United States Energy Association

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Toward a National Energy Strategy

Toward an International Energy Trade and Development Strategy

USEA
United States Energy Association

About USEA and this Report

The United States Energy Association (USEA) is the U.S. Member Committee of the World Energy Council. USEA is an association of public and private energy-related organizations, corporations, and government agencies. USEA represents the broad interests of the U.S. energy sector by increasing the understanding of energy issues, both domestically and internationally.

In conjunction with the U.S. Agency for International Development and the U.S. Department of Energy, USEA sponsors our nation's Energy Partnership Program. USEA supports policy research and conferences dealing with global and domestic energy issues as well as trade and educational exchange visits with other countries.

In February 2001, the USEA published *Toward a National Energy Strategy*, the results of a detailed look at U.S. energy policy by a working group representing all sectors of the industry. The report identified key policy issues which USEA members regard as critical to the development of a sound National Energy Strategy. The purpose of this second report, *Toward an International Energy Trade and Development Strategy*, is to expand on the findings on international trade and development issues, and the policy recommendations made in *Toward a National Energy Strategy*. This second report was prepared by the Energy Trade and Development Committee of USEA.

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List of Acronyms

APEC	Asia Pacific Economic Cooperation
CETE	Clean Energy Technology Exports [Initiative]
CFE	Comisión Federal de Electricidad (The nationally-owned electric utility of Mexico)
DOE	U.S. Department of Energy
EXIM	U.S. Export-Import Bank
FERC	Federal Energy Regulatory Commission
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
G8	Canada, France, Germany, Italy, Japan, Russia, United Kingdom, and U.S.
GPA	Government Procurement Agreement
ILSA	Iran-Libya Sanctions Act
IMF	International Monetary Fund
MAI	Multilateral Agreement on Investment
NAERO	North American Electric Reliability Organization
NAFTA	North American Free Trade Agreement
NARUC	National Association of Regulatory Utility Commissioners
NERC	North American Electric Reliability Council
NGO	Non Governmental Organization
NPC	National Petroleum Council
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PEMEX	Petróleos Mexicanos (The nationally-owned oil company of Mexico)
TDA	U.S. Trade and Development Agency
TPA	Trade Promotion Authority
USAID	U.S. Agency for International Development
USEA	United States Energy Association
USTR	U.S. Trade Representative
WEC	World Energy Council
WTO	World Trade Organization

Executive Summary

The September 11, 2001 attacks on New York City and Washington are tragic reminders of the risks that free and democratic societies face and the staggering costs, in both human and economic terms, which at times they must bear. These attacks highlight the importance of civilized interactions among people of all nations. They also draw attention to the interdependence and interconnection of the world economy and security. No sector better exemplifies the enormously complex yet critical economic, political and national security challenges facing the United States in the coming years than the energy sector.

These challenges have been well studied and documented over the past three decades, and the recently published *National Energy Policy* report provides an excellent analysis of the current situation.[1] As a nation, we want "reliable, affordable and environmentally sound energy for America's future"[2] but we have as much difficulty today in agreeing on the specific elements of a national energy strategy to achieve this goal as we did 30 years ago when the country first woke up to an "energy crisis."

One important element of any national energy strategy is international energy trade and development. Indeed, the policies we adopt on international energy trade and development directly affect our domestic energy options. Today we import 52 percent of our oil and 15-16 percent of our natural gas. By all accounts, U.S. energy imports are expected to continue to grow. Our interactions with the countries which control the bulk of world oil reserves are thus of critical importance not only to our national security, but to our economic well-being. Many of these countries (e.g., Iran, Libya, Iraq) may not share an American or western world view, but the way we deal with them will to a great extent dictate our own energy future.

Our interactions with those countries which lack access to affordable commercial energy supplies are also very important. Today some two billion people lack access to commercial energy, a situation which severely constrains their opportunities for economic and social development. The potential for social instability from poverty is a clear threat to U.S. security and to our national interests. Alleviating energy poverty is not only a desirable endeavor from a humanitarian perspective but also clearly in our best economic, environmental and security interests. There is now ample evidence demonstrating the catalytic role energy plays in addressing critical development issues e.g., improving health, protecting the environment, increasing opportunities or rights for women, or mitigating the problems associated with rapid urbanization. In addition, there are significant opportunities to address climate change through enhanced international cooperation on clean energy technology research and trade.

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[1] *National Energy Policy*, Report of the National Energy Policy Development Group, May 2001

[2] *National Energy Policy* report, op. cit., page viii

In February 2001, the United States Energy Association (USEA) published *Toward a National Energy Strategy*. In this report, it proposed a strategic framework to "deliver to [U.S.] consumers – in a ready, reliable and environmentally responsible manner – an increased supply of affordable energy resources and energy-related services from a broad range of energy providers." The report recommended a number of market-oriented policies in areas such as energy supply and energy efficiency, and international trade and development. The USEA report was prepared with the expectation that it might be a useful contribution to the development of a national energy policy by the National Energy Policy Development Group led by Vice President Cheney. The purpose of the present report, *Toward an International Energy Trade and Development Strategy*, is to expand on the trade and development recommendations previously made by proposing a series of specific recommendations to redress some of the fundamental problems with our existing approach to international energy trade and development. In particular, removing barriers to free and open international trade in energy commodities, goods and services will go a long way toward moving us closer to a more reliable, affordable and environmentally sound energy future.

Key Findings

The USEA has identified five major areas of international trade and development where U.S. policy might be improved. They are:

- Overall International Energy Trade Framework
- U.S. / Canada / Mexico Energy Trade
- Energy Trade Sanctions
- Energy as an Economic Driver for International Development
- International Energy Trade Promotion

Overall International Energy Trade Framework

The coming years offer unprecedented opportunities to create a set of international rules that will support the expansion of international trade in the energy sector. In November 2001, the World Trade Organization (WTO) will hold a ministerial meeting that could launch a new round of multilateral trade talks. The United States intends to complete a free trade agreement with Chile by the end of this year and another with Singapore shortly thereafter. The framework for the Free Trade Area of the Americas is to be in place by 2005. These trade agreements should include rules that remove barriers in the major areas of energy trade, particularly energy services, energy tariffs, investment and government procurement. At present, the 1994 WTO General Agreement on Trade in Services does not cover most forms of energy services, in part because the energy services sector was then still in its infancy and in many countries under the control of state monopolies or monopoly franchises. Energy tariffs continue to be a significant barrier in some countries, and their removal would increase the diffusion of clean energy technologies and reduce energy costs. Only a few countries have agreed to WTO rules requiring transparency and non-discrimination on government procurements. The U.S.

continues to oppose efforts to negotiate multilateral coverage of investment issues in the WTO on the grounds that bilateral investment treaties offer a higher level of protection for investors.

U.S. / Canada / Mexico Energy Trade

Accounting for more than one quarter of the global energy production and nearly 30 percent of the global energy consumption, the North America region represents the largest contiguous energy market in the world. The national economies and citizens of the United States, Mexico and Canada all stand to gain by a continuation and expansion of the trilateral exchanges in energy, related equipment, services, and investment that have blossomed under the North American Free Trade Agreement (NAFTA). Because all three countries are both importers and exporters of energy in most forms (and especially in light of the convergence of markets for natural gas and electricity), complementary variations in supply and demand over time offer unprecedented opportunities to augment efficiency and reliability while reducing environmental impacts through free-market trade and regional cooperation, enhanced by advanced electronic communication. Our national security benefits from the fact that neighboring Canada is the largest U.S. trading partner for oil and refined petroleum products (supplying more than 15 percent of our imports in 2000) and natural gas (consistently providing more than 90 percent of our imports and more than 15 percent of total U.S. gas consumption), while adjacent Mexico ranks immediately after Saudi Arabia and vies with Venezuela as our third largest source of crude oil, sending us close to 15 percent of our crude imports. The partnership under NAFTA has eliminated tariffs on continental energy trade, recognized electricity as a trade good, encouraged national treatment for investment, and is moving toward simpler and more transparent regulation. Although the current national administrations in all three countries are favorably disposed toward encouraging North American energy trade, the move toward a fully open and integrated energy market in North America faces many political, labor and regulatory hurdles – not the least of which are posed by disparate sets of rules among states (and provinces), as well as energy infrastructure that is not sufficiently amenable to optimizing resources on a real-time basis for mutual benefit.

Energy Trade Sanctions

In the re-assessment of overall U.S. national security and foreign policies after the attack of September 11, 2001, an important area to review is the use of unilateral trade sanctions to combat global terrorism. It is generally agreed that the U.S. choice of military response to terrorism must be prudent and measured. The U.S. should wield economic sanctions in a similar fashion. Yet, despite their dismal record at promoting political and social change, and combating terrorism, the U.S. uses economic sanctions more frequently than all other countries and today over 75 countries are subject to unilateral U.S. economic sanctions. In the short run, sanctions may satisfy the political need to appear decisive but, in the long run, engagement, including continued commercial interaction, is almost always more effective in fostering long-term U.S. interests, including political reform and democratization. Unilateral economic sanctions feed anti-American sentiments while costing American companies billions of dollars in opportunities essentially transferred by the U.S. government to foreign companies, often nationals of our closest political and military allies.

These economic sanctions affect the American energy industry the hardest. They reduce energy supplies while raising energy prices and weakening our nation's long-term energy security. Some 60 to 70 percent of the world's future oil supplies will come from the Middle East, Russia and the Caspian region, 20 percent from Iran, Iraq and Libya alone. U.S. national policies with regards to U.S. energy companies' participation in identifying and developing these resources will greatly affect the U.S. energy outlook for generations to come.

Energy as an Economic Driver for International Development

At its 17th World Energy Congress in Houston in 1998, the World Energy Council (WEC) concluded that the number one priority today should be to extend access to affordable, modern energy supplies to the two billion people in the world who currently lack such access.[3] Energy poverty is one of the main obstacles to sustainable economic development. Without adequate energy infrastructure, the social and environmental degradation experienced by many developing countries over the past 20 years cannot be turned around or even arrested. Energy poverty also poses an increasingly significant risk to U.S. national security and a significant detriment to potential trade opportunities. Yet, despite these high stakes, energy considerations have not been a major concern of U.S. international development assistance or of the international development community as a whole. Funding for international energy development assistance is actually declining, and the U.S. now spends only $1 per year per American to help alleviate energy poverty in the world.[4]

International Energy Trade Promotion

U.S. energy companies are world leaders in their technologies, products, and services, and the promotion of U.S. energy business in international markets is one of the most important foreign and economic policy functions that the U.S. government can perform. In addition, the federal government itself invests in research and development (R&D) for energy technologies and products. Often the market for these new technologies and products, and the greatest environmental and cost-saving benefits they can provide, will extend outside the U.S. borders. For these reasons, many federal agencies are currently involved in international energy trade promotion. Unfortunately, the work of these agencies is often carried out pursuant to the unique objectives of each agency with little interagency coordination or overall policy level direction. As a result, synergy advantages among agencies are not always exploited, an inadequate aggregate level of resources is allocated to the effort and there are limited opportunities or incentives for creative ideas that cut across agency lines of authority. Additional U.S. public-private sector leadership is required to insure that current priority attention to domestic needs does not weaken the U.S. role in energy trade development around the world.

