



## U.S. Interests in European Energy Security

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### Testimony to the United States Senate

#### Committee on Foreign Relations

#### *Subcommittee on Europe*

*July 8, 2014*

Distinguished members of the Subcommittee,  
Senators Murphy and Johnson,

Thank you for inviting me to this very timely and important discussion on an issue that cuts to the core of the transatlantic relationship, and which is so important to the security of both the United States and its European Allies.

The United States and Europe have been on a different energy trajectory for the past decades. It is an imperative for the United States and its European friends and allies to put their "ideological" differences on the back burner, and engage in an effort to align or at least synchronize their energy policies. The recent developments in Ukraine and the ever increasing efforts by Russia to wield its energy weapon is a wake-up call.

Europe, roughly speaking, has embraced a radical "ideological" view on climate change and fossil fuels, banking on a breakthrough in renewables technologies. The breakthrough has not happened. Europe's dependence on Russian gas has increased. There is no common European energy policy, which is a prerequisite of the alignment of, or at least synchronization of energy policies of the EU and the United States. European captains of industry, like Solvay Chairman Jean Pierre Clamadieu, and some member

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state governments of the EU, were sounding the alarm well before the Ukraine crisis, calling for a better energy mix, which should include traditional sources of fossil fuels and coal, but also nuclear and shale gas. In the past few months, there are signs of a more pragmatic approach within the European Commission, the administrative body of the European Union.

Over the last five years the United States has gone through an energy revolution, with energy independence becoming a reality in the very near future. This has been an unexpected change of fortune for America. For decades the United States and EU have been dependent on fossil fuel resources from OPEC and Russia. Now this formula has been turned on its head by transformational U.S. energy developments generated in particular by a surge in production of cheap natural gas and shale oil.

Yet as U.S. prospects brighten and foreign dependence falls, Europe's energy picture has become muddled and its dependence is rising. These developments are likely to have profound yet still uncertain implications for U.S.-European relations; they require greater transatlantic attention.

It is an imperative for the United States and Europe (meaning the European Union and the European Free Trade Association) to put their "ideological" differences on the back burner, and engage in an effort to align or at least synchronize their energy policies.

The United States is and remains Europe's most important strategic and economic partner. It is clearly in the interests of the United States work as closely as possible with Europe on the future of transatlantic energy and to do what it can to make Europe less energy dependent on Russia, while understanding that Russia will remain a key source of Europe's energy. Steps by the United States to allow for generous issuing of export licenses to Europe would be important, strategic decisions that would have a long term economic impact, improve supply diversity, and -- perhaps equally important -- have an immediate political impact.

At the same time Europe must be courageous and embrace a common energy strategy that allows for diverse solutions. The European Commission, in its latest recommendation, encourages a radical embrace of the energy mix, not excluding shale or nuclear. The EU must also take further steps to de-ideologize its internal debate, not forcing a choice between a sound energy policy and a sound climate policy, but finding a balance to accommodate both, but with a lot more realism. There are signs that the debate is changing, as recently as last week Germany decided to allow the "exploration of the possibilities of shale gas". However, time is of the essence, and Europe needs to move fast.

## **Framing the Issues**



A number of issues deserve attention. First are basic issues of relative competitiveness. How is growing U.S. energy production likely to interact with declining EU production and growing EU reliance on outside sources in terms of price differentials, relative dependencies, energy mix, and basic economic fundamentals? How might such differentials translate into changes in trade and investment patterns? What sectors are most likely to be affected?

Second, Americans and Europeans are still tend to talk past each other when it comes to issues of energy and climate. At times it seems to be a "clash of religions:" Americans tend to believe that European preoccupation with their image as the "champion" of climate issues has blinded them to key dependencies and the need for a clear and common energy policy. Europeans tend to believe that American preoccupation with the notion of energy independence has blinded them to the dangers posed by a changing climate and caused them to pull back from vigorous efforts to develop breakthrough energy solutions. Neither view is entirely true, but these differing perceptions have contributed to a dialogue of the deaf that often finds the United States and the EU in opposing camps globally. That is in the interest of neither partner. How may changing energy dynamics alter such approaches? Is there room for greater transatlantic alignment?

Third, there is a growing transatlantic foreign policy disconnect when it comes to the implications of diverging U.S. and European energy trajectories. Are America's changing energy dependencies resulting in reduced U.S. interest in engaging with allies or retrenchment from traditional regions of U.S. foreign policy concern? Could there be a new transatlantic strategic bargain involving energy and security elements? Can energy become a common denominator for common interests and values in a new world, or are evolving energy dynamics more likely to pull Europeans and Americans further apart?

### **Key Developments**

Changing energy dynamics have generated a host of geostrategically relevant trends.

The geopolitics of energy itself has been transformed. For more than 30 years America and Europe lived in a world in which 80% of fossil fuel resources were in the hands of OPEC and Russia and only 10% in the hands of OECD countries and China. With shale being dispersed worldwide the 80:10 ratio has imploded.

The impact, however, is uneven. Major petro-states such as the Russian Federation and Saudi Arabia need high oil prices to fund budgets to keep their restive populations passive. The shale revolution challenges their approaches. For Europe there is potential for long-term gain, but it is being overshadowed by short-term pain. And despite the energy revolution, global energy demand is still likely to double by 2050. Uneven access to energy could exacerbate disparities between energy haves and have-nots, with implications for Western security and prosperity.



