

**“U.S. Views on Energy and Security in Southeast Europe”
Remarks by Economic Counselor Clark Price
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(As Delivered)**

Ladies and Gentlemen: It is a pleasure for me to speak about the U.S. view of energy security, both domestically and as it applies to Europe. I'm particularly honored to sit on a panel with such distinguished colleagues.

There's almost an infinite amount that can be said about energy security, but let me start with my own country's policy. In the United States, we believe that energy security is inextricably linked with economic prosperity and national security. Every key U.S. foreign policy objective, including support for democracy, trade, sustainable economic development, poverty reduction, and environmental protection, relies on the provision of safe, reliable and affordable energy supplies. President Bush summed up our position in his State of the Union address January 23: "Extending hope and opportunity depends on a stable supply of energy".

So how are we addressing this challenge? The Administration has determined that over the long term our best energy strategy is one based on achieving diversity of supply. Reducing America's dependence on imported oil has been and will continue to be a priority for this Administration. In 2001, President Bush put forward the National Energy Policy, which laid out over 100 recommendations to increase domestic energy supplies, encourage efficiency and conservation, invest in energy-related infrastructure, and develop alternative and renewable sources of energy. Since 2001, the Administration has spent nearly \$10 billion to develop cleaner, cheaper, and more reliable alternative energy sources.

In order to secure our energy future, we will work to transform how we produce and consume our energy resources, and ensure the next generation of leaders has strong foundations in science and technology. During his State of the Union address, President

Bush outlined two new initiatives that are based on the belief that scientific discovery and technological advancement are the keys to maintaining America's economic leadership and meeting our future energy needs.

The Advanced Energy Initiative (AEI) will accelerate investment into clean energy technologies in order to transform the way we produce and use energy in our homes, businesses and our transportation sector. To achieve these goals, the Administration has requested \$2.1 billion in FY 2007, a 22 percent budget increase, to develop new technologies and alternative sources of energy to help diversify and strengthen our nation's energy mix. The AEI is focusing on technologies that we believe hold the greatest promise for American taxpayers, including solar, wind, biofuels, hydrogen, nuclear, and clean coal technologies. This diversification toward alternatives could greatly relieve pressure on markets for conventional sources over time, while also addressing environmental concerns.

The Administration's Biofuels Initiative is another essential part of the AEI. The initiative aims to use nonfood-based biomass in the production of transportation fuels, electricity, and other products. America has an abundant amount of coal, enough to last more than 200 years. In 2001, the Administration committed \$2 billion over 10 years to accelerate R&D in clean coal technologies that could generate affordable electricity while meeting emerging environmental regulatory standards. The Administration's FY 2007 Budget request will nearly complete the President's commitment four years ahead of schedule. Another important component of the Advanced Energy Initiative is the Global Nuclear Energy Partnership (GNEP). This new initiative is a comprehensive strategy that could help meet our growing demand for energy, both here at home and globally. GNEP enables an expansion of nuclear power in the U.S. and around the world, promotes nonproliferation goals, offers the potential to increase electricity production without adding to CO₂ emissions, and helps resolve nuclear waste disposal issues.

The second part of the Administration's plan strengthens physical energy security. The plan calls for doubling the size of our strategic petroleum reserves. The U.S. has long recognized the importance of an unimpeded supply of energy to our economy which is

why in 2001 President Bush ordered the filling of the U.S. Strategic Petroleum Reserve. It is a critical primary tool in the event of a major supply disruption.

One of the touchstones of our energy security policy is our belief in energy diversity. Secretary of Energy Bodman has noted, "Energy diversity is good for both consuming and producing nations. It inherently improves energy security by reducing dependence on any one type of energy; it reduces pressure on traditional energy markets, and it's good for the environment, by increasing the sustainability of the world's natural resources and reducing emissions."

Let me now tell you a bit about our view of the situation here, starting with oil and gas. As you all know, Greece is undertaking a major effort to transition itself away from being purely a consumer country of hydrocarbons to being a transit country as well. It is therefore a country whose policy decisions will increasingly affect not only itself, but the global market at large.

I am speaking, of course, about Greece's efforts to realize the Burgas-Alexandroupolis oil pipeline, the Turkey-Greece-Italy gas Interconnector, and most recently the South Stream project.