[3] *Energy for Tomorrow's World – Acting Now!* World Energy Council, 2000

[4] The agency-wide budget for energy-related programs of the U.S. Agency for International Development was $290 million in FY 2001.

Policy Recommendations

Overall International Energy Trade Framework

1. Congress and the President should seek every opportunity to remove barriers to and expand trade in energy commodities, goods and services. This will help companies, especially small and medium size businesses, create more high wage jobs in the U.S. and raise living standards worldwide.

2. Congress should restore Trade Promotion Authority (TPA) for the President to ensure continued leadership of the U.S. in international trade, including energy goods and services. (Every President from Gerald Ford to Bill Clinton has enjoyed this authority, which is critical in negotiating fair agreements with our trading partners.) Also, Congress should avoid encumbering TPA with environmental issues which are best addressed in separate international environmental agreements.

3. The President, through the U.S. Trade Representative (USTR), Department of State (State Department) and Treasury Department (Treasury), should obtain the immediate elimination of energy tariffs (custom duties) in all bilateral and regional trade agreements, and at the November 2001 ministerial meeting should obtain a World Trade Organization (WTO) commitment to the elimination of all worldwide tariffs on energy and energy products.

4. The President, through the USTR, Department of Energy (DOE) and Department of Commerce, should continue and, if necessary, re-energize the Administration's current efforts to encourage the WTO to reduce barriers to trade in energy services and cross-border electricity sales.

5. The President, through the USTR, State Department and Treasury, should accelerate the Administration's efforts to remove barriers to investment and promote clear and transparent international rules to govern these investments. The Administration may wish to review WTO willingness to take on multilateral negotiations on investment rules. Also, the USTR and State Department should seek to restart negotiations for a Bilateral Investment Treaty with Venezuela.

6. The President, through the USTR and Commerce, should include universally subscribed provisions requiring non-discrimination and transparency of procurement in the WTO, all bilateral agreements, the Free Trade Area of the Americas (FTAA) negotiations, and the Asia-Pacific Economic Cooperation (APEC) process.

U.S. / Canada / Mexico Energy Trade

7. The President should establish a cabinet-level group, with essentially the same membership and structure as the *ad hoc* National Energy Policy Development Group, to accelerate the development of an open and integrated energy market in North America. Such market should cover all forms of energy commodities, goods and services.

Appropriate initiatives should also keep in mind the role of Venezuela as another hemispheric energy partner of long standing and increasing importance.

8. The USEA, through its private sector members and in cooperation with its own North American counterparts within the WEC, will develop more frequent and more substantive trans-border exchanges of information with the Mexican and Canadian private sector. It will also mount a special effort to heighten the awareness and understanding in the U.S. — by the private sector and government officials at all levels — of the unique opportunities presented through continental energy trade to improve energy security, reliability, services, and environmental well-being.

9. Congress should authorize – in stand-alone legislation if necessary – the Federal Energy Regulatory Commission (FERC) to enforce decisions and agreements reached by consensus within the North American Electric Reliability Organization (NAERO) to strengthen electric transmission infrastructure including that relating to our North American partners. Canada and Mexico should be encouraged to consider complementary actions.

10. The President should mandate DOE, to which responsibility has long been delegated for the granting of Presidential Permits for transmission lines that cross U.S. international borders, to speed whatever coordination with other governmental and private-sector entities is needed and to issue such permits as promptly as possible.

11. The President, through the U.S. Government's Congressionally-mandated Clean Energy Technology Exports (CETE) Initiative that is led by DOE, Commerce and the Agency for International Development (USAID), should develop with the Mexican Government a coordinated plan of actions to foster the rapid development and introduction of clean energy systems in Mexico and use this initiative to develop and test internationally accepted protocols to measure the precise environmental results of such systems. In addition, USAID should be funded to update regularly the energy investment handbooks it has developed with the USAID Mission to Mexico in cooperation with Mexico's Comisión Federal de Electricidad (CFE) to keep up with changes in Mexican law and regulatory practices.

12. The National Association of Regulatory Utility Commissioners (NARUC), in conjunction with the National Governors Association, NAERO and FERC, should resolve the conflicting state approaches to Renewable Portfolio Standards and the definition of "renewables" in order to encourage the installation of new transmission lines between the U.S. and Canada and facilitate export of large hydro-power from Canada.

13. The DOE should take all necessary steps to ensure that the relevant protective efforts of the North American electronic infrastructure undertaken separately to date by the North American Electric Reliability Council (NERC) and the National Petroleum Council are fully coordinated.

Energy Trade Sanctions

14. Both Congress and the President should use economic sanctions on a more focused basis and with much more multilateral coordination and participation among allies, than has been the practice up to now.

15. Where sanctions are imposed, the Congress and the President should ensure, to the maximum extent possible, that they do not discriminate against U.S. companies and do not effectively create advantages for our international competitors.

16. The President should amend the Executive Orders on Iran and Libya to, at a minimum, allow American companies to undertake the same activities that the Iran-Libya Sanctions Act permits their foreign counterparts to undertake. The President should exercise his authority to remove penal double-taxation on income arising from countries on the State Department's "6(j) list."

17. Where sanctions are deemed necessary as part of a broad, coordinated policy, the Congress and the President should use only highly targeted measures that directly impact "perpetrators," rather than entire innocent civilian populations.

18. Over the next 12 months, the President, through the State Department, should with the G8 allies jointly evaluate: 1) the effect of sanctions on the behaviors of targeted countries to determine whether sanctions are achieving any of their goals and, if so, which ones; 2) whether sanctions constrain or actually increase the revenues of targeted governments; 3) whether sanctions raise costs for energy consumers; 4) how to more effectively combat terrorism, control the export of sensitive technologies and control weapons proliferation; and 5) how to improve cooperation in pursuing international security and prosperity. The conclusions of such studies should then be implemented immediately.

19. Congress should pass, and the President should sign, meaningful sanctions reform legislation during the 107th Congress. Such legislation should incorporate the State Department's six principles for sanctions policies. They are: presidential flexibility, cost and benefit weighing, consideration of commercial and security interests, multilateral over unilateral measures, annual review and assessment, and close coordination between the Legislative and Executive Branches.

20. The President, through the State Department, should follow through on Secretary Powell's confirmation testimony and propose a process for repealing existing, non-working sanctions.

21. The President, through the State Department, should continue its rethinking of U.S. policy towards "states of concern" and focus instead, whenever possible, on "*persons of concern*." In particular, the Administration and Congress working jointly should continue to pursue the full spectrum of "influencing" options, from total diplomatic and economic engagement, to conditional engagement, to selective conditions, to isolation as a last resort and then preferably only when acting multilaterally.

Energy as an Economic Driver for International Development

22. The President, through the National Energy Policy Development Group, State Department, USAID, Commerce and DOE, the Congress and private sector should seek a nexus among international development priorities, commercial interests of the U.S. energy industry and U.S. strategic interests in international energy sector reform.

23. The President, through the National Energy Policy Development Group, should ensure that energy poverty become a priority for USAID and the multilateral international development agencies to which the U.S. contributes, and that energy be viewed as a central element of sustainable economic growth. In addition, the President should ensure that USAID's funding of energy and energy-related programs be increased from $290 million on an agency-wide basis in FY 2000 to $500 million in FY 2002 and $1 billion by FY 2005.

24. The President, through the National Energy Policy Development Group, should take the lead in preparing a comprehensive U.S. strategy to alleviate energy poverty in the world. Better coordination among public and private sector organizations, including energy companies, is needed to accomplish this objective. The USEA pledges its support and that of its members for this effort.

25. The USEA will explore the organization of an Energy and International Development Council which would coordinate the "good offices," funding and expertise of the U.S. Government agencies and private sector to alleviate energy poverty in the world.

International Energy Trade Promotion

26. The President, through Commerce, DOE and the State Department, should make energy technology export promotion a priority element of the Administration's energy policy. He should assign high level leadership to the program to ensure that it is carried out effectively and includes senior level interagency coordination.

27. The President, through the U.S. Export Import Bank (EXIM), should make financing energy services exports a priority. (Although, at present, EXIM has the authority to finance such exports, it seldom does.)

28. The President, through EXIM, should seek to expand the frequency of co-financing with other export credit agencies. Allowing exporters to structure bids using some equipment and services from the U.S. and some from other nations will result in more competitive bids involving U.S. content and thus increase the total level of U.S. energy sector exports.

29. The President should upgrade the Administration's participation in the Congressionally mandated Clean Energy Technology Exports (CETE) Initiative that is led by DOE,

Commerce and USAID. The initiative's success should be measured by the increase in the level of exports of technologies and services supported by the initiative. In addition, CETE should take the lead in identifying, formulating, financing, launching and publicizing pilot projects in key countries around the world under which the energy-saving benefits of U.S. goods and services make energy up-grades self-financeable.

30. The President, through the State Department and the Department of Defense, should promote the installation of innovative energy products and services in U.S. embassies, U.S. military bases, and other U.S. Government facilities overseas for their intrinsic benefits as showcases of U.S. technology.

31. The President, through Commerce and DOE, should direct a systematic examination of how direct and indirect trade promotion programs of other countries, especially our main trading partners and competitors, affects the competitiveness of U.S. energy-technology and services exports.

Energy Trade and Development Policy Recommendations

Overall International Energy Trade Framework

The 2001-2005 period offers unprecedented opportunities to expand international trade in the energy sector:

- The United States is currently negotiating bilateral free trade agreements (FTA) with Chile and Singapore. Australia, New Zealand and Egypt are eager to negotiate bilateral agreements of their own.
- The European Union, Chile, Mexico and Japan are negotiating or have already concluded free trade agreements with their neighbors and each other.
- On April 20-21, the leaders of the 34 democratic nations of the Americas strongly endorsed conclusion of the Free Trade Area of the Americas (FTAA) negotiations by January 2005, and initial implementation of that agreement by the end of 2005.
- The World Trade Organization (WTO) holds a ministerial meeting in November 2001, at which ministers may launch a new round of multilateral trade negotiations.
- WTO negotiations on services trade are already underway, as authorized by the 1994 Uruguay Round agreement.

The energy sector is emerging as a major focus of these international trade negotiations. Privatization and deregulation have changed the face of the sector since the Uruguay Round was completed in 1994, bringing about new forms of cross-border trade and investment in energy products, energy services and energy-related equipment. Through the 1970s and 1980s, there was little international trade in electricity, and electricity companies tended to be government-sanctioned or government-owned monopolies, so there was little international investment in that sector. Moreover, these monopolies performed many of their own services, which limited the volume of internationally provided services. On the hydrocarbon side, international exploration and development by multinational petroleum companies was always substantial, but the unique characteristics of the industry often made international trade rules less significant than global political considerations. Trade in petroleum products, for instance, was dominated by the OPEC cartel, and coal was one of the most protected sectors in Europe and many other countries. As a result, the energy sector was not a core part of recent WTO agreements. The 1994 WTO General Agreement on Trade in Services does not cover most forms of energy services.

