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National Petroleum Council Washington, DC

Remarks by Secretary of Energy Spencer Abraham

NATIONAL ENERGY PLAN

Today is an important day. It marks the second anniversary of President Bush's National Energy Plan.

While it may not rise to the level of a federal holiday, for those of us in the Bush Administration, it's a pretty important date.

When President Bush took office, he understood the short and long-term energy problems our nation faced. He also understood that we had to forge new approaches to solve old problems.

The National Energy Plan did that by providing a bold vision to help ensure our energy future.

I'm proud of what we've been able to accomplish in two short years.

With exciting programs such as FreedomCar, the Hydrogen Fuel Initiative, and the FutureGen power plant, we are moving to the second wave of technology and innovation that will help ensure our energy and economic security.

We are making progress on the legislative front as well. As you know, the House of Representatives has already passed its version of the energy bill. The Senate is poised to take action in early June.

I very much appreciate the efforts of the House and Senate leadership to make comprehensive energy legislation a top priority. When this bill is signed into law by President Bush, it will allow us to complete most of the yet unfilled recommendations of the National Energy Plan.

It's time to get this job done and I am grateful to everyone who has been involved in this work.

NATURAL GAS

Today I want to focus my comments on two important issues: the turbulent period we just went through in world energy markets and the looming challenges we face with respect to natural gas.

As you well know, our current stocks of natural gas in underground storage are unusually low due to a combination of cold weather in the Northeast and Mid-Atlantic regions this past winter, and declines in both domestic production and net imports.

We had 696 billion cubic feet of gas in storage at the end of March, the lowest level since 1976, when the Energy Information Agency began keeping records.

By the week of April 11, levels had dropped to 623 billion cubic feet.

Storage has increased since that time, but it is still only half the level of a year ago, and 42 percent below the previous five-year average.

If we are to reach the desired storage level of 3 to 3.5 trillion cubic feet of natural gas by the end of October, we must inject much more into storage than the usual weekly average of 60 billion cubic feet.

I recognize that industry is already responding to these worrisome numbers by increasing injection rates during the relatively low-demand spring season.

Indeed, injections increased to 72 billion cubic feet for the most recent week on record. But a hot summer would prevent the continuation of those high injection rates. And we already know that increased depletion rates and less productive new drilling have led to a projected 2 percent decrease in supply this year.

Many of you have brought these concerns to our attention. As a result, I asked the National Petroleum Council to conduct a wide-ranging and comprehensive study of natural gas in the United States during the 21st century.

The NPC study is forward looking and will address resources for capital investment, the role of technology, access to our nation's resource base, new sources of supply from Alaska and Canada, liquefied natural gas imports, and the long-term potential of unconventional resources such as methane gas hydrates. That is only a partial list.

I am looking forward to studying the final report in September and working with the Council to review and discuss its recommendations.

But in my view, we cannot wait until the late fall to take action on the more immediate problems we face.

Therefore, I am requesting that incoming chairman Bobby Shackouls schedule a special June meeting of the National Petroleum Council to focus on the short-term challenges we will be encountering.

It is my hope that such a meeting will be structured to gather information, discuss problems and solutions, and identify those actions that can be taken immediately to ease short-term supply constraints.

The ideas and suggestions that emerge from that meeting can then be implemented during the critical summer period. Other initiatives, of course, will be implemented following the release and review of the NPC natural gas study later in September.

I understand that June is just around the corner, and I am requesting this meeting on short notice.

But I think these challenges require us to act today.

I hope you can assist us in this important endeavor and that all of you will be able to participate.

I am confident that we can make real progress by working together and building strong, cooperative relationships with consumers, producers, industry, and state and local governments.

QUIET DIPLOMACY

One reason I have confidence in our ability to address natural gas and other energy challenges stems from our experience in the world energy markets over the past few months.

I think most energy observers would agree that, by any measurement or comparison, energy markets have been extremely stressed during that period.

In early December the strike in Venezuela reduced world oil supplies by 2.5 million barrels a day. The unusually cold winter, civil unrest in Nigeria, the anticipation that built before the war with Iraq, and the war itself, all added upward pressure on the price of crude oil.

Obviously there have been other turbulent times during the last 30 years. But what I think is most noteworthy about the period we just went through, is that world energy markets were amazingly stable and the United States emerged from this turbulent period much stronger than was the case after any other recent energy crises.

