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Thank you, Jason, and thank you to the Center on Global Energy Policy, the School of International and Public Affairs, and Columbia University for inviting me here to speak at the release of this report on the U.S. oil export debate.

Almost two years ago, I was honored to speak at the launch of the Center. I said then that there could scarcely be a more timely moment for a center like this one. That has certainly turned out to be true. There has never been more demand for top-notch insight and analysis on energy policy. The report we are here to discuss is indicative of the high-quality, relevant work the Center has been producing.

When I spoke at the launch, I noted that it was a bit unusual for a national security adviser to deliver the keynote address at an energy conference. But I insisted then, as I do today, that energy matters profoundly to U.S. national security and foreign policy. It matters because reliable access to affordable energy underpins our economic strength, which is the backbone of American leadership in the world. It matters because competition for energy resources has long been a source of geopolitical conflict. It matters because energy supplies present strategic leverage and resources for nations that have them. It matters for the security and stability of our climate and environment. And it matters because supply disruptions in any part of the world have global consequences.

The impact of energy markets on our security environment has rarely been clearer. Today, no one would think it unusual for a national security adviser to address a group of energy experts.

In 2008, I led President Obama's State Department transition. I recall clearly our initial briefings on the nation's energy future. We were told that the United States would have to double its imports of natural gas within five years. U.S. oil production had been in steady decline for decades and all the talk was about "peak oil." Since the 1970s, the United States had come to see itself as an energy-poor nation.

Today, the United States is the world's largest producer of oil and natural gas combined. Natural gas imports have fallen to their lowest levels in twenty years. Our crude oil production is the highest it's been in thirty years. These dramatic changes have boosted our economy substantially.

Indeed, almost every prediction about U.S. energy at the time of President Obama's inauguration has been turned on its head. So I make any predictions on a cautionary note and with appropriate humility.

I'd like to use my time today to review some of the changes we've seen in the U.S. energy posture and their implications for our national security. I'll also touch on what falling oil prices mean for our geopolitical environment and, finally, how we can take advantage of this opportunity to expand the economic and security gains for the United States.

Where Does the United States Stand Today?

Let me begin with an overview of the dramatic transformation the U.S. energy landscape has undergone over the past decade.

I tend to think about our national strengths and weaknesses in terms of a balance sheet – an idea I borrowed from one of my predecessors, Zbigniew Brzezinski – who, of course, rose to prominence here on Morningside Heights. In his book, *Strategic Vision*, Zbig develops a strategic balance sheet of assets and liabilities, like you would for a business. The assets column includes our economic and military strength, our unique global network of alliances, our advantageous demographic future, our favorable geography and natural resources, and our unrivaled innovators and educators.

As recently as 2008, many would have put America's energy posture in the liabilities column. But today, any analysis of comprehensive national power would list our energy future as a profound strategic asset – in stark contrast to the energy outlooks of any potential competitor.

The Center's report focuses primarily on oil, and for good reason: domestic crude oil production is now over nine million barrels a day, up from five million barrels barely a decade ago. In the past year alone, production jumped sixteen percent.

But oil is not the whole story. In many ways, the role played by the U.S. increase in natural gas production is as significant. The abundance of affordable natural gas is a key driver in the U.S. economic recovery, and it will be long-lasting in its impact on U.S. competitiveness. Today:

- We produce more natural gas than ever – conventional gas, shale gas, and the associated natural gas produced from tight oil formations. Shale gas production has grown from 8 percent of the total in 2007 to almost 40 percent today.
- The price of natural gas in the United States, currently just under $3 per million BTU, is one-third of the EU's price and one-fourth of Asia's.
- The United States is expected to be a net exporter of natural gas before 2020.

In total, where net imports satisfied 60 percent of liquid fuels consumption in 2005, they averaged only 33 percent in 2013, and the EIA expects that number to decline to 21 percent this year – the lowest level since 1969.

Why has the United States seen this dramatic transformation in its energy posture? We are, after all, not the only country with abundant unconventional oil and gas. Russia, China, Argentina, and a number of other countries also have promising shale deposits. And the technologies that drive our energy boom are transferable.