In order to give U.S. trading partners confidence in his mandate and ability to obtain approval of the trade agreements outlined above, President Bush has asked the Congress to enact Trade Promotion Authority (TPA) legislation. Many analysts believe TPA is essential before any new round of multilateral or regional trade negotiations can be completed. Much of the concerns with TPA centers on the linkages between trade on the one hand and labor and environmental issues on the other.

Key Issues

There are four major areas of international trade of importance to the world energy sector: services, tariffs, investment and government procurement.

In 1999, a group of companies and associations in the United States formed the Energy Services Coalition to encourage the reduction of barriers to trade in energy services. As a result of this group's efforts, it appears likely that energy services will be addressed in the WTO services negotiations now underway. The United States, the European Union, Canada, Norway, Japan and Venezuela have all submitted papers outlining their views on this subject, and the WTO secretariat has prepared a paper on the sector. Bilateral free trade agreements and the FTAA are also expected to include sections on services trade that will include energy services. Canada, however, seeks to exclude the electricity sector from this coverage and Venezuela is concerned primarily with obtaining special consideration for developing countries.

For energy-related goods, tariffs continue to be a significant barrier in some countries. Even where tariffs are relatively low, they impose large aggregate costs on the energy system. Recognizing this, the nations of the Asia Pacific Economic Cooperation group (APEC) in 1998-99 included the energy sector among a group of eight sectors for which they proposed worldwide tariff elimination. Considerable work was done by the APEC nations in defining the sector and developing schedules for their own elimination of energy sector tariffs, contingent on the agreement of other major nations of the world to join the process. On the one extreme, Japan has already eliminated its tariffs on many energy products. On the other extreme, Malaysia did not participate in the process. The European Union has previously championed extensive tariff cuts on industrial products and reportedly was willing to consider tariff elimination on the energy sector had the Seattle Ministerial succeeded in launching a new round of WTO negotiations. When the 1999 WTO ministerial meeting in Seattle failed to launch a new negotiating Round, the APEC tariff elimination initiative was put on hold. In addition to the potential for tariff elimination in the WTO, both bilateral free trade agreements and the FTAA would result in the phased elimination of all tariffs, including tariffs on energy products. In bilateral agreements and the FTAA, the presumption is that all tariffs will be eliminated, although the timetable for elimination would be open to negotiation.

The primary international rules applicable to investment are contained in bilateral investment treaties and bilateral or regional trade agreements. The bilateral investment treaties provide for investor rights, including investor to state dispute settlement procedures to compensate the investor in the event of detrimental government policy changes. The WTO currently has only a limited section on investment, prohibiting local content requirements and trade or foreign exchange balancing. An attempt to negotiate a "Multilateral Agreement on Investment" (MAI) in the Organization for Economic Cooperation and Development (OECD) in the late 1990s proved unsuccessful when non-governmental organizations raised concerns that it would limit governmental discretion — particularly with respect to environmental regulations. In actual practice under the bilateral investment treaties, these concerns have been shown to be unfounded. The bilateral free trade agreements and the

FTAA offer opportunities to adopt bilateral investment treaty principles on a wider scale. The European Union is seeking WTO consideration of investment issues, but this may prove difficult to achieve given the recent OECD experience. Nonetheless, the European Union has secured support for this position from many other countries. In the wake of the MAI effort, the United States opposed WTO coverage of investment issues on the grounds that bilateral investment treaties (which the United States has continued to negotiate) offer a higher level of protection for investors. With respect to Venezuela, a country of critical importance to U.S. energy supplies, the U.S and Venezuela began negotiation for a Bilateral Investment Treaty in 1998, but these negotiations bogged down and have not been resumed.

Although the importance of governments in the energy sector has declined in recent years, governments or state owned enterprises continue to be primary buyers of energy goods and services in many countries. The WTO Government Procurement Agreement (GPA) provides rules requiring transparency and non-discrimination on government purchases of goods and services, but WTO members are not required to sign this agreement. In an effort to achieve universal participation in at least some government procurement disciplines, trade ministers agreed in 1997 to study the idea of a WTO agreement on transparency in government procurement, and a working group was created on the subject. At the Seattle ministerial meeting, as a result of the efforts of the working group, most countries appeared ready to launch negotiations on such a transparency agreement, with a deadline of 2000 or 2001. The failure of the Seattle meeting prevented that from taking place.

Achieving increased participation in the GPA itself is more challenging because many countries wish to retain the right to favor their domestic suppliers in their government purchasing decisions, and because they fear that the application of GPA rules will add cost and complexity to their procurement processes. Nonetheless, GPA signatories are examining ways to simplify the GPA in order to encourage greater participation. The United States has been the leading proponent of a WTO agreement on transparency in government procurement. The European Union has endorsed this concept, but has linked its support to the negotiation of a broader market access agreement on government procurement, including access to U.S. markets now excluded from GPA coverage. Most other countries accept the concept of a procurement transparency agreement, although few see it as a priority negotiating objective.

Policy Recommendations

1. Congress and the President should seek every opportunity to remove barriers to and expand trade in energy commodities, goods and services. This will help companies, especially small and medium size businesses, create more high wage jobs in the U.S. and raise living standards worldwide.

2. Congress should restore Trade Promotion Authority (TPA) for the President to ensure continued leadership of the U.S. in international trade, including energy goods and services. (Every President from Gerald Ford to Bill Clinton has enjoyed this authority, which is critical in negotiating fair agreements with our trading partners.) Also, Congress should avoid encumbering TPA with environmental issues which are best addressed in separate international environmental agreements.

3. The President, through the U.S. Trade Representative (USTR), Department of State (State Department) and Treasury Department (Treasury), should obtain the immediate elimination of energy tariffs (custom duties) in all bilateral and regional trade agreements, and at the November 2001 ministerial meeting should obtain a World Trade Organization (WTO) commitment to the elimination of all worldwide tariffs on energy and energy products.

4. The President, through the USTR, Department of Energy (DOE) and Department of Commerce (Commerce), should continue and, if necessary, re-energize the Administration's current efforts to encourage the WTO to reduce barriers to trade in energy services and cross-border electricity sales.

5. The President, through the USTR, State Department and Treasury, should accelerate the Administration's efforts to remove barriers to investment and promote clear and transparent international rules to govern these investments. The Administration may wish to review WTO willingness to take on multilateral negotiations on investment rules. Also, the USTR and State Department should seek to restart negotiations for a Bilateral Investment Treaty with Venezuela.

6. The President, through the USTR and Commerce, should include universally subscribed provisions requiring non-discrimination and transparency of procurement in the WTO, all bilateral agreements, the Free Trade Area of the Americas (FTAA) negotiations, and the Asia-Pacific Economic Cooperation (APEC) process.

U.S. / Canada / Mexico Energy Trade

The U.S., Canada, and Mexico represent the largest contiguous energy market the world has ever seen. Together, these three countries account for more than one-quarter of all global energy production and nearly 30 percent of the planet's energy consumption. All three are both importers and exporters of energy in most forms, and the combination of geographical and time-varying demand for each one in turn provides enormous potential for two-way exchanges of energy across both the northern and southern U.S. borders. The North American energy market has developed far more rapidly than was thought possible only a decade ago, but could be strengthened further for the benefits of all three concerned countries.

There are extensive power links across the U.S. Canadian border, and some provinces exchange more electricity with the U.S. than they do with other provinces. Canada supplies almost all of the U.S.'s imports of natural gas; but Mexico is now a net importer of gas from the U.S. (although volumes are relatively small and the balance of flow could change before the end of this decade). Mexico now allows foreign companies to build and operate both pipelines and power plants within its borders; but U.S. companies have not been alone in entering this new market (e.g., Spanish and French companies are becoming serious players). Mexico and Canada are consistently among the U.S. leading foreign sources of crude oil and (in the case of Canada) of refined petroleum products. Canada's electricity industry (regardless of whether individual entities are government owned or private) and Mexico's dominant, nationally-owned electricity supplier (Comisión Federal de Electricidad or CFE) are already engaged in NERC's ongoing efforts to ensure power reliability.

The current national administrations in all three countries are favorably disposed toward encouraging North American energy trade. President Bush specifically mentioned energy trade with Canada and Mexico in announcing his National Energy Policy; and the policy document itself commends the recent establishment of a trilateral working-group system by the three energy ministers in order to build mutual confidence and experience in continental cooperation.

In exploring ways to harmonize the respective, individual national energy policies of the three nations, working-group members met in June and September 2001, and they tentatively plan to come together again in November. They are considering ways to improve consistent data-collection and data-sharing, to strengthen trans-border electricity links, to encourage energy efficiency in a cooperative fashion, and to facilitate mutual trade, investment, and technology exchange despite differing patterns of resource ownership and regulation. Unfortunately, there is little public awareness of these initiatives, and the slowness of federal legislative processes (coupled with the real-life divisions of policy responsibility among industry, NGO's, and governmental entities at various levels) still pose barriers to clear and rapid progress.

The pledge by U.S. Secretary of Energy Spencer Abraham that there will be no "junior and senior partners" among the three NAFTA signatories in the continental energy market has been well received. Mexican President Vicente Fox has made clear his goal of extending the North American gas-and-electricity networks to include Central America as soon as feasible. New attitudes toward energy matters are reflected in the involvement in economic planning by various members of his cabinet (including the foreign minister and the minister for environment). In somewhat similar fashion, Canadian Prime Minister Chrétien has named a cabinet-level task force (including the Minister of Natural Resources, but headed by the Foreign Minister) to oversee Canada's role in the development of a North American energy market.

Patterns for oil and gas trade are well established, but still evolving. New fields in Canada's Maritime Provinces are beginning to serve customers in New England, and any of the supposed routes for a gas pipeline from Alaska to the Lower 48 would transit Canada – possibly in some relation to fresh exploration in Canada's own Mackenzie Delta frontier region. A likely future development in U.S. gas trade with Mexico is for some U.S. gas to flow south from U.S. western states while new Mexican fields in the east are capable of furnishing gas more conveniently to the Gulf areas of this country and also of serving increased requirements across northern Mexico. However, east-west movement of electricity lags to a varying extent in all three countries; so bolstering the respective power grids along this axis is critical (for both technical and economic reasons) to permit full utilization of additional cross-border links.

Key Issues

The benefits of North American "energy interdependence" are manifold for all three NAFTA partners and include economic growth, energy efficiency, security, reliability, and environmental protection. However, they depend not only on the elimination of cross-border trade and investment restrictions, but also on transparency, competitive opportunity, and physical and electronic infrastructure. Despite the positive attitude of the current national administrations in all three countries, the move toward fully integrated and open energy markets in North America faces several hurdles including the strong opposition of certain stakeholders concerned with losing economic and political clout.