Let me give you some examples for comparison.

In 1973, when OPEC invoked a six-month oil embargo against the United States, prices quadrupled and the United States economy suffered a recession.

In 1979, during the revolution in Iran and the beginning of the Iran-Iraq War, prices more than doubled. The United States suffered recessions in early 1980 and in 1981.

And In the 1990/91, the Iraqi invasion of Kuwait disrupted 4.6 million barrels of supply per day for three months. Prices more than doubled notwithstanding the release of oil from the nation's Strategic Petroleum Reserve.

During the past several months, however, what could have been the "Perfect Storm" of supply disruptions ended up being the best managed energy crisis in recent history.

All this happened against the backdrop of predictions by some energy experts, various media, and many politicians that we would be paying \$50 to \$100 a barrel for oil.

Happily, none of the doom-and-gloom predictions came true. Rather, the \$27 a barrel price of last fall was pushed to around \$30 in early 2003 and than briefly into the high 30s, peaking at \$39.99 per barrel on March 13.

And then, as we know, once the war commenced the price quickly fell into the 20s and has basically stabilized.

Importantly, this happened without a drawdown of the Strategic Petroleum Reserve.

Meanwhile, gasoline prices have declined and are today projected to average \$1.46 per gallon during the spring and summer driving season. That's less than the average in the summers of 2000 and 2001.

What brought this about?

In January OPEC announced it would increase production by 1.4 million barrels a day to offset the shortfalls from the Venezuela strike. As a result, OPEC production jumped from an average of 25 million barrels a day in December to an average of 27 million barrels a day in February.

Then, leading up to the war in Iraq, OPEC assured the world that it would increase production to offset any lost production from Iraq. And they did.

Indeed, today OPEC is producing 27 million barrels a day compared to 23 million barrels a day this time last year.

Why did this happen?

I would argue that while there were a number of factors, first and foremost was the success of the policy with respect to international energy markets that this administration has followed from its first days in office.

A policy that I refer to as “quiet diplomacy.”

During the past two years many people have questioned the approach we’ve taken; an approach, the hallmark of which is frequent communication between the United States, the IEA and the producers.

Of course, that’s not new. What is new is that our communications have, for the most part, been private.

We haven’t issued broad-sides through the media, or held press conferences to discuss the content or substance of our talks.

We haven’t treated every OPEC meeting as a cause for alarm, or as an excuse to engage in lots of post-meeting commentary.

And we haven’t begged for oil

Instead we’ve chosen a route in which we exchange information and communicate effectively - not just when there are OPEC meetings - but on a regular basis.

During times of crisis, our communications with producers became more frequent.

This approach, coupled with the availability of our reserves as a backstop in case of a significant supply disruption not offset by producers, has led to what I hope is a new era in producer-consumer relationships.

We all remember the 1970s when producers used oil as a weapon against consumers in international markets.

The turbulence of the 70s gave way to a prolonged period of producer-consumer tension, where suspicion and mistrust often permeated international energy policy.

Today I hope and believe we are witnessing a maturation in our international relationships.

Communication has increased.

Suspicion had decreased.

The result is the beginning of a new understanding that recognizes the desirability of stability over volatility and of the value of strong worldwide economic growth as the best environment for both producers and consumers.

So, in sum, I believe the recent period represents an important step forward in the relationship between producers and consumers, one in which there can be winners on all sides.

When President Bush took office he was handed a number of energy challenges: electricity shortages, and high prices for gasoline and natural gas.

He addressed each of them in the decisive way that has become the hallmark of this Administration.

And he addressed them not in piecemeal fashion, but by designing comprehensive plans to ensure our energy security for this century.

The quiet diplomacy in international oil markets and creative solutions to our natural gas supply challenges were part of the plan.

Both fit into a much larger plan that addresses every aspect of our energy portfolio, from energy efficiency - to the promise of hydrogen - to the potential of fusion power later in the century.

This is an exciting time in the energy world.

The energy sector has contributions to make that will outstrip its spectacular contributions of the last century.

Rest assured that we at the Department of Energy appreciate all that you have done, all that you are doing, and all that you will do to ensure that those contributions will be made and that America's energy security in the 21st century is preserved.

Thank you.