Let me start with Burgas-Alexandroupolis. The United States welcomes this development. It is important to find and develop routes for delivering oil from the Caspian and Black Sea regions that provide an alternative to the Bosphorus Strait, the world's narrowest strait used for international navigation. A major shipping accident here would be catastrophic and would impact a huge number of people – the 11 million inhabitants of Istanbul, which straddles the Strait. In order to prevent this from happening, the Turkish government closely monitors all shipping going through the Strait. In summer this is not a problem, but during winter when the hours of daylight are significantly restricted, delays are legion and cost upwards of hundreds of millions of dollars.

And, unless a viable Bosphorus bypass pipeline is constructed, this situation is bound to worsen as oil production in Kazakhstan expands.

Burgas-Alexandroupolis will provide an important outlet for these additional quantities. It will also reduce the transit cost required to bring Russian and Kazhak crude to the world market. All of this will be good for consumers, producing more choice, and hopefully reducing upward cost pressures in the oil market. It will also help reduce the chances of an environmental catastrophe in Turkey. I should note that Turkey itself also aspires to build an additional Bosphorous bypass and is working to demonstrate the commercial viability of a Samsun-Ceyhan route. If built, this would further ensure stability in the oil markets.

Greece's moves on the gas front have even further-reaching ramifications. In gas, the United States' policy is exactly the same as our policy on oil: we want more competition for consumers. What we see today in Europe's gas market is an enormous system of gas infrastructure that leads from Western Siberia and Central Asia to Europe. As you all know, this is the Gazprom network, and it's a good thing it is there. It keeps Europe warm and in light throughout the winter. It is operated relatively reliably, depending upon which country you have lived in for the last few decades. Without it, Europe's energy situation would get a lot more difficult.

However, as the Siberian fields that Russian producers have exploited for the last few decades deplete, we believe the next major source of gas for Europe is likely going to come from the Caspian region. One of the ways that gas is going to be delivered to Europe is through the Gazprom network, including the new North Baltic Pipeline. But the other way that Caspian gas can move to European markets is from Azerbaijan, across Georgia and Turkey to the European Union.

And that is the route that Greece is doing so much to realize through its support for, and participation in, the Turkey-Greece-Italy gas Interconnector, or TGI. This will be the first corridor to bring Caspian gas and possibly other gas directly to Western

markets. TGI will give Western consumers choices. It will bring competition. It will lead to better prices and larger quantities of gas into Western markets. It will directly support greater energy security and diversity for Europe.

But this is an opportunity that can be missed. Putting Caspian gas into TGI will require patience as this region's huge supplies gradually come on line, as technical problems are overcome. It will require a tremendous degree of cooperation and coordination between many of you in the room today, as well as financial creativity.

For the Southern Corridor to realize its potential, the Governments of Azerbaijan, Georgia, Turkey, Greece and Italy will have to stand together to overcome these and the many other sorts of obstacles that all complex energy projects confront. I do not want to underestimate these challenges, but where there's a will, there's a way. As you know, the United States strongly supported the creation of the Baku-Tbilisi-Ceyhan oil pipeline, which came on line last year and which is making such a major contribution to global energy security. BTC was a difficult project, unprecedented in many ways, just as TGI is today. Yet it is now a reality.

Now what happens if we lose patience? What happens if we do not coordinate? In short, we risk losing a huge opportunity for increased competition in the European gas market.

Let me be clear: We're not against Gazprom gas. Gazprom already supplies 80% of non-European imported gas into the European Union and the firm has proved itself over time to be a reliable and committed supplier to most countries. But competition is good, and new sources of supply are even better. That is why the United States is trying to find way to work more closely with Gazprom, which has until now not been a major supplier to the United States. Specifically, we have invited the Russians to our market, in particular as LNG suppliers. Since GazProm does not yet produce any LNG, however, the potential here is still speculative. In the future, there is the possibility that Sakhalin-II may ship LNG to Mexico and/or the U.S. West Coast. The Shtokman project, which has

been delayed and in which production is uncertain, could be an excellent source of LNG for our East Coast. But within the European context, where Gazprom is by far the single most important gas supplier, it is important to develop and bring to market key alternative sources of energy.