California's recent energy problems led to "scapegoating" – which distracted many observers from the fact that the state has long relied on seasonal supplies of hydroelectricity from Canada and (through most of the 1990s) on electricity generated from geothermal sources from the Mexican area of Baja California Norte. Today, opportunities for mutually beneficial exchanges of both gas and electricity are poised to grow rather than decline – assuming that free-market trade is nurtured.

U.S. states, especially those along both our northern and southern borders, will play an important role – affirmatively or negatively — in future development of the tri-national energy market. Its potential can expand enormously if the Bush administration's call for improved interstate links for both gas and electricity is heeded. However, the strengthening of the role of FERC, including the use of eminent domain to site new transmission lines and authority to enforce decisions reached voluntarily by members of the North American Electric Reliability Council (NERC) – which is transforming itself into a more effective "North American Electric Reliability Organization" – is being resisted by some (though not all) states' rights advocates and environmental activists.

The Canadian provinces are even more autonomous in energy regulation than are U.S. states. It is not enough to convince the federal government in Ottawa (even if all its components were perfectly aligned) that the necessary constituents of "energy interdependence" need to be protected and nourished. From the Northwest Territories to the Maritimes, varying degrees of cooperation are needed from provincial authorities and citizenry to further Canadian national interests as well as those of the other continental partners.

In Mexico, traditional nationalism has instinctively opposed foreign involvement in energy, which is regarded as a national "patrimony." Successive governments starting with President Salinas have had to deal cautiously with reinterpretations of the laws that implement energy provisions of the near-sacrosanct Constitution, and incumbent President Fox is hampered by lack of a majority in the legislature. Although the parastatal companies that fundamentally control Mexican hydrocarbons (Petróleos Mexicanos or PEMEX) and electricity (CFE) have been streamlined, their privatization remains uncertain if not unlikely. President Fox had to back away from the idea of outright energy privatization and has indicated that his priorities now are to expand opportunities for private (including foreign) investment in the electricity sector and to find a popularly acceptable way to involve foreign capital and know-how in developing non-associated natural gas from such areas as the Burgos Basin in the northeast.

Before NAFTA could be ratified, political exigencies required the negotiation of side-agreements on labor and environmental matters. Trilateral commissions on cooperation in these fields were established, primarily to make sure that existing national standards were preserved and improved where possible, and not "harmonized downward." These initiatives can be a source of strength for an integrated energy market rather than impediments if the objective of a balanced policy is kept constantly in mind. However, energy-related unions in Mexico have been especially resistant to any changes in the status quo.

Unfortunately, in all three countries, NIMBY (Not-In-My-Back-Yard) and BANANA (Build-Absolutely-Nothing-Anywhere-Near-Anybody) attitudes may also prevail and result in opposition to any form of additional energy production facility or its supporting infrastructure.

Mexico's economy is developing and expanding rapidly, but its concomitant growing demand for energy could be stymied by a lack of available capital and technical sophistication (especially in areas where poverty and/or geographic isolation limit opportunity for self-development). Some forms of renewable energy are especially appropriate in such circumstances, and extraordinary emphasis is being placed on the development of gas-fired generation as a clean alternative to the use of high-sulfur oil. Until and unless President's Fox's general fiscal reforms are accomplished, however, the operations of PEMEX (including investment both upstream and downstream in gas) are not as efficient as they might be if based more on determination by market forces.

Canada generally views its giant neighbor as a rich market for resources that are on the threshold of fuller development – oil and gas offshore in the east, tar-sands and other less conventional sources of hydrocarbons, and largely untapped fields adjacent to Alaska (which conceivably might be served by at least part of the new pipeline facilities being sought by the Bush administration to extend our own useful domestic production). Canada's provinces, in which energy is developed by a mix of government and private corporate entities, are moving toward freer market rules; and Alberta in particular appears to be ahead of any of the 50 States in achieving workable regulatory reform in respect to energy.

It is becoming increasingly evident that success in developing an integrated tri-national energy market should not be gauged by the level of bilateral energy trade balances, but by measuring the total volume of energy-related trade. Increasingly, these flows are regulated by relatively free markets, so that advantages accrue simultaneously to both supplier and recipient. Nevertheless, no market system rewards all players equally and at all times. The brief but dramatic fly-ups in certain U.S. energy prices that resulted from an extraordinary coincidence of circumstances spread naturally to both Canada and Mexico – bringing complaints especially from consumers (e.g., residents of populous Ontario and Québec, electricity customers in hydrocarbon-rich Alberta, Mexican glass and ceramic industries which must use natural gas). There have been shortsighted calls in all three countries to reverse important regulatory reforms toward more open and free cross-border energy trade. These should be resisted at all costs; the response to California's faulty experiment in regulatory modification should be to see that the defects that should have been foreseen in that system are corrected and that initiatives in other states follow instead the more successful reforms elsewhere.

Especially with industry restructuring, electronic infrastructure is as essential to an optimized continental energy market as are pipelines and powerlines themselves. The efficient and reliable movement of gas and electricity within the United States – and across borders – depends on complex systems and networks. They make it possible to exchange information about price, supply, and demand instantly; and they are also essential in modern energy production and in effecting actual deliveries. Thus, sporadic recent disruptions to electronic communication (sometimes originating as far away as another hemisphere) are potentially more than just a nuisance. Indeed, when the National Petroleum Council (NPC) delivered its study entitled *Securing Oil and Natural Gas Infrastructures in the New Economy* to Secretary Abraham in June, the threat from "cyber-problems" (whether accidental or mischievous) was described as more problematic than the traditional ones of physical vulnerability.

The NPC is pursuing this issue in conjunction with DOE's Office of Critical Infrastructure Protection; and a report in January[5] notes that NERC had been named earlier as the Electricity Sector Information Sharing and Analysis Center (ES-ISAC) – with coordinating responsibilities that extend to Canada as well as the United States. Although systems and practices differ between gas and electricity, the convergence of these two segments of the energy industry suggests that ultimately internal security measures might become mutually reinforcing in some respects. Successful experience in forestalling the broader cyber-threat of Y2K at the turn of the millennium indicates that advance analysis, tailored legislation, and public-private cooperation are needed; and DOE (which was designated as the lead agency in respect to energy infrastructure protection by Presidential Decision Directive 63) is also positioned through the trilateral working group system mentioned above to facilitate whatever international coordination is required by trade linkages with Canada and Mexico.

Another country of the Americas which is of critical energy importance to the U.S. is Venezuela. While not a member of the North American Free Trade Agreement Venezuela (together with Saudi Arabia, Mexico and Canada) is among the four largest suppliers of oil to the U.S. market, and its subsidiary, CITGO, is one of the largest refiners and product distributors in the U.S. market. Any policies designed to enhance oil development and trade among our North American partners would be incomplete without considering the role of Venezuela in respect to these policies. In the early 1990's Venezuela began opening up its oil sector to private participation when it initiated its marginal oil fields program. Since then it has initiated a Strategic Alliance program that involves partnerships between its state oil company and private firms for the development of the extra-heavy oil deposits of the Orinoco Basin, and an *apertura* program offering licenses to private firms for the exploration and development of oil and natural gas in selected areas. As a result of these efforts the international oil companies have returned to Venezuela and are pursuing major investments. In addition, Venezuela is seeking to develop its natural gas resources, both for domestic needs and for export markets mainly to the U.S. East Coast. Finally, Venezuela has begun to promote private sector participation in the electricity sector, including the construction and operation of power plants and transmission systems. Given these new developments, Venezuela will remain a key participant in the U.S. energy market and a major investment opportunity for U.S. firms; and its role is almost certain to increase.

Policy Recommendations

7. The President should establish a cabinet-level group, with essentially the same membership and structure as the *ad hoc* National Energy Policy Development Group, to accelerate the development of an open and integrated energy market in North America. Such market should cover all forms of energy commodities, goods and services. Appropriate initiatives should also keep in mind the role of Venezuela as another hemispheric energy partner of long standing and increasing importance.

[5] *Report of the President of the United States on the Status of Federal Critical Infrastructure Protection Activities*, Washington, January 2001.

8. The USEA, through its private sector members and in cooperation with its own North American counterparts within the WEC, will develop more frequent and more substantive trans-border exchanges of information with the Mexican and Canadian private sector. It will also mount a special effort to heighten the awareness and understanding in the U.S. — by the private sector and government officials at all levels — of the unique opportunities presented through continental energy trade to improve energy security, reliability, services, and environmental well-being.

9. The Congress should authorize – in stand-alone legislation if necessary – the Federal Energy Regulatory Commission (FERC) to enforce decisions and agreements reached by consensus within the North American Electric Reliability Organization (NAERO) to strengthen electric transmission infrastructure including that relating to our North American partners. Canada and Mexico should be encouraged to consider complementary actions.

10. The President should mandate the Department of Energy (DOE), to which responsibility has long been delegated for the granting of Presidential Permits for transmission lines that cross U.S. international borders, to speed whatever coordination with other governmental and private-sector entities is needed and to issue such permits as promptly as possible.

11. The President, through the U.S. Government's Congressionally-mandated Clean Energy Technology Exports Initiative (CETE) that is led by DOE, Commerce and the Agency for International Development (USAID), should develop with the Mexican Government a coordinated plan of actions to foster the rapid development and introduction of clean energy systems in Mexico and use this initiative to develop and test internationally accepted protocols to measure the precise environmental results of such systems. In addition, USAID should be funded to update regularly the energy investment handbooks it has developed with the USAID Mission to Mexico in cooperation with Mexico's Comisión Federal de Electricidad (CFE) to keep up with changes in Mexican law and regulatory practices.

12. The National Association of Regulatory Utility Commissioners (NARUC), in conjunction with the National Governors Association, NAERO and FERC, should resolve the conflicting state approaches to Renewable Portfolio Standards and the definition of "renewables" to encourage the installation of new transmission lines between the U.S. and Canada and facilitate the export of large hydro-power from Canada.

13. The DOE should take all necessary steps to ensure that the relevant protective efforts of the North American electronic infrastructure undertaken separately to date by the North American Electric Reliability Council (NERC) and the National Petroleum Council are fully coordinated.

Energy Trade Sanctions

In the re-assessment of overall U.S. national security and foreign policies after the attack of September 11, 2001, an important area to review is the use of unilateral trade sanctions to combat global terrorism. It is generally agreed that the U.S. choice of military response to terrorism must be prudent and measured: The U.S. should wield economic sanctions in a similar fashion. The U.S. energy industry has been hit harder by economic sanction policies than any other industry. U.S. sanction policies also affect foreign energy companies and their governments albeit in conflicting ways. On the one hand, foreign energy companies gain by the absence of U.S. competitors and achieve a market share that they otherwise might not attain. At the same time, foreign governments resent the extraterritorial application of U.S. law.

