairs Tom Shannon, I co-chair an Economic Partnership Dialogue with Brazil. Other members of the economic team at the State Department also have traveled on numerous missions to Brazil to talk with government and business groups about the whole range of our economic engagement, including biofuels. The Deputy Secretary of Energy departs for Brazil shortly to continue this broad and deep engagement.

Third Countries

With respect to third countries, President Bush and President Lula met at Camp David on March 30, 2007 and announced that the United States and Brazil would work initially with El Salvador, Haiti, the Dominican Republic, and Saint Kitts and Nevis to help diversify their energy supplies by promoting biofuels. The United States looks forward to expanding this initiative to other countries in the region in cooperation with Brazil. We are engaged in ongoing discussions with Brasilia on this topic.

In March of this year, the State Department hosted a Steering Committee meeting, followed by a Ministerial that brought together ministers from our partner countries, the President of the IDB and Secretary General of the OAS, along with private sector advisors from Brazil and the United States. We welcome the priority IDB is giving to biofuels and renewable energy.

In order to strengthen the foundation for investment in these countries, U.S. and Brazilian environmental and agronomy consultants were hired. They have completed economic analyses in four of the target countries and land use assessments in three. Agronomy work is nearing conclusion in Haiti, where a Brazilian team just completed a return visit. The teams identified specific opportunities to develop local capacity for biofuels production. Working with our

funding partners, we have arranged for funds to be reserved for eight projects to date.

We are pleased that, during the course of our partnership, the Dominican Republic published the final regulations for a renewable energy law which includes biofuels. El Salvador is in the final states of preparing a law for Congressional consideration. Last week, at a Caribbean sustainable energy conference that the State Department hosted in the region, the OAS announced a stream of technical assistance to the Dominican Republic and El Salvador to help them implement and evaluate their biofuels regulations. In addition, they announced a feasibility study for a pilot ethanol project at an existing sugar mill in El Salvador. We are working to identify a similar feasibility study in the Dominican Republic. The OAS stands ready to put out for bidding a technical assistance package for the new Haitian government as it considers the biodiesel potential of the island. Additionally, the U.S. Trade and Development Agency is standing by to sign a grant agreement with a new Haitian government for a feasibility study to grow jatropha for biodiesel in Haiti. In St. Kitts and Nevis, we have completed land use and detailed agronomy studies to help that country make the political decision to return some portion of now fallow sugarcane fields to biofuels production. Our initiative has also assisted countries in applying to the IDB for financing for projects identified under this partnership. The IDB is amplifying our efforts by making available grants and financing for biofuels projects. In these countries, we have also been active in public diplomacy.

Multilateral

In order to advance the commoditization of biofuels globally, the United States, Brazil, and European Commission, working through the International Biofuels Forum (IBF), recently worked with their respective standards organizations to improve the compatibility of bioethanol and biodiesel standards. An important milestone was achieved in January 2008 when the collective standards organizations identified compatibility results and recommendations. Next steps include evaluation of the work done to date with the other members of the IBF (China, India, South Africa); further work toward harmonizing testing methods; and more closely aligning standards, subject to further consultations with industry.

Additional Steps to Advance Biofuels

Beyond the initiative with Brazil, the United States is independently conducting outreach on biofuels to many countries in the Americas. With USDA, we continue to sponsor visits by regional biofuels experts to U.S. biofuels labs and conferences, and to send U.S. experts throughout the region. For example, with the USDA, we are sponsoring a group of biofuels scientists from Argentina, Colombia, Chile, Peru and Uruguay to work with biofuels experts at the University of Minnesota and the National Renewable Energy Lab in Colorado in August. We also are building stakeholder buy-in throughout the Hemisphere by sponsoring public meetings, and sending biofuels experts and academics, State Department and Embassy officers, to meet with civil society groups in the region. We also have sponsored visits by regional government officials to U.S. ethanol facilities in the Midwest.

Last week in the Caribbean Basin, State Department and Brazilian officials engaged with partner country officials to sustain the momentum we have begun. We are confident that our efforts have helped to: spotlight biofuels opportunities in these countries; advance biofuels legislation, which is critical to their eventual market penetration; and improve the investment climate so that private investment will follow. Biofuels did not take root in the United States nor Brazil overnight, and they ultimately were advanced both by a solid investment climate, a forward-looking agricultural sector and by federal legislation. Our work is therefore focused on encouraging the legislative progress and on improving the investment climate. We are confident that we are planting the seeds for a more diverse and sustainable energy future in the Hemisphere.