In my judgment, a combination of factors unique to the United States makes this an "Only in America," or at least a "First in America," story. We have an extensive and complex resource base. But more importantly, we have achieved the right balance of support for innovation and entrepreneurship, an open and predictable investment environment, access to capital, robust environmental safeguards, an enabling infrastructure, a healthy private sector, and a distinct system of property and mineral rights ownership. It is these strengths that have enabled us to achieve the positive energy outlook we're seeing today.

Smart government investments in key technologies early in the game were also important. Indeed, this is in many ways a technology story. While technological innovation tends to be associated with Silicon Valley, our energy revolution showcases innovation in core, high-tech industrial technologies. And these technologies – hydraulic fracturing, horizontal drilling, and seismic imaging – and associated know-how are still evolving and becoming ever more productive and efficient.

Let's turn now to the national security consequences of these changes in our energy posture.

First, the new energy landscape has directly strengthened the U.S. economy. There are not many iron laws of history. But, as the President has said, inevitably, a country's political and military primacy depends on its economic vitality. Economic strength at home enhances our standing abroad. By supporting jobs, boosting government revenues, and expanding economic activity, our energy boom is a principal contributor to our economic recovery.

Unconventional oil and gas contributed 1.7 percent of GDP, supported more than 2.1 million jobs, and led to an increase of more than $1,200 in disposable income per U.S. household in 2012, according to IHS. EIA estimates that average U.S. household gasoline expenditures this year will be at their lowest point in a decade. The drop in energy imports and increase in U.S. energy exports have also improved the U.S. trade balance.

Our energy outlook boosts U.S. competitiveness. The combination of cheap and abundant supplies of natural gas creates an advantage for U.S. manufacturers in both energy-intensive industries and industries that rely on natural gas as feedstock. As a result, we're seeing increased investment and growth in the chemicals, metal, plastic, glass, and fertilizer industries, and hundreds of thousands of new jobs.

This cost advantage has led to substantial new investment in the United States by foreign manufacturers. In the chemical industry alone, one of the United States' largest manufacturing industries, the American Chemical Council estimates 64 percent of the $125 billion in recent investments have come from foreign companies. Indeed, BASF, the world's largest chemicals company, based in Germany, has doubled its annual investment in the United States to $1 billion and recently completed a $400 million expansion and upgrade of a petrochemical plant in Port Arthur, Texas, with its joint venture partner, the French energy company, Total. And, remember, this is not just about foreign investment in the United States; U.S. companies are also redirecting investment and capital expenditures back onshore to take advantage of the energy revolution.

Second, energy security allows us to engage in the world from a position of greater strength. Our energy outlook reduces our vulnerability to market disruptions and price shocks. It gives us greater latitude to support allies, and more options to deal with our adversaries. The success of our Iran sanctions effort, for example, was made possible because we were confident that increased American supply enabled the removal of one million barrels of Iranian oil from the market each day, without increasing gasoline costs to U.S. consumers. It was the bite of those sanctions that ultimately brought the Iranians to the negotiating table.

Likewise, abundant energy supplies have enabled targeted sanctions against Russia for its violation of Ukrainian sovereignty. And domestic energy production counters instability in the global energy market caused by the Islamic State of Iraq and the Levant (ISIL) in Syria and Iraq.

Let me tell you what our energy picture does not mean. It does not mean that the United States can or will withdraw from its commitments abroad, including in the Middle East. We continue to have vital interests in the region, including the stability and security of trade routes, nuclear non-proliferation, counter-terrorism, support for democratic transitions, and our steadfast alliance with Israel. And we have a lasting interest in ensuring the stability of energy markets and the free flow of commerce around the world.

Environment and Clean Energy Objectives

The bright U.S. energy picture also does not mean that we can or should retreat from our focus on another vital national security challenge: climate change. The 2014 Quadrennial Defense Review could not be clearer on the challenge that climate change poses for the United States and the world at large. As the QDR states, the effects of climate change –

> "are threat multipliers that will aggravate stressors abroad such as poverty, environmental degradation, political instability, and social tensions – conditions that can enable terrorist activity and other forms of violence."

We can and will pursue essential reductions in greenhouse gas emissions while implementing rational energy policies, both short- and long-term. For example, with half the carbon emission intensity of coal, natural gas is a bridge fuel that will lead us toward a more renewable future. While the boom in natural gas production is an important step in the transition to clean energy, we must expand our efforts to improve energy efficiency, including transportation fuel conservation. And we must be world leaders in developing responsible regulatory regimes to ensure that fossil fuels production is as safe and environmentally-friendly as possible. That's why President Obama's proposed new regulations on methane emissions are so important.