The record of unilateral sanctions in attracting others to our way of thinking is dismal. Their record of inciting anti-American sentiment, however, is strong. Numerous studies have shown that the success rate of unilateral sanctions is very low, and even in those few cases where sanctions may seem to have "worked" it is difficult to disentangle the contribution of sanctions from other factors that have driven political and social change in the country subject to sanctions. Moreover, the more interdependent the world becomes, the greater are the costs to the U.S. of staying removed from critical relationships and the less likely it becomes that our absence from a given economy will have significant impact.

A poll conducted last year by the Foreign Policy Association of 28,000 Americans showed that almost 90 percent of those surveyed support normalizing relations with Iran and 75 percent believe that U.S. companies should be allowed to do business in Iran.[6] Many prominent figures in the U.S. including Brent Scowcroft, Lee Hamilton, Jim Schlesinger and Zbigniew Brzezinski, have called for engagement policies and an end to unilateral sanctions. U.S. business, represented by organizations such as USA*ENGAGE and the U.S. Chamber of Commerce, is also on record as strongly opposing the use of sanctions as a foreign policy tool. Rather, they support engagement policies, best exemplified by U.S. policy towards the Soviet Union and apartheid South Africa.

Yet, the U.S. uses economic sanctions more frequently than all other countries and today over 75 countries are subject to unilateral U.S. economic sanctions. Some countries, including major energy-producers, are subject to multiple forms of sanctions. Economic sanctions may include embargoes or restrictions on exports, imports and direct investment, the cessation of aid, limits or outright bans on financial transactions, the freezing of assets, the curtailing of credit and loan guarantees by the U.S. government, the denial of normal tax treatment, and limits on travel.

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[6] 2000 National Opinion Ballot by the Foreign Policy Association of New York (www.fpa.org).

Based on his extensive studies on the subject, Ambassador Richard Haass, Director of the State Department's Policy Planning group, drew 10 conclusions about sanctions:

- Sanctions alone are unlikely to achieve desired results if the aims are large or time is short;
- Under the right circumstances, sanctions nevertheless can achieve (or help to achieve) various foreign policy goals ranging from the modest to the fairly significant;
- Unilateral sanctions are rarely effective;
- Sanctions often produce unintended and undesirable consequences;
- Sanctions can be expensive for American business, farmers, and workers;
- Authoritarian, statist societies are often able to hunker down and withstand the effects of sanctions;
- Military enforcement can increase the economic and military impact (although not necessarily the political effect) of a given sanction;
- Sanctions can increase pressures to intervene with military force when they are unable to resolve the crisis at hand;
- Sanctions tend to be easier to introduce than lift; and
- "Sanctions fatigue" tends to settle in over time, and as it does, international compliance tends to diminish.

Key Issues

Government leaders are justifiably frustrated by difficult, seemingly intractable political problems — from terrorism, to weapons proliferation, to human rights abuses, to failure to democratize. When a media spotlight turns on a particular situation there is great pressure to respond and appear active. When the options seem as limited as "do nothing, invade, or sanction," the third option has repeatedly been chosen not only because it seems a compromise between two extremes but because policy makers often use sanctions to satisfy political requirements to take some action. But, often the choice is much broader than sanctioning, declaring war or doing nothing. In fact, the State Department's Advisory Committee on International Economic Policy lists 130 policy options that serve as alternatives to sanctions for influencing governments.[7]

Unilateral Sanctions do not "work"

Unilateral sanctions have not usually proven effective. For example, non-U.S. international companies have continued to invest in Iran despite the Iran-Libya Sanctions Act (ILSA). These investors include China, France, Italy, Japan, Malaysia, the Netherlands, Russia and the UK. Over the past five years over $13 billion has been invested in Iran's

[7] *U.S. Foreign Policy Tools: An Illustrative Matrix of Selected Options*, U.S. Department of State

energy sector. Within the next 5-10 years, an additional $18-20 billion is expected to be invested – with or without American participation or "approval." None of the companies concerned have been affected by the threat of the secondary-boycott sanctions that ILSA carries. So sanctions have not decreased investment or income in these two countries.

Unilateral Sanctions hurt the U.S.

Over the past few years, European oil and gas companies have been growing far faster than their U.S. counterparts. One important reason for this is that U.S. companies are barred from investing in or trading with important markets like Iran and Libya. Invariably, when sanctions force American corporations to pull out of a targeted country, a foreign company steps in, and its business grows while the American company's does not. Sanctions have led to the perception, with some justification, that U.S. companies are "unreliable" while non-U.S. companies enjoy the full support of their home governments. In addition, there are documented cases that non-U.S. companies have deliberately stopped using U.S. supplied components in order to avoid the fallout of having an "unreliable" supplier in the eyes of the sanctioned country.[8]

American companies have lost billions of dollars in missed opportunities to foreign companies, which have concluded many deals over the $20 million limit imposed by ILSA. Just one oil field alone, Azadegan in Iran, offers potential revenues of over $100 billion, all of which will go to European and Asian competitors so long as unilateral sanctions are still in place. With that investment goes some degree of control of where supplies flow to consumers, in this case away from American consumers. Overall, sanctions cost the U.S. as much as $19 billion annually and more than 200,000 high-wage jobs.[9]

Sanctions reduce energy supplies, raise prices and jeopardize long-term energy security

In its 2001 study of sanctions' effect on supplies and prices, Washington Policy and Analysis predicts, if existing sanctions against Iran, Iraq and Libya alone are continued, that oil prices, uninflated, could rise to as much as $33 a barrel by 2003 and to approximately $40 per barrel by 2008 – or up to $1 per gallon difference in the price of regular gasoline.[10] Further, the International Monetary Fund (IMF) estimates that every $5 increase in the price of crude oil will result in a reduction of the global economic growth by an average of 0.27 percent. Based on these estimates, lifting economic sanctions on the five oil producing countries of the Middle East and Eurasia to which they presently apply (Iran, Libya, Iraq, Syria and Azerbaijan) would increase energy supply and significantly lower energy prices. Some 60-70% of the world's future energy capacity is going to come from the Middle East, Russia and the Caspian. One-fifth will come from Iran, Iraq and Libya alone. The U.S. should fully evaluate and carefully consider the cost of cutting itself off from the development of these vital reserves. Development of oil fields in the Middle East will bring

[8] CSIS *Beyond Unilateral Economic Sanctions: Better Alternatives for U.S. Foreign Policy, 1999*
[9] IIE, Hufbauer, Elliott et al, Economic Sanctions: Their Impact on Trade, Jobs and Wages,1997
[10] *The Impact of U.S. Sanctions on Energy Prices,* Washington Policy and Analysis, Inc., 2001

more supply onto the markets, and thus abate price pressure in the U.S. (and everywhere). While sanctions may be an "affordable" policy in flush energy times, they are prohibitively expensive in times of tight supply and high prices.

Policy Recommendations

14. Both Congress and the President should use economic sanctions on a more focused basis and with much more multilateral coordination and participation among allies, than has been the practice up to now.

15. Where sanctions are imposed, the Congress and the President should ensure to the maximum extent possible that they do not discriminate against U.S. companies and do not effectively create advantages for our international competitors.

16. The President should amend the Executive Orders on Iran and Libya to, at a minimum, allow American companies to undertake the same activities that the Iran-Libya Sanctions Act permits their foreign counterparts to undertake. The President should exercise his authority to remove penal double-taxation on income arising from countries on the State Department's "6(j) list."

17. Where sanctions are deemed necessary as part of a broad, coordinated policy, the Congress and the President should use only highly targeted measures that directly impact "perpetrators," rather than entire innocent civilian populations.

18. Over the next 12 months, the President, through the State Department, should with the G8 allies jointly evaluate: 1) the effect of sanctions on the behaviors of targeted countries to determine whether sanctions are achieving any of their goals and, if so, which ones; 2) whether sanctions constrain or actually increase the revenues of targeted governments; 3) whether sanctions raise costs for energy consumers; 4) how to more effectively combat terrorism, control the export of sensitive technologies and control weapons proliferation; and 5) how to improve cooperation in pursuing international security and prosperity. The conclusions of such studies should then be implemented immediately.

19. Congress should pass, and the President should sign, meaningful sanctions reform legislation during the 107th Congress. Such legislation should incorporate the State Department's six principles for sanctions policies. They are: presidential flexibility, cost and benefit weighing, consideration of commercial and security interests, multilateral over unilateral measures, annual review and assessment, and close coordination between the Legislative and Executive Branches.

20. The President, through the State Department, should follow through on Secretary Powell's confirmation testimony and propose a process for repealing existing, non-working sanctions.

21. The President, through the State Department, should continue its rethinking of U.S. policy towards “states of concern” and focus instead, whenever possible, on “*persons of concern*.” In particular, the Administration and Congress working jointly should continue to pursue the full spectrum of “influencing” options, from total diplomatic and economic engagement, to conditional engagement, to selective conditions, to isolation as a last resort and then preferably only when acting multilaterally.

Energy as an Economic Driver for International Development

Energy poverty, the lack of commercial sources of energy necessary for economic growth, is among the most significant current challenges to sustainable development. Lacking adequate infrastructure to develop, generate and transmit higher forms of energy, it is likely that high levels of unemployment, illiteracy, the spread of infectious disease, and environmental degradation experienced by developing and reforming nations over the last 20 years will continue unabated.

Symptoms of energy poverty and their potential to spark civil unrest and regional instability pose increasingly significant risks to the security of the United States and its allies. Improving the supply and quality of energy resources in developing and transitional nations must be made a U.S. strategic international development priority. Analyses of the linkages between energy and the economy, social and health issues, environmental protection, and security have revealed that:[11]

- Two billion people lack access to affordable, modern energy supplies. This severely constrains their opportunities for economic development and improved living standards. Women and children are disproportionately burdened by dependence on traditional fuels.
- Wide disparities in access to affordable energy services are inequitable and unjust, run counter to the concept of human development, and threaten social stability.
- For many who do have access, the unreliability of supplies pose a hardship and economic burden.
- Dependence on imported fuels leaves many countries vulnerable to disruptions in supply, resulting in dangerous social, economic, and political consequences.
- Both the health of humans and the health of ecosystems are threatened by high levels of pollution resulting from energy use at the household, community, and regional levels.
- Emissions of anthropogenic greenhouse gases, mostly from the production and use of energy, may already be altering the atmosphere in ways that may have a discernible influence on global climate.

Energy is not an end in itself, but rather is a means to achieve the broader goals of sustainable development generally, and economic growth, specifically. Consequently, energy should not be viewed in isolation from the delivery of basic development infrastructure central to economic and social activities, such as water supply and sanitation, transportation networks, telecommunication systems, and health and education facilities. Instead, energy

[11] Refer, for example, to "Economic Growth and Poverty Reduction in Developing Countries: The Role of Energy," USAID Office of Energy, October 2001 and "Energy and the Challenge of Sustainability," World Energy Assessment, United Nations Development Programme, United Nations Department of Economics and Social Affairs, World Trade Council, 2000.

services and infrastructure services should be viewed as a mutually complex system where infrastructure services depend on the energy sector to power their operations. Failure to provide reliable energy services in a comprehensive and integrated manner inhibits entrepreneurs and serves as a brake on economic growth and private investment. Failure to engage the private sector in the creation of economic activity prevents new sources of financing from entering nascent economies, resulting in economic stagnation, poverty, and human misery.

