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## **Remarks for Ambassador Morningstar**

### **Center for American Progress: 2010 Outlook for Eurasian Energy**

It is a great pleasure to be here today to talk about the Administration's approach to Eurasian Energy issues and the outlook for 2010 and beyond.

With the new year and my coming up to one year on the job, it seems like the right time to take stock of where we are and look ahead to where we want to be on energy security issues.

2009 turned out to be a turbulent year in many respects and that characterization aptly describes world energy markets. With the financial and economic crisis, global energy use declined, prices fell and an oversupply of natural gas on the world market materialized. This situation is creating some risk in the market. Cheaper gas prices could slow the development of clean technologies – like wind, solar, geothermal – and could dampen our resolve to seriously pursue energy efficiency. We can't let this happen. Depressed prices and revenue streams have led oil and gas companies to delay projects and investments that would bring more production on line. Depending on the rate of future economic growth and the length of these delays, energy markets could again swing in the other direction toward energy shortfalls and high prices. We need to be aware that decisions we make today will have long-term consequences for future markets. We need to find ways to moderate the boom and bust of energy markets.

As we look to the future, we know the economy will get back on its feet but it is not easy to predict the rate of growth and the time period for recovery. Still, we can identify a couple of key trends.

First, natural gas will continue to be an important fuel for the future. As the world looks to reduce carbon emissions and meet climate change goals, demand for clean burning gas will likely increase. Analysts speculate that gas will function as a “bridge fuel,” filling the gap until significant quantities of renewables and nuclear power can come on line. India and China will likely see the most rapid rates of increase in gas utilization – a welcome development as it will mean they will use less coal than previously projected

Second, the global market for natural gas is undergoing significant change and the U.S. is a significant factor in this process.

The U.S. leads the world in the production of unconventional gas, including shale gas. Extracting this gas has only become economical with the advent of new technology and it is likely to soon make the U.S. self-sufficient in natural gas. This is a big change from just a few years ago when the U.S. had been expected to be a major import market for Liquefied Natural Gas. This technology is just coming on to the scene in Europe and other parts of the world. Important shale or tight gas discoveries in Europe and elsewhere could also significantly change today’s gas market.

Unconventional gas development in the U.S. is accelerating the already growing availability of LNG. Gas supplies from Qatar, Nigeria, Trinidad and Tobago and elsewhere that were intended to supply the U.S. market are seeking customers elsewhere, including in Europe. While LNG is still only 8% of the total gas market, it is 39% of the volume of gas traded across borders, it is growing rapidly. LNG offers many advantages over long haul pipeline gas including transparent, market pricing with the possibility of shipments on a spot basis. Of course, it requires a large investment in highly technical shipping and receiving terminals but LNG production in Qatar, Algeria, Australia, Papua New Guinea, Timor Leste, and Nigeria and elsewhere is growing. LNG will provide more price competition, new ways to think about long-term contracts, and the development of a real market for natural gas.

All these market changes will inevitably influence how we implement our Eurasian Energy strategy, but they will not change our fundamental goals.

There are three main components to our Eurasian energy strategy. First, we want to encourage the development of new oil and gas resources, while also promoting efficiency and conservation in the use of all energy resources, as well as alternative technologies. When we are talking about new natural gas production in Azerbaijan or Turkmenistan, it is unlikely that one molecule of that gas will reach the U.S., but it is still important because it would add to international gas supply, increasing global energy security. New supply in one place naturally frees up supply in another.

Second, we want to support Europe in its quest for energy security. Looking at goods and services together, the EU and the U.S. account for the largest bilateral trade and investment relationship in the world. The significant amount of bilateral trade and investment illustrates the high degree of interdependence of the two economies. We have an interest in maintaining this level of commercial and economic activity with Europe. Europe is our partner on any number of global issues. We have an interest in an economically strong and energy secure Europe.

Of course, Europe is composed of many different states and energy security is a more pressing issue to some than to others. Some countries in Europe do not have a diverse energy mix and depend to a great degree on one supplier and one transport route. When that route is disrupted, as we witnessed in January 2009, the consequences can be severe. The populations of Bulgaria and Serbia who suffered in the cold can attest to that. So our aim is to encourage the development of multiple energy sources with multiple routes to market. This approach furthers competitive, efficient markets and the best prices for consumers.

Third, we want to help Caucasus and Central Asian producer countries find new routes to market for their oil and gas. We want to help foster economic growth and prosperity in these countries. By increasing production and expanding export routes, they can increase competition for their resources and demand a higher price.