Biofuels Sustainability Issues

While we work with Brazil and independently to advance the production and use of biofuels, we also recognize the need to address the issue of biofuels sustainability. Earlier this month, G8 Leaders underscored the importance of sustainable biofuel production and use, and the work of the "Global Bioenergy Partnership" (GBEP). They invited the GBEP to work with other relevant stakeholders to develop science-based benchmarks and indicators for biofuel production and use. We actively participate in sustainability discussions in the GBEP and sent a high-level delegation to the most recent meeting last month in Brazil. The United States co-chairs GBEP's work to develop a common methodological framework to quantify biofuel GHG emissions. Additionally, we participate in GBEP's efforts to develop ways to achieve sustainable bioenergy and are beginning to work through GBEP to develop voluntary science-based sustainability criteria, indicators, and benchmarks.

At a recent high-level meeting of the UN Food and Agricultural Organization, the United States along with all other FAO nations also endorsed a declaration that calls for addressing the "challenges and opportunities posed by biofuels," and we are doing just that.

Another important way we are addressing sustainability is through the Energy Independence and Security Act (EISA). This legislation sets ambitious biofuels targets but the legislation ensures that biodiesel and cellulosic sources, such as switchgrass, are a key part of the increase. In fact, by 2022, more than half of all fuel ethanol must be derived from non-corn starch sources. Under EISA, the U.S. Government also is investing in R&D on next-generation cellulosic biofuels, which can both minimize food security concerns and reduce GHG emissions. Next-generation biofuels made from plant fiber (not food or feed crops) can potentially lead to overall life-cycle GHG reductions of 80 percent or more. Our R&D effort is intended to make next-generation technology cost-competitive by 2012.

Including the FY2009 Budget, the Administration has dedicated more than $1 billion for research, development, and demonstration of cellulosic biofuels technology. DOE studies show corn ethanol results in 19 percent fewer GHG emissions, on average, than petroleum. Cellulosic ethanol derived from inedible vegetation, has the potential to reduce GHG emissions by up to 86 percent. This is why it is so important that U.S. and Brazilian scientists continue to work on these new technologies and to cooperate in the process we have started.

North American Energy Initiatives

We also are developing alternative energy sources through our work with Mexico and Canada under the North American Energy Working Group, part of the President's Security and Prosperity Partnership (SPP). This Working Group is focused on reducing barriers to the deployment of clean energy technology, continuing with efforts to align energy efficiency standards in key products and standby power consumption, cooperating in the development of a biofuels outlook for North America, exploring opportunities for enhancing vehicle fuel efficiency, and streamlining markets for liquefied natural gas.

The Group is also working to complete a joint modeling effort that includes supply and demand forecasts for oil, gas, coal and electricity to 2030, as well as technology-improvement scenario cases, and it has agreed to explore cooperation

in carbon capture and storage as suggested by Canada, and enhanced electricity networks as proposed by Mexico.

IV. USING DIPLOMACY TO ADDRESS OPPORTUNITIES AND ENERGY CHALLENGES

While diplomacy is a large component of all the efforts I have just described, there are some areas where diplomacy is at the forefront. These include putting energy issues high on the regional political agenda and addressing the challenges of resource nationalism.

U.S. OAS Energy Diplomacy

Over the last several years, for example, we have broadened our diplomacy at the Organization of American States to include energy. For the OAS General Assembly in Panama in June 2007, we negotiated, with all democratic states in the Hemisphere, the "Declaration of Panama: Energy for Sustainable Development." Despite rhetoric from some corners of the Hemisphere, our diplomacy helped find much common ground on energy in the Hemisphere, and we helped foster a united call for greater energy efficiency and conservation, for renewable energy, including biofuels, and for greater investment in all forms of energy. As Secretary Rice told her OAS Counterparts in Panama, "The Declaration of Panama drafted here demonstrates that energy is a vital part of our hemispheric agenda and that we will work together to address the challenges of energy security, climate change, environmental stewardship, and sustainable development. These four challenges are indivisible and we must tackle them together. In short, we seek to promote the democratization of energy in the Americas, increasing the number of energy suppliers, expanding the market, and reducing supply disruption."