Key Issues

Global energy use is expected to increase by over 50 percent from the year 2000 through 2020, with the major growth in energy demand to occur in developing countries. The demand for capital to replace and expand ageing energy infrastructure in emerging markets is expected to exceed $200 billion annually over the next 20 years.

Confronted by declining public sector budgets and competing demands for capital, developing and reforming nations will be hard pressed to meet the demand for energy infrastructure without sacrificing the provision of traditional public services such as education and healthcare. Recognizing the potential benefit of private investment and commercial operation of the energy sector, governments of developing and reforming countries have demonstrated increasing interest in both the private financing of energy infrastructure and the free and open trade of energy goods and services. Yet, barriers to energy trade and investment in the form of appropriate legal/regulatory frameworks, market structures and management capacity are hindering the flow of capital and the introduction of new energy technologies.

The U.S. energy industry, with its long history of private ownership, commercial operation and independent regulation, stands ready to assist developing and transitional countries meet their energy requirements. Though increased trade and investment, U.S. companies are prepared to invest substantially in energy infrastructure and to engage in the trade of energy goods and services that can alleviate energy deficits in developing and reforming economies, but are challenged by high levels of legal/regulatory, environmental, and commercial risks in these nations. For example, many nations lack a basic legal framework for the energy sector that permits private investment, ownership and operation. Some nations that have enacted legislation to allow private trade and investment have not followed-up with the establishment of independent regulatory authorities necessary to develop and monitor rules, tariffs and codes of conduct for competitive energy markets. The lack of autonomous and transparent regulatory agencies creates investor uncertainty and increases the cost of capital to the energy sector in developing countries and nations in transition. These problems are exacerbated by a dearth of well trained energy sector officials with an appreciation for the sectoral reforms necessary to encourage increased private investment, commercial operation of the energy sector and increased trade of energy goods and services.

The U.S. Government possesses an array of programs to overcome challenges to U.S. energy trade and investment in nations with developing and reforming economies.

Agencies with international technical assistance or trade promotion and enhancement responsibilities include:

- Agency for International Development
- Department of Commerce
- Department of Energy
- Environmental Protection Agency
- Export-Import Bank
- Overseas Private Investment Corporation
- Trade and Development Agency

Federal programs to eliminate international energy poverty lack adequate funding. As the lead agency responsible for providing technical assistance to energy sectors of developing and transitional economies, USAID has experienced a real decline of over 8 percent in its energy budget since 1995.

Moreover, international energy programs being implemented at the federal level are not well coordinated among the various sponsoring agencies. And, they fail to leverage the resources of the private sector, NGOs and non-federal government agencies that can be used to promote institutional reform and strengthen the human resource base within the energy sector of developing countries and transitional nations.

A strategic international plan, consistent with the recommendations in the National Energy Policy report of May 2001, is necessary to meet the challenge of global energy poverty and U.S. energy security. The National Energy Policy report recommends that the President make energy security a priority of U.S. trade and foreign policy. Among its other recommendations it calls for U.S. Government agencies to:

- Use U.S. membership in multilateral organizations and our bilateral relationships "to implement a system of clear, open and transparent rules and procedures governing foreign investment; and to reduce barriers to foreign investment;"

- Support a "sectoral trade initiative to expand investment and trade in energy related goods and services that will enhance exploration, production, and refining as well as the development of new technologies;"

- Promote "market based solutions to environmental concerns; support exports of U.S. clean energy technologies and encourage their overseas development; engage bilaterally and multilaterally to promote best practices…"

Based on recommendations in the National Energy Policy report, the federal government must develop a comprehensive strategy toward ending energy poverty. Such a strategy will promote economic growth and stability in developing and transitional nations, enhance regional security for the U.S. and its allies, encourage trade and investment by U.S. companies in dynamic global markets, and open up new energy resources for the United States.

Policy Recommendations

22. The President, through the National Energy Policy Development Group, State Department, USAID, Commerce and DOE, the Congress and private sector should seek a nexus among international development priorities, commercial interests of the U.S. energy industry and U.S. strategic interests in international energy sector reform. All parties should work cooperatively to develop a strategic plan for incorporating the resources of federal agencies, the private sector, non-federal agencies and NGOs in a manner to overcome legal, regulatory, environmental, commercial and human resource constraints to increase trade and investment.

23. The President, through the National Energy Policy Development Group, should ensure that energy poverty become a priority for USAID and the multilateral international development agencies to which the U.S. contributes, and that energy be viewed as a central element of sustainable economic growth. In addition, the President should ensure that USAID's funding of energy-related programs be increased from $290 million on an agency-wide basis in FY 2001 to $500 million in FY 2002 and $1 billion by FY 2005.

24. The President, through the National Energy Policy Development Group, should take the lead in preparing a comprehensive U.S. strategy to alleviate energy poverty in the world. Better coordination among public and private sector organizations, including energy companies, is needed to accomplish this objective. The USEA pledges its support and that of its members for this effort.

25. The USEA will explore the organization of an Energy and International Development Council which would coordinate the "good offices," funding and expertise of the U.S. private sector and government agencies to alleviate energy poverty in the world. Members of the Council should represent the widest breadth of the expertise offered by the U.S. energy industry combined with those federal agencies charged with the promotion of international energy trade and development. The mission of the Council would be to:
    - Improve the understanding of policy makers and the public at large of the connection between the alleviation of energy poverty, international development and U.S. national energy security;
    - Assist in identifying priority countries for joint public private collaboration, including, but not limited to the countries identified in the National Energy Policy report of May 2001;
    - Identify legal, regulatory, institutional and market oriented solutions to obstacles challenging the development of reliable energy sources for economic development in priority countries; and
    - Develop coordinated action plans for each country that leverage U.S. Government funding with private and non-federal contributions.

International Energy Trade Promotion

U.S. energy companies are world leaders in technologies, products, and services that permit environmentally sensitive, efficient, and cost effective energy generation, production, distribution and use. Previous sections of this report have identified trade and sanctions policies, regional integration programs, and economic development measures that the federal government should implement as part of its international energy policy. Those policies would create conditions that would enhance U.S. energy security and address global environmental concerns while facilitating economic growth. To ensure the maximum effectiveness of those policies and maximum benefits, the federal government should also promote the export and utilization of U.S. energy goods and services.

Export promotion is a critically important role for the U.S. Government. As a recent report by the Business Center for International Understanding states:

> *"The promotion of U.S. business in international markets is one of the most important foreign and economic policy functions that the United States government can perform. The expansion of trade and investment with foreign countries creates economic growth, employment and prosperity at home. U.S. companies by their presence and through their practices improve socio-economic conditions, accelerate development and encourage self-sufficiency in foreign countries in which they operate. Above all, the expansion of American business into new and existing markets promotes the core American values of democracy, economic opportunity, education and individual liberty – all of which are integral to U.S. national security and economic interests."*

Key Issues

In addition to the standard and well known value of export promotion, in the energy sector there are particularly compelling reasons for the government to making it a priority. Energy is the feedstock of industrialization and economic development. As a result, U.S. exports of energy goods and services will yield a multiple payback for the importing country, which will, in turn, create still further opportunities for U.S. exports. Moreover, energy markets have a tendency to be strongly cyclical. By helping the private sector succeed in international markets, therefore, the government is helping to ensure ongoing activity in the sector even during downturns in the U.S. market. This means that the sector will be vibrant and in a position to respond when consumption increases in the U.S.

In addition, the federal government itself invests in research and development (R&D) for energy technologies and products. In many cases, a substantial part of the market for the products that result from this R&D will be located outside the U.S., and export volume will therefore yield economies of scale and reduce production costs, thereby yielding economic benefits and speeding widespread acceptance of the product and the benefits it provides.

A number of agencies are currently involved in the promotion of U.S. energy sector exports. These include the Departments of Commerce, Energy, and State; the Export-Import Bank (EXIM); the Overseas Private Investment Corporation (OPIC); the Trade and Development Agency (TDA); the Agency for International Development (USAID); and the Environmental Protection Agency (EPA). Each of these agencies offers special expertise and perspectives on export promotion. For example, Commerce has a network of commercial officers in embassies around the world, leads trade missions overseas, and coordinates advocacy in favor of U.S. bidders in international tenders. Energy has extensive contacts with energy ministries around the world and has unparalleled expertise in energy technologies. The State Department and its embassies around the world have made the promotion of American business interests a priority and are able to help U.S. exporters place energy business opportunities in a broader political context. EXIM and OPIC provide export financing and insurance programs where commercial sources are not available. TDA funds trade missions, conferences, feasibility studies and training grants to promote U.S. exports and has made energy projects one of its top priorities. USAID helps to fund energy sector restructuring in developing countries and works through the USEA and other groups to further cooperation between U.S. business and energy entities in developing countries. EPA coordinates with its counterparts around the world on environmental issues. In addition, the U.S. holds Executive Director positions in the World Bank and other multilateral financial institutions, which place it in a position to yield influence upon the activities of those groups.

The work of these agencies is of great value and is much appreciated by the energy community. At the same time, it is clear that energy export promotion is an ad hoc process carried out pursuant to the unique objectives of each agency with little interagency coordination or overall policy direction. As a result synergy advantages among agencies are not always exploited, an inadequate aggregate level of resources is allocated to the effort and there are limited opportunities and incentives for creative ideas that cut across agency lines of authority. Additional U.S. public-private sector leadership is required to insure that priority attention to domestic needs does not unnecessarily negatively impact the U.S. role in energy trade and development around the world.

Policy Recommendations

26. The President, through the Department of Commerce (Commerce), Department of Energy (DOE) and the Department of State, should make energy technology export promotion a priority element of the Administration’s energy policy. He should assign high level leadership to the program to ensure that it is carried out effectively and includes senior level interagency coordination.

27. The President, through the U.S. Export-Import Bank (EXIM), should make financing energy services exports a priority. (Although, at present, EXIM has the authority to finance such exports, it seldom does.)

28. The President, through EXIM, should seek to expand the frequency of co-financing with other export credit agencies. Allowing exporters to structure bids using some equipment and services from the U.S. and some from other nations will result in more competitive bids involving U.S. content and thus increase the total level of U.S. energy sector exports.

29. The President should upgrade the Administration's participation in the Congressionally mandated Clean Energy Technology Exports (CETE) Initiative that is led by DOE, Commerce and USAID. The initiative's success should be measured by the increase in the level of exports of technologies and services supported by the initiative. In addition, CETE should take the lead in identifying, formulating, financing, launching and publicizing pilot projects in key countries around the world under which the energy-saving benefits of U.S. goods and services make energy up-grades self-financeable.

30. The President, through the State Department and the Department of Defense, should promote the installation of innovative energy products and services in U.S. embassies, U.S. military bases, and other U.S. Government facilities overseas for their intrinsic benefits as showcases of U.S. technology.