We must also intensify cooperation with international partners to cut greenhouse gas pollution worldwide. In November, President Obama and President Xi Jinping of China signed a historic deal to dramatically reduce net greenhouse emissions: the United States will cut emissions by 26-28 percent below 2005 levels by 2025, while China aims to peak CO_2 emissions around 2030. The agreement is a vital contribution to the global effort to address climate change in the lead-up to the UN Climate Change Conference in Paris at the end of this year.

Implications of the Current Volatile Global Oil Market

Let's turn to the current global energy situation.

Everyone is acutely aware of the recent plunge in prices, particularly since OPEC's announcement in late November that it would maintain the production level of 30 million barrels per day that it set in 2011. WTI is trading at less than half of the $106 per barrel mark that it achieved only last June. In the face of continued global economic weakness outside of the United States and market oversupply, I will be the last person to speculate on future price trends. But there is no doubt that the price collapse carries a number of important geopolitical implications.

First, the macroeconomic impact has been a huge net positive for the United States. Yes, U.S. producers have been forced to reduce their budgeted capital expenditures, and, in some cases, lay down drilling rigs and lay off workers. Service companies and suppliers are being hit hard in turn. But keep in mind that shale has the shortest turnaround time from the decision to drill to production, and it will recover faster than conventional production. Overall, the drop in oil prices is in essence a massive tax cut for U.S. consumers and a boost to the U.S. economy.

Falling oil prices are likewise a boon to countries dependent on imports, including allies such as Japan and South Korea. A spur to economic growth in those countries and other important economic engines, such as China and India, will have positive collateral effects for the global economy. For example, Bank of America estimates that for every 10 percent decline in the price of oil, China's GDP will increase by .15 percent and India's by .25 percent.

Second, the drop in oil prices provides a real opportunity to pursue important reforms in developing countries. Fuel subsidies distort resource allocations in developing economies and exacerbate fiscal imbalances. The World Bank and G20 have long advocated for reducing subsidies to achieve long-term economic stability. Lower oil prices provide the opportunity to reform bad subsidy policy. Some countries, like India and Indonesia, are already moving in that direction. But others should seize the chance to reduce subsidies at minimal cost to consumers.

Third, the drop in oil prices has had powerful negative effects on a number of producing countries, including several with interests adverse to those of the United States.

In Iran, where oil exports fund nearly half of government spending and the breakeven production cost is $131 per barrel, the drop in oil prices has reinforced the impact of international sanctions, increasing pressure to complete a nuclear deal.

Russia has been pushed to the edge of financial crisis, as the combination of falling oil prices and sanctions have precipitated the devaluation of the ruble and massive capital outflows.

Russia's illegal invasion of Ukraine, forcible annexation of Crimea, and continued efforts to destabilize Ukraine through its support of separatist groups upend post-World War II principles against changing borders by force and are completely contrary to international norms. In

response, the United States and other Western countries implemented targeted sanctions, which to date have been quite effective and will continue until Russia changes course.

Needing a breakeven price close to $100, Russia has seen its economy dramatically weakened by the combination of sanctions and the oil price collapse. The Russian government relies on energy for 50 percent of its revenues. In a country already known for its difficult business climate, the predictable response to the developing crisis has been capital flight. In 2014 alone, the net capital outflow from Russia was $151 billion.

The crisis in Ukraine underscores the importance of supporting a strong and diversified European energy market. Russia's tendency to use energy supply as a tool to achieve its expansionist objectives makes energy security an urgent and essential goal for our European partners. Jason and Trevor released a report a few months ago in which they point out that the United States' shale gas boom has benefited European consumers — and harmed Russian producers — by displacing LNG imports that the United States no longer needs. Still, as their report affirms, U.S. gas is not the ultimate solution to the crisis. That's why we must continue to help the EU pursue energy sector reform, increase domestic production, and improve energy efficiency.

Crude Oil Exports

With this dramatic change in our energy supply position and in light of the national security issues that I've touched on, it is timely to ask: what should the United States do in the current environment to improve our geopolitical position and to ensure continued economic benefits from the new energy reality?

There are many possible steps to take, but today I want to focus on the subject of the Center's report – the oil export debate. With respect to the report's analysis and findings, I conclude that lifting the ban in full is the correct policy decision for the following five reasons.