We are demonstrating and sustaining leadership on energy diplomacy through the OAS process. I led our delegation to an OAS Hemispheric Energy Officials meeting on March 3 that was designed to promote the use of renewable energy. To sustain the momentum, we announced at that event that the State Department would sponsor, through the OAS, four sub-regional conferences on energy, which will bring expertise and shared best practices to each corner of the region.

The first of these conferences took place July 11 in Santiago, bringing together all Southern Cone countries, along with a U.S. delegation and the Secretary General of the OAS. This was one of the few times that all of these

countries gathered together to view their energy challenges as a sub-region, and it has begun an important dialogue on many shared concerns, particularly the need for greater renewable energy in this region, as well as for dependable intra-region trade in commodities like natural gas.

Just last week, we held the second such regional seminar. Through the OAS, a senior inter-agency U.S. delegation met with all CARICOM member states and a wide array of Caribbean energy officials in Nassau to focus on those renewable energy sources appropriate for island states, which are disproportionately dependent on oil for land, maritime and power generation needs. We broadened our engagement by bringing in other external donor states, such as the EU and Canada, and international financial institutions like the World Bank and the Inter American Development Bank, to harmonize all of our efforts. We will continue this active hemispheric engagement with a workshop in Peru after the APEC summit in November, and another workshop in Central America in the fall.

In addition to the OAS process, we participated in excellent DOE-led events in Trinidad in May, which advanced the need for infrastructure security, as well as other DOE-led events in Central America. Finally, Trinidad and Tobago will host the next Summit of the Americas in April 2009. Energy and environmental sustainability are key themes of the Summit, and we have begun to consider how we might deepen U.S. engagement in these areas.

Addressing Resource Nationalism

Another issue we are addressing is the rise in resource nationalism in the Hemisphere. Spurred in part by record high energy prices, some countries are demanding to renegotiate existing contractual agreements, while others are nationalizing foreign-owned energy assets. We believe that resource nationalism, by concentrating resources in the hands of the state, can undercut important strides made in the Hemisphere on transparency, on anti-corruption, and in the efficient production of natural resources. When resources are not brought to the market in the most efficient manner, and when, for example oil production falls, then consumers in the Hemisphere suffer from higher prices.

In the case of investment disputes involving U.S. firms, we forcefully advocate for just, adequate and fair compensation to affected investors. Our embassies in the Hemisphere have been a very effective component of this work. We welcome Ecuador's recent move to abide by an international arbitration and to

settle one dispute with an American company, and we have underscored to Ecuador the importance of an independent judiciary in the ongoing legal dispute with another U.S. firm. More generally, our work in previous years to negotiate free trade agreements and bilateral investment treaties is helping to preserve American investors' interests in this region.

Conclusion

I have described for you the breadth of our bilateral, multilateral, and regional energy engagement but it is important to recognize that energy policies are most effective when they are integrated into broader economic policies. Open, and transparent markets, free from corruption and reinforced by strong protections for investment, ultimately help producer countries to enhance output, and consumer countries, particularly those in our region most hard hit by high oil prices, to benefit from lower energy costs. The U.S.-Canada relationship is an important example of the mutual benefits of open and integrated markets and how free trade agreements help promote more efficient energy markets. By contrast, countries that have emphasized statist, non-transparent and populist economic policies have seen their output decline despite high oil prices, which adds to the burden on the most oil import dependent regions of our Hemisphere.

The Bush Administration – with the strong bipartisan support of Congress – has made deepening economic engagement in the Hemisphere a top foreign policy priority. Our Free Trade Agreements, our aviation liberalization agreements, our Millennium Challenge Corporation compacts, and our broader economic dialogue with major emerging economies like Brazil, are helping to lay a regional economic foundation that will advance our mutual economic, energy and foreign policy interests. Congressional approval of the Colombia FTA would further advance these efforts and contribute significantly to ensuring the future prosperity, stability, and security of the Hemisphere. We will continue our vigorous engagement in this Hemisphere, and thank the Committee for its focus on and support of these vital issues.