31. The President, through Commerce and DOE, should direct a systematic examination of how direct and indirect trade promotion programs of other countries, especially our main trading partners and competitors, affects the competitiveness of U.S. energy-technology and services exports.

Annex A. List of Recommendations by Implementing Organization

The Congress

1. **Congress** and the President should seek every opportunity to remove barriers to and expand trade in energy commodities, goods and services. This will help companies, especially small and medium size businesses, create more high wage jobs in the U.S. and raise living standards worldwide.

2. **Congress** should restore Trade Promotion Authority (TPA) for the President to ensure continued leadership of the U.S. in international trade, including energy goods and services. (Every President from Gerald Ford to Bill Clinton has enjoyed this authority, which is critical in negotiating fair agreements with our trading partners.) Also, Congress should avoid encumbering TPA with environmental issues which are best addressed in separate international environmental agreements.

9. **Congress** should authorize – in stand-alone legislation if necessary – the Federal Energy Regulatory Commission (FERC) to enforce decisions and agreements reached by consensus within the North American Electric Reliability Organization (NAERO) to strengthen electric transmission infrastructure including that relating to our North American partners. Canada and Mexico should be encouraged to consider complementary actions.

14. Both **Congress** and the President should use economic sanctions on a more focused basis and with much more multilateral coordination and participation among allies, than has been the practice up to now.

15. Where sanctions are imposed, the **Congress** and the President should ensure to the maximum extent possible that they do not discriminate against U.S. companies and do not effectively create advantages for our international competitors.

17. Where sanctions are deemed necessary as part of a broad, coordinated policy, the **Congress** and the President should use only highly targeted measures that directly impact "perpetrators," rather than entire innocent civilian populations.

19. **Congress** should pass, and the President should sign, meaningful sanctions reform legislation during the 107th Congress. Such legislation should incorporate the State Department's six principles for sanctions policies. They are: presidential flexibility, cost and benefit weighing, consideration of commercial and security interests, multilateral over unilateral measures, annual review and assessment, and close coordination between the Legislative and Executive Branches.

The President and Executive Branch

1. The **President** and Congress should seek every opportunity to remove barriers to and expand trade in energy commodities, goods and services. This will help companies, especially small and medium size businesses, create more high wage jobs in the U.S. and raise living standards worldwide.

7. The **President** should establish a cabinet-level group, with essentially the same membership and structure as the *ad hoc* National Energy Policy Development Group, to accelerate the development of an open and integrated energy market in North America. Such market should cover all forms of energy commodities, goods and services. Appropriate initiatives should also keep in mind the role of Venezuela as another hemispheric energy partner of long standing and increasing importance.

10. The **President** should mandate the Department of Energy (DOE), to which responsibility has long been delegated for the granting of Presidential Permits for transmission lines that cross U.S. international borders, to speed whatever coordination with other governmental and private-sector entities is needed and to issue such permits as promptly as possible.

14. Both the **President** and Congress should use economic sanctions on a more focused basis and with much more multilateral coordination and participation among allies, than has been the practice up to now.

15. Where sanctions are imposed, the **President** and Congress should ensure to the maximum extent possible that they do not discriminate against U.S. companies and do not effectively create advantages for our international competitors.

16. The **President** should amend the Executive Orders on Iran and Libya to, at a minimum, allow American companies to undertake the same activities that the Iran-Libya Sanctions Act permits their foreign counterparts to undertake. The President should exercise his authority to remove penal double-taxation on income arising from countries on the State Department's "6(j) list."

17. Where sanctions are deemed necessary as part of a broad, coordinated policy, the **President** and Congress should use only highly targeted measures that directly impact "perpetrators," rather than entire innocent civilian populations.

19. Congress should pass, and the **President** should sign, meaningful sanctions reform legislation during the 107th Congress. Such legislation should incorporate the State Department's six principles for sanctions policies. They are: presidential flexibility, cost and benefit weighing, consideration of commercial and security interests, multilateral over unilateral measures, annual review and assessment, and close coordination between the Legislative and Executive Branches.

23. The **President**, through the National Energy Policy Development Group, should ensure that energy poverty become a priority for the U. S. Agency for International Development (USAID) and the multilateral international development agencies to which the U.S. contributes, and that energy be viewed as a central element of sustainable economic growth. In addition, the **President** should ensure that USAID's funding of energy and energy-related programs be increased from $290 million on an agency-wide basis in FY 2000 to $500 million in FY 2002 and $1 billion by FY 2005.

29. **The President** should upgrade the Administration's participation in the Congressionally mandated Clean Energy Technology Exports (CETE) Initiative that is led by DOE, the Department of Commerce (Commerce) and USAID. The initiative's success should be measured by the increase in the level of exports of technologies and services supported by the initiative. In addition, CETE should take the lead in identifying, formulating, financing, launching and publicizing pilot projects in key countries around the world under which the energy-saving benefits of U.S. goods and services make energy up-grades self-financeable.

Agency for International Development (USAID)

11. The President, through the U.S. Government's Congressionally-mandated Clean Energy Technology Exports (CETE) Initiative that is led by DOE, Commerce and **USAID**, should develop with the Mexican Government a coordinated plan of actions to foster the rapid development and introduction of clean energy systems in Mexico and use this initiative to develop and test internationally accepted protocols to measure the precise environmental results of such systems. In addition, **USAID** should be funded to update regularly the energy investment handbooks it has developed with the USAID Mission to Mexico in cooperation with Mexico's Comisión Federal de Electricidad (CFE) to keep up with changes in Mexican law and regulatory practices.

22. The President, through the National Energy Policy Development Group, State Department, **USAID**, Commerce and DOE, the Congress and private sector should seek a nexus among international development priorities, commercial interests of the U.S. energy industry and U.S. strategic interests in international energy sector reform.

23. The President, through the National Energy Policy Development Group, should ensure that energy poverty become a priority for **USAID** and the multilateral international development agencies to which the U.S. contributes, and that energy be viewed as a central element of sustainable economic growth. In addition, the President should ensure that **USAID**'s funding of energy and energy-related programs be increased from $290 million on an agency-wide basis in FY 2000 to $500 million in FY 2002 and $1 billion by FY 2005.

29. The President should upgrade the Administration's participation in the Congressionally mandated CETE Initiative that is led by DOE, Commerce and **USAID**. The initiative's success should be measured by the increase in the level of exports of technologies and services supported by the initiative. In addition, CETE should take the lead in identifying,

formulating, financing, launching and publicizing pilot projects in key countries around the world under which the energy-saving benefits of U.S. goods and services make energy upgrades self-financeable.

Department of Commerce (Commerce)

4. The President, through the U.S. Trade Representative (USTR), DOE and Commerce, should continue and, if necessary, re-energize the Administration's current efforts to encourage the WTO to reduce barriers to trade in energy services and cross-border electricity sales.

6. The President, through the USTR and **Commerce**, should include universally subscribed provisions requiring non-discrimination and transparency of procurement in the WTO, all bilateral agreements, the Free Trade Area of the Americas (FTAA) negotiations, and the Asia-Pacific Economic Cooperation (APEC) process.

11. The President, through the U.S. Government's Congressionally-mandated CETE initiative that is led by DOE, **Commerce** and USAID, should develop with the Mexican Government a coordinated plan of actions to foster the rapid development and introduction of clean energy systems in Mexico and use this initiative to develop and test internationally accepted protocols to measure the precise environmental results of such systems. In addition, USAID should be funded to update regularly the energy investment handbooks it has developed with the USAID Mission to Mexico in cooperation with Mexico's Comisión Federal de Electricidad (CFE) to keep up with changes in Mexican law and regulatory practices.

22. The President, through the National Energy Policy Development Group, State Department, USAID, **Commerce** and DOE, the Congress and private sector should seek a nexus among international development priorities, commercial interests of the U.S. energy industry and U.S. strategic interests in international energy sector reform.

26. The President, through **Commerce**, DOE and the State Department, should make energy technology export promotion a priority element of the Administration's energy policy. He should assign high level leadership to the program to ensure that it is carried out effectively and includes senior level interagency coordination.

29. The President should upgrade the Administration's participation in the Congressionally mandated CETE Initiative that is led by DOE, **Commerce** and USAID. The initiative's success should be measured by the increase in the level of exports of technologies and services supported by the initiative. In addition, CETE should take the lead in identifying, formulating, financing, launching and publicizing pilot projects in key countries around the world under which the energy-saving benefits of U.S. goods and services make energy upgrades self-financeable.

31. The President, through **Commerce** and DOE, should direct a systematic examination of how direct and indirect trade promotion programs of other countries, especially our main trading partners and competitors, affects the competitiveness of U.S. energy-technology and services exports.

Department of Defense

30. The President, through the State Department and the **Department of Defense**, should promote the installation of innovative energy products and services in U.S. embassies, U.S. military bases, and other U.S. Government facilities overseas for their intrinsic benefits as showcases of U.S. technology.

Department of Energy (DOE)

4. The President, through the USTR, **DOE** and Commerce, should continue and, if necessary, re-energize the Administration's current efforts to encourage the WTO to reduce barriers to trade in energy services and cross-border electricity sales.

10. The President should mandate **DOE**, to which responsibility has long been delegated for the granting of Presidential Permits for transmission lines that cross U.S. international borders, to speed whatever coordination with other governmental and private-sector entities is needed and to issue such permits as promptly as possible.

11. The President, through the U.S. Government's Congressionally-mandated CETE initiative that is led by **DOE**, Commerce and the USAID, should develop with the Mexican Government a coordinated plan of actions to foster the rapid development and introduction of clean energy systems in Mexico and use this initiative to develop and test internationally accepted protocols to measure the precise environmental results of such systems. In addition, USAID should be funded to update regularly the energy investment handbooks it has developed with the USAID Mission to Mexico in cooperation with Mexico's Comisión Federal de Electricidad (CFE) to keep up with changes in Mexican law and regulatory practices.

13. **DOE** should take all necessary steps to ensure that the relevant protective efforts of the North American electronic infrastructure undertaken separately to date by the North American Electric Reliability Council (NERC) and the National Petroleum Council are fully coordinated.

22. The President, through the National Energy Policy Development Group, State Department, USAID, Commerce and **DOE**, the Congress and private sector should seek a nexus among international development priorities, commercial interests of the U.S. energy industry and U.S. strategic interests in international energy sector reform.

26. The President, through Commerce, **DOE** and the State Department, should make energy technology export promotion a priority element of the Administration's energy policy. He should assign high level leadership to the program to ensure that it is carried out effectively and includes senior level interagency coordination

29. The President should upgrade the Administration's participation in the Congressionally mandated CETE Initiative that is led by **DOE**, Commerce and USAID. The initiative's success should be measured by the increase in the level of exports of technologies and services supported by the initiative. In addition, CETE should take the lead in identifying, formulating, financing, launching and publicizing pilot projects in key countries around the world under which the energy-saving benefits of U.S. goods and services make energy upgrades self-financeable.