First, the rationale for the ban is no longer relevant. As the report lays out in detail, none of the 1970s circumstances that led to the ban are relevant today. Restrictions on oil exports were put in place in the context of domestic price controls, to ensure that those price controls would operate effectively by removing the incentive of U.S. producers to sell crude abroad at higher prices. Of course, we haven't had price controls on crude oil since Ronald Reagan issued his first executive order in January 1981. Simply put, the reasons for placing statutory and regulatory restraints on market behavior no longer exist.

Second, lifting the ban is consistent with the United States' long-standing advocacy for free trade and open markets. Whatever circumstances in the 1970s might have justified an exception to the consistent approach the United States has taken to international trade policy since World War II, those conditions do not pertain today. And, indeed, as shown by the U.S. challenge to China's restrictions on the export of rare earth minerals at the WTO, the United States has consistently opposed efforts by countries to manipulate their exports for mercantilist reasons.

Maintaining the ban will increasingly undercut U.S. credibility in the global arena, diminishing our negotiating positions with trading partners. In a world where 95 percent of potential customers for U.S. products and services live in other countries, trading relationships matter. As long as the ban remains in place, the United States puts itself at an unnecessary – and remediable – disadvantage.

Third, lifting the ban will enhance America's energy security. By allowing exports, we will permit production decisions in the United States to be made fully on the basis of market forces, rather than be influenced by artificially imposed regulatory constraints. This in turn will increase diversity of supply and increase competition, reduce volatility, and lower prices in the global market. All of these effects promote, not diminish, U.S. energy independence.

Crude oil exports will have a net positive impact on the U.S. economy, increasing GDP, decreasing gasoline prices, and enhancing incomes. As Jason and Trevor's careful analysis of recent economic studies by IHS, ICF, NERA, MAPI, and Goldman Sachs demonstrates, while there are a range of estimates of the magnitude of the economic benefits of exporting crude, no one disagrees about the direction. And, there is no contrary analysis of which I am aware.

Fourth, crude exports will provide diplomatic leverage and a tool to assist our allies and friends. The success of the Iran sanctions effort would not have been possible without the reduction in imports by purchasers of Iranian oil. After the United States implemented new sanctions in 2012, twenty countries qualified for exceptions by significantly reducing their imports of Iranian oil. In furtherance of the Joint Plan of Action, sanctions waivers were issued for only six countries. The six, however, all are either close allies or important U.S. trading partners, or both – Japan, South Korea, Taiwan, Turkey, India and China. As we continue to enforce the sanctions, particularly if no nuclear deal is reached and sanctions are ramped up, our refusal to export crude oil puts us in an increasingly weaker position when we demand that other countries reduce their imports.

Exports also provide a source of protection to countries that live under the threat of supply disruption, by placing structural limits on the ability of producers or cartels to use oil as a weapon. Our friends in Europe, Asia, and elsewhere will gladly look to the United States as a secure source of supply, and customers there would be willing to pay a security premium for that alternative. Enabling exports provides the dual benefits of a diplomatic tool to strengthen these relationships, while at the same time opening new markets for U.S. exports.

Fifth, the current low price environment does not resolve the issue. Some have suggested that we no longer need to discuss lifting the export ban because, they say, there is no production surplus in need of export and, at current price levels, exports would not have a significant impact on the U.S. economy.

Importantly, however, we must keep the long view. Commodity prices have cycles. Although crude oil prices are in a severe downdraft, they will inevitably rise. Last week, EIA forecasted that Brent prices will average $58 per barrel in 2015 and $75 per barrel in 2016. It is shortsighted and poor policymaking to assume that a low price in the cycle resolves the need to lift the ban. Lifting the ban now, in fact, when there will be minimal disruption, will provide

producers with greater regulatory certainty and the incentive to invest more in the United States as the market recovers.

Conclusion

I'll conclude by pointing out that the question of repealing the crude oil export ban is one that calls for bipartisan consideration and presents an excellent opportunity for shared leadership by Congress and the Executive Branch. It is rare to find so ready a tool for self-help in the national security or economic arena. Lifting the ban will advance our economy, our energy future, and our foreign policy and national security goals. It is the next step in leveraging our energy posture to protect and to enhance U.S. leadership for years to come.