By mid-century the strategic centrality of the Middle East in the global supply of hydrocarbons in their present form may well have been lost in the new context of global shale gas and tight oil production. Conventional hydrocarbon production in the Middle East, however, will still play an important role in determining global supply, and to the extent that this continues, the U.S. and other powers will continue to project power in the region. Some U.S. allies and the global economy more broadly will continue to be dependent on energy reserves controlled by problematic regimes, even if the U.S. is not. But the relative attention and roles of various actors are likely to change over time.

The full implications for the United States are also unclear. While fashionable notions of U.S. decline seem impossible to sustain in the face of surging U.S. energy production, the 1973 oil crisis occurred when the United States was dependent upon foreign sources of oil and gas for only about 15% of its energy demands, and the United States is likely to be more dependent on hydrocarbon imports than this for at least the next decade.

Moreover, many U.S. partners wonder whether the new energy dynamics could interact with other trends to weaken their relationship with Washington. Some Arab leaders already think that the oil-for-security deal in the Middle East is fading because they perceive that America's energy revolution has made Washington less interested in that bargain. These perceptions have already had an impact on U.S. engagement in the region.

Europeans are also increasingly concerned about U.S. retrenchment due to energy dynamics, as well as other trends. There is widespread uncertainty in Europe about the U.S. commitment to the transatlantic relationship in general and U.S. interest in European energy security in particular. The “pivot toward Asia,” and the widely-used expression “U.S. energy independence,” have been interpreted as signs that the United States continues to flirt with unilateralism at the expense of engagement with allies. There is growing concern that previous U.S. efforts to facilitate the development of new pipelines in Turkey, the Caucasus and Central Asia, and to lower European energy reliance on Russia and the Middle East, are no longer important as the United States grows more self-reliant. These developments render it even harder to find transatlantic common ground on energy security.

Taken together, these developments underscore the need for policies that are proactive rather than reactive. Today's world of haves and have-nots, asymmetric challenges and diffusion of power offers policymakers less time and less order to make decisions, and large institutions are often ill-equipped to adjust to the speed of change. Prevention of conflict has become as important as reaction to conflict. The ability to shape the environment in which countries develop, and to help frame decisions that leaders and populations make, remains as relevant as the ability to command or compel change.

In short, energy is front and center on the strategic agenda. It is a transformational issue and must be addressed as such.



## Europe's Challenges

The crisis in Ukraine has highlighted the seriousness of the role of Russia in Europe's energy supplies. The divisions and the reactions to the Russian annexation of Ukraine have been highly influenced by the levels of importance of Russia's relative significance as a given country's gas supplier. This link is also apparent in the attitudes of certain EU members towards sanctions.

The challenge posed by Russia to Europe, has been in the making for a long time. Some of the newest members of the Alliance (Hungary, Slovakia, Czech Republic, the Baltics, Bulgaria and Croatia) are among the most vulnerable. Perhaps it is not an exaggeration to suggest that Europe has been naïve about the relationship being one of interdependence. Russia provides approximately 1/3 of Europe's overall gas supplies, but for some countries of central and eastern Europe, the economically and politically most vulnerable part of Europe, it is up to 80-90% in some cases. The building of the North and South Stream pipelines and the abandoning of the Nabucco project have made the Russian hold on Europe stronger. The European Commission has made laudable efforts to reign in Gazprom's monopolistic practices, but Europe needs a clearer strategy to find alternative sources, to be able to resist Russian pressures.

## Key Problems of the European Energy Economy

EU energy vulnerability is growing. The EU faces a future of limited domestic fossil fuel production from conventional resources as the North Sea begins to deplete. In fact, as the shale revolution takes hold worldwide Europe becomes on current policies the only major economic bloc without access to domestic fossil fuel resources at scale. Varying EU approaches to nuclear energy have contributed to this vulnerability. Europe also remains dependent on three principal external suppliers of conventional energy: Algeria, Russia, and Norway. Various central and eastern Europe countries -- members of both the EU and NATO -- are particularly concerned about their energy dependency on Russia. The failure of Nabucco and the delivery of a small amount of gas by the end of the decade (probably at most 10bcm) via the Trans-Adriatic Pipeline does not bode well for new alternative gas sources into Europe. There is the prospect of gas from the Eastern Mediterranean toward the end of the decade. However, the capital has been found, local geopolitics addressed and the resources extracted and transported. None of these factors are yet secure. Moreover, the stresses caused by the shale revolution on Saudi Arabia and the Russian Federation could render Europe's immediate eastern and southeastern neighborhood more unstable.

There appears to be little chance of significant shale production in Europe, even if efforts go forward. There is no indigenous industry of this type or a finance market that can securitize loans for drilling rigs; deposits are far deeper and thus harder to develop than deposits identified in many other world regions; and property laws limit incentives and

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opportunities, as do widespread environmental concerns and Europe's population density. The more immediate impact of shale on Europe is less likely to come from fracking directly in Europe than from fracking elsewhere -- particularly the United States. But if countries such as China or Australia also engage in large-scale fracking it could free up gas from Qatar and other suppliers.

Europe has also been hit with a triple-whammy of higher energy costs due to climate change policies, natural gas prices linked to oil, and low U.S. natural gas prices stemming from its shale revolution. Between 2005 and 2012 gas prices for industry fell by 66% in America but rose 35% in Europe, according to the European Commission. One result is that a significant number of energy-intensive European companies are considering relocation to the United States, where industrial gas prices are about one-quarter those in Europe.

EU climate change policies have largely failed to reduce CO<sup>2</sup> emissions, despite extensive EU and member state regulatory structures and renewables subsidies. The focus has been on cutting carbon emission production