31. The President, through Commerce and **DOE**, should direct a systematic examination of how direct and indirect trade promotion programs of other countries, especially our main trading partners and competitors, affects the competitiveness of U.S. energy-technology and services exports.

Department of State

3. The President, through the USTR, **State Department** and Treasury Department (Treasury), should obtain the immediate elimination of energy tariffs (custom duties) in all bilateral and regional trade agreements, and at the November 2001 ministerial meeting should obtain a World Trade Organization (WTO) commitment to the elimination of all worldwide tariffs on energy and energy products.

5. The President, through the USTR, **State Department** and Treasury, should accelerate the Administration's efforts to remove barriers to investment and promote clear and transparent international rules to govern these investments. The Administration may wish to review WTO willingness to take on multilateral negotiations on investment rules. Also, the USTR and State Department should seek to restart negotiations for a Bilateral Investment Treaty with Venezuela.

18. Over the next 12 months, the President, through the **State Department**, should with the G8 allies jointly evaluate: 1) the effect of sanctions on the behaviors of targeted countries to determine whether sanctions are achieving any of their goals and, if so, which ones; 2) whether sanctions constrain or actually increase the revenues of targeted governments; 3) whether sanctions raise costs for energy consumers; 4) how to more effectively combat terrorism, control the export of sensitive technologies and control weapons proliferation; and 5) how to improve cooperation in pursuing international security and prosperity. The conclusions of such studies should then be implemented immediately.

20. The President, through the **State Department**, should follow through on Secretary Powell's confirmation testimony and propose a process for repealing existing, non-working sanctions.

21. The President, through the **State Department**, should rethink U.S. policy towards "states of concern" and abandon rhetoric that injects unproductive emotion into the debate against entire countries, when problems are usually produced by "*persons of concern*." In particular, the Administration and Congress working jointly should examine the full spectrum of "influencing" options, from total diplomatic and economic engagement, to conditional engagement, to selective conditions, to isolation as a last resort and then preferably only when acting multilaterally.

22. The President, through the National Energy Policy Development Group, **State Department**, USAID, Commerce and DOE, the Congress and private sector should seek a nexus among international development priorities, commercial interests of the U.S. energy industry and U.S. strategic interests in international energy sector reform.

26. The President, through Commerce, DOE and the **State Department**, should make energy technology export promotion a priority element of the Administration's energy policy. He should assign high level leadership to the program to ensure that it is carried out effectively and includes senior level interagency coordination.

30. The President, through the **State Department** and the Department of Defense, should promote the installation of innovative energy products and services in U.S. embassies, U.S. military bases, and other U.S. Government facilities overseas for their intrinsic benefits as showcases of U.S. technology.

U.S. Export-Import Bank (EXIM)

27. The President, through **EXIM**, should make financing energy services exports a priority.

28. The President, through **EXIM**, should seek to expand the frequency of co-financing with other export credit agencies. Allowing exporters to structure bids using some equipment and services from the U.S. and some from other nations will result in more competitive bids involving U.S. content and thus increase the total level of U.S. energy sector exports.

Federal Energy Regulatory Commission (FERC)

12. The National Association of Regulated Utility Commissioners (NARUC), in conjunction with the National Governors Association, the North American Electricity Reliability Council (NERC), NAERO and **FERC**, should resolve the conflicting state approaches to Renewable Portfolio Standards and the definition of "renewables" in order to encourage the installation of new transmission lines between the U.S. and Canada and facilitate export of large hydro-power from Canada.

National Energy Policy Development Group

22. The President, through the **National Energy Policy Development Group**, State Department, USAID, Commerce and DOE, the Congress and private sector should seek a nexus among international development priorities, commercial interests of the U.S. energy industry and U.S. strategic interests in international energy sector reform.

23. The President, through the **National Energy Policy Development Group**, should ensure that energy poverty become a priority for USAID and the multilateral international development agencies to which the U.S. contributes, and that energy be viewed as a central element of sustainable economic growth. In addition, the President should ensure that USAID's funding of energy and energy-related programs be increased from $290 million on an agency-wide basis in FY 2000 to $500 million in FY 2002 and $1 billion by FY 2005.

24. The President, through the **National Energy Policy Development Group**, should take the lead in preparing a comprehensive U.S. strategy to alleviate energy poverty in the world. Better coordination among public and private sector organizations, including energy companies, is needed to accomplish this objective. The USEA pledges its support and that of its members for this effort.

Trade Representative (USTR)

3. The President, through the **USTR**, State Department and Treasury, should obtain the immediate elimination of energy tariffs (custom duties) in all bilateral and regional trade agreements, and at the November 2001 ministerial meeting should obtain a WTO commitment to the elimination of all worldwide tariffs on energy and energy products.

4. The President, through the **USTR**, DOE and Commerce, should continue and, if necessary, re-energize the Administration's current efforts to encourage the WTO to reduce barriers to trade in energy services and cross-border electricity sales.

5. The President, through the **USTR**, State Department and Treasury, should accelerate the Administration's efforts to remove barriers to investment and promote clear and transparent international rules to govern these investments. The Administration may wish to review WTO willingness to take on multilateral negotiations on investment rules. Also, the USTR and State Department should seek to restart negotiations for a Bilateral Investment Treaty with Venezuela.

6. The President, through the **USTR** and Commerce, should include universally subscribed provisions requiring non-discrimination and transparency of procurement in the WTO, all bilateral agreements, the FTAA negotiations, and the APEC process.

Treasury Department

3. The President, through the USTR, State Department and **Treasury**, should obtain the immediate elimination of energy tariffs (custom duties) in all bilateral and regional trade agreements, and at the November 2001 ministerial meeting should obtain a WTO commitment to the elimination of all worldwide tariffs on energy and energy products.

5. The President, through the USTR, State Department and **Treasury**, should accelerate the Administration's efforts to remove barriers to investment and promote clear and transparent international rules to govern these investments. The Administration may wish to review WTO willingness to take on multilateral negotiations on investment rules. Also, the USTR and State Department should seek to restart negotiations for a Bilateral Investment Treaty with Venezuela.

Others

National Association of Regulatory Utilities Commissioners (NARUC)

12. The **National Association of Regulatory Utility Commissioners**, in conjunction with the National Governors Association, NAERO and FERC, should resolve the conflicting state approaches to Renewable Portfolio Standards and the definition of "renewables" in order to encourage the installation of new transmission lines between the U.S. and Canada and facilitate export of large hydro-power from Canada.

National Governors Association

12. NARUC, in conjunction with the **National Governors Association**, NAERO and FERC, should resolve the conflicting state approaches to Renewable Portfolio Standards and the definition of "renewables" in order to encourage the installation of new transmission lines between the U.S. and Canada and facilitate export of large hydro-power from Canada.

North American Electric Reliability Organization (NAERO)

12. NARUC, in conjunction with the National Governors Association, **NAERO** and FERC, should resolve the conflicting state approaches to Renewable Portfolio Standards and the definition of "renewables" in order to encourage the installation of new transmission lines between the U.S. and Canada and facilitate export of large hydro-power from Canada.

United States Energy Association (USEA)

7. The **USEA**, through its private sector members and in cooperation with its own North American counterparts within the World Energy Council (WEC), will develop more frequent and more substantive trans-border exchanges of information with the Mexican and Canadian private sector. It will also mount a special effort to heighten the awareness and understanding in the U.S. — by the private sector and government officials at all levels — of the unique opportunities presented through continental energy trade to improve energy security, reliability, services, and environmental well-being.

22. The private sector (e.g., **USEA**) together with the President, through the National Energy Policy Development Group, State Department, USAID, Commerce and DOE, and the Congress should seek a nexus among international development priorities, commercial interests of the U.S. energy industry and U.S. strategic interests in international energy sector reform.

24. The **USEA** pledges its support and that of its members to an effort led by the President, through the National Energy Policy Development Group, aimed at preparing a comprehensive U.S. strategy to alleviate energy poverty in the world. Better coordination among public and private sector organizations, including energy companies, is needed to accomplish this objective.

25. The **USEA** will explore the organization of an Energy and International Development Council which would coordinate the "good offices," funding and expertise of the U.S. Government agencies and private sector to alleviate energy poverty in the world.

Annex B. List of U.S. Organizations Involved in Energy-Related Trade Promotion and Development

U.S. Public Sector

Agency for International Development
Administrator: Andrew Natsios
www.usaid.gov

Department of Commerce
Secretary: Donald Evans
www.doc.gov
International Trade Administration
www.ita.doc.gov

Department of Energy
Secretary: Spencer Abraham
www.doe.gov

Department of State
Secretary: Colin Powell
www.state.gov

Department of Treasury
Secretary: Paul O'Neill
www.ustreas.gov

Executive Office of the President of the United States
United States Trade Representative: Robert Zoellick
www.ustr.gov

Export-Import Bank of the U.S.
President & Chairman: John Robson
www.exim.gov

House Appropriations Committee
Chair: C.W. Young
www.house.gov/appropriations
Foreign Operations, Export Financing, and Related Programs
Chair: Jim Kolbe

House Energy and Commerce Committee
Chair: W. J. "Billy" Tauzin
www.house.gov/commerce
Commerce, Trade and Consumer Protection
Chair: Cliff Stearns

House International Relations Committee
Chair: Henry Hyde
www.house.gov/international_relations
International Operations and Human Rights
Chair: Ileana Ros-Lehtinen

International Trade Commission
Chairman: Steven Koplan
www.usitc.gov

National Association of Regulatory Utility Commissioners
President: William Nugent
www.naruc.org

Overseas Private Investment Corporation
President & CEO: Peter Watson
www.opic.gov

Senate Foreign Relations Committee
Chair: Joseph Biden
www.foreign.senate.gov
International Economic Policy, Export and Trade Promotion
Chair: Chuck Hagel

Trade & Development Agency
Director: Thelma Askey
www.tda.gov

U.S. Private Sector

American Petroleum Institute
President: Red Cavaney
www.api.org

Edison Electric Institute
President: Thomas Kuhn
www.eei.org

Export Council for Energy Efficiency
Executive Director: Laura Gubisch
www.ecee.org

International Association of Drilling Contractors
President: Lee Hunt
www.iadc.org

Interstate Natural Gas Association of America
President: Jerald Halvorsen
www.ingaa.org

National Association of Manufacturers
President: Jerry Jasinowski
www.nam.org

U.S. Hydropower Council for International Development
Director: Debbie Stone
www.us-hydropower.org

National Electrical Manufacturers Association
President: Malcolm O'Hagan
www.nema.org

National Mining Association
President & CEO: Jack Gerard
www.nma.org

Natural Gas Supply Association
President: R. Skip Horvath
www.ngsa.org

Nuclear Energy Institute
President & CEO: Joe Colvin
www.nei.org

U.S.A. Engage
Chairman: Don Deline
www.usaengage.org

U.S. Chamber of Commerce
President & CEO: Thomas Donohue
www.uschamber.com

U.S. Energy Association
Executive Director: Barry Worthington
www.usea.org

USEA Board of Directors

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