The fact is, for an economist such as myself, it is clear that Europe's gas market is a bit dysfunctional. If you just look at the purchase price of gas that Europe's single largest supplier – Gazprom -- pays in Central Asia, it is now a bit more than 100 dollars per thousand cubic meters. Until recently it was paying well below that, anywhere from 45 to 65 dollars per thousand cubic meters.

As a monopsonist, Gazprom was essentially dictating this low price, while at the same time selling that gas in Europe at \$265 to \$300 for an enormous markup of between 165 to 200 dollars per thousand cubic meters. There is no reasonable argument in terms of economic efficiency to justify that sort of enormous price differential.

Of course, monopolies do not operate on the basis of market economic logic, which is why both European and U.S. commercial law aims to prevent their creation, or dismantle them if they already exist. I will be happy to speak a bit more about U.S. anti-monopoly law if you wish. TGI – by allowing Caspian producers to access Western markets directly and, conversely, by allowing Western consumers to access Caspian gas directly – directly address this counterproductive situation. TGI will inject a major new element of competition into a market that desperately needs it. And that's why we so strongly support the efforts of Turkey, Greece, Italy, Georgia, and Azerbaijan to make TGI a reality.

Before ending my discussion of TGI, I want to speak a bit about the likely first source of its gas: Azerbaijan. It is important to remember that the Azerbaijani leadership – at the very highest level -- has made a strategic decision to take the steps necessary to make TGI, and other Caspian Sea – Western European gas pipelines, a reality. President Aliyev has made it clear that he will do what it takes to work with his partners in TGI to

make that pipeline a true alternative pipeline bringing a whole new source of supply to Western Europe. I would also like to emphasize that the latest estimates of Azerbaijani gas supply show that, in spite of what many claim, there is more than enough gas for TGI. So there is a will and there is a way to realize this project, and I can assure you that the United States is fully committed to working with all relevant companies and governments to realize TGI.

Now let me turn to Greece's participation in South Stream, a potential third major energy development involving Greece. We have seen reports of the proposed pipeline, which we understand would involve construction of a pipeline under the Black Sea from Russia to Bulgaria. According to what we know, this pipeline is designed to run along routes close to those planned for Nabucco and for TGI. Our understanding is that the agreement signed in Rome appears to be a declaration of intent, i.e., an agreement to cooperate and study proposals. There is no agreement as of yet to construct new pipelines.

With all that in mind, we are now considering South Stream's potential effects on European energy markets, and we are doing so based on the policy perspectives I have outlined above. The questions we are asking ourselves include the following

-- How does this pipeline fit in with our belief – and the US and European Union policy - that energy security is best served by maximizing the diversity of sources and suppliers, as well as routes, of energy supply?

-- How does it fit in with our belief that open systems with multiple suppliers and routes to market tend to be more stable, and more subject to market forces?

-- How does it mesh with our strong support for projects which would deliver Caspian gas directly to European markets, such as Nabucco and TGI?

-- Put succinctly, how does South Stream benefit the European consumer and his desire for reliable, low-cost energy supplies?

We will say more about South Stream once we have done a thorough analysis of what effect it will have on the market. But let me be clear about what we will NOT

consider in our analysis. We are not opposed to Greece increasing its supply of natural gas; this will be an important part of Greece's environmentally friendly solutions to its energy needs. We do not oppose Greece's ambition to become an energy hub for the region; there are at least a dozen reasons – from geographical to political to economic – for Greece to play such a role. And finally, we do not oppose Greece building a stronger economic and political relationship with Russia, because we have exactly the same ambition.

In closing, let me reiterate a couple of basic points. Rapidly increasing energy demand in both the United States and in Europe means we need both to utilize energy more efficiently and to find new energy resources. The United States' basic policy in both areas is outlined in our National Energy Policy of 2001, as well as in the Advanced Energy Initiative of 2007. These policies are based on our belief that markets work, and that increasing energy diversity does more than virtually any other initiative to support market mechanisms. Vis-à-vis Greece, that is why we are such strong supporters of Burgas-Alexandroupoli and TGI. We are still studying South Stream and how it fits into Europe's search for greater energy diversity.

Thank you.

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