We are working on a whole range of initiatives to further these goals. I'd like to highlight a couple of them here:

**Southern Corridor.** We support opening a new corridor, a Southern Corridor, to bring natural gas from the Caspian region to Europe. This corridor could include Nabucco and the Turkey-Greece-Italy Interconnector. Both are important from a strategic standpoint to diversify gas sources and open new supply routes to Europe. A Southern Corridor would provide commercial benefit for the countries of the Caucasus and Central Asia and also create a long-term partnership based on mutual interests with Europe. To that end, we are focused on two areas: encouraging an agreement between Turkey and Azerbaijan on Shah Deniz gas, and encouraging producing countries of Central Asia and the Middle East to supply gas to the corridor.

Now, let me be clear, the concept of a Southern Corridor is simply not viable if countries that stand most to benefit from that concept cannot reach commercially sensible, mutually advantageous agreements on the terms under which gas for the Corridor will be transported. In that regard, the failure so far of Turkey and Azerbaijan to conclude an agreement on Shah Deniz gas purchase and transit is somewhat disappointing. Both countries are good friends of the U.S., and we do not take sides in their negotiations. But significant further delays could see the window of opportunity for putting in place this key piece of a Southern Corridor close. It is hard to see how that would serve the interests of either side. We believe the two sides will reach an agreement, hopefully sooner rather than later, so that confidence in the Southern Corridor is not undermined.

Regarding gas supplies for the Southern Corridor, we welcome the statement by Iraqi PM Maliki at the signing of the Nabucco IGA ceremony on July 13 that his country would like to supply gas to that project. We recognize that there is a lot of work to be done before this can happen. First and foremost, Iraq needs to define its own national energy strategy and to develop a comprehensive plan for how much gas will be needed for domestic use. That will open the way for a rational discussion of exports, some of which could feed into a Southern Corridor.

In that regard, I'd like to caution that the U.S. will not support gas – or new oil – exports from Iraq that does not have the sanction of Iraq's central government. Those who conclude agreements in the absence of such conditions should understand, as recent events demonstrate, the serious risks to which they are exposing themselves and their shareholders. We therefore encourage early passage by Iraq's new Parliament of comprehensive legislation addressing revenue sharing and the structure of the nation's hydrocarbon industry. Such legislative action will strengthen Iraq's unity and ensure an equitable distribution of national wealth to all Iraqis.

In addition to Iraq, we are encouraging Turkmenistan to pursue shipment of its gas across the Caspian. We have noted that President Berdimuhamedov has talked positively about providing gas to Europe as part of Turkmenistan's efforts to diversify its export routes.

Our position on Iran has not changed. We see no place for Iranian gas in a Southern Corridor given the current approach of its leadership and while international efforts to address Iran's nuclear program are underway.

**Support for European Energy Security.** It is imperative to emphasize that new pipelines are just one piece of the European energy security puzzle. Pipelines alone will not sufficiently provide for Europe's energy security. The U.S. supports other initiatives that Europe is undertaking to increase its own energy security. Those initiatives focus on building a single market for energy, unbundling the distribution and supply functions of energy firms, building interconnectivity of European gas and electricity networks, enhancing LNG import capabilities, and increasing gas storage. The European Economic Recovery Act will provide 4 billion euros for these efforts and we believe them to be as critical, if not more so, to Europe's energy security than the Southern Corridor. With that in mind, it is important to note that Europe does have other options for diversification—there is considerable opportunity for Europe to import additional gas supplies from North Africa, as well as imports of LNG from Qatar, Nigeria, and others. Europe is already working on building interconnections that could bring these gas supplies to vulnerable countries in Central and Eastern Europe.

To further our work with Europe, in November 2009 we launched the U.S. – EU Energy Council. The **Council** is chaired at the ministerial level by Secretaries Clinton and Chu on our side, and the aim is to deepen our dialogue on strategic energy issues of mutual interest, foster cooperation on energy policies and further strengthen research

collaboration on sustainable and clean energy technologies. We are in the process of putting together our joint work plan for 2010 with the Europeans. Priority issues for the Council will likely include:

- The development of clean technologies that will benefit Europe, the U.S., and the rest of the world.
- Support for reform to make energy markets stable, reliable and transparent particularly in oil, gas and electricity supply;
- Promoting the modernization of existing infrastructures wherever necessary and the diversification of energy routes and sources, including LNG and renewable sources;
- Working toward increased energy efficiency; and
- Fostering energy policy cooperation, bilaterally and with third countries.

**Russia.** Another important partner is Russia. We want to cooperate and have a constructive dialogue on energy issues with Russia. Russia is a key energy producer, a critically important player in the region and will continue to be. We must engage with Russia and work on areas where we can agree. We want to do so in a way that upholds

our principles. Those principles were highlighted in the G-8 Summit in St Petersburg and I'll just mention a few of them:

We support:

- Open, transparent and competitive markets
- Stable legal regimes
- Transparency and good governance in the energy sector
- Diversification of energy supply and demand, energy sources, and transportation routes.

Some people have described our support for European energy security as anti-Russian. I disagree. Energy security has many aspects. We can talk about security for suppliers – like Russia which is seeking dependable, reliable access to routes to market. We can talk about security for consumers – like the EU which is seeking dependable, reliable delivery of oil and gas resources. We can talk about upstream, investment and the possibility for joint ventures in Russia, the U.S. or third countries. We can cooperate in areas such as efficiency and new technologies.

I don't want to sound naïve because there are some issues on which we may not agree. For instance, we support the initiatives that Europe is undertaking to improve its energy security – like building gas and electricity interconnectors between states, building new LNG terminals, increasing gas storage, etc. As I've already said, we support diversity of energy supplies and energy routes to Europe, including the Southern Corridor. Russia has its own ideas for diversifying routes to Europe – like NordStream or SouthStream.

We are not opposed to these pipelines. Questions have been raised as to their commercial viability, particularly of SouthStream, but it is ultimately up to European countries and investors to decide which pipelines best serve their interests.

The point is that the more we can talk about these issues, the better off we are. We can avoid misunderstandings and just maybe...find some common ground.

In an effort to increase cooperation with Russia, the White House announced last year a new US-Russia Bilateral Presidential Commission that covers a host of different issues including energy. We hope to have the first meeting of the Energy Working Group within the next few months.

**Ukraine.** We will soon have a new President of Ukraine and we hope comprehensive energy sector reform will be one of the main priorities of the next president, no matter who is elected.

Energy sector reform is a critical part of addressing Ukraine's fiscal challenges. Energy subsidies are creating budget deficits for the government and are not helping the national oil and gas company, Naftogaz achieve financial stability. This situation is not sustainable. Without the necessary reform, Ukraine will continue to have difficulty managing its relations with Russia and the European Union.

Prior to the election, Ukraine had been working with the EU, international donors and international financial institutions regarding the modernization of the gas transit system

and improving the overall health and viability of the energy sector. We very much support these efforts and want to continue to be a part of them. We also support Ukraine's full accession to the European Energy Community.

Improving Ukraine's investment climate could attract foreign companies who could help Ukraine to develop its vast oil and gas reserves and strengthen its energy security. I have talked with several major energy companies who would love to invest in Ukraine, but won't because of the existing investment climate. By dealing with the issues of efficiency and investment climate Ukraine can once and for all become energy independent. We need to work together with Ukraine on these issues.

**CEE countries.** I also would like to say a few words about the Central and Eastern European countries, including the Baltic's, that are so important to the United States. These countries need to develop their own strategies to make themselves more energy secure. It is important that they do so on a regional basis and that they work together to obtain necessary support for essential infrastructure projects, such as interconnectors, gas storage and LNG terminals, as well as various pipeline projects. These countries should work together and learn from each other in attaining these goals.

**Oil.** We have talked a lot about gas, but let me say a few words about oil. We are encouraging the establishment of new export routes for the significant new quantities of oil that will be produced in Kazakhstan over the next few years. We welcome recent progress made on expanding the Caspian Pipeline Consortium pipeline, and look forward

to working with the Government of Kazakhstan and upstream investors to facilitate the increased flow of oil supplies from the Caspian to world markets, promoting global energy security.

To summarize, the key to achieving our strategy is engagement. We play a supporting, not leading, role in Europe's energy security and the development of Caspian oil and gas. We need to continue to engage with the private sector, with the EU and with individual European states, with Russia and with Central Asia. Our job is to listen, identify common interests and priorities and play a facilitating role where we can. By doing these things, it is clear we further U.S. interests in raising global oil and gas to production, in having secure energy supplies to our allies in Europe and in supporting sovereignty and independence in Central Asia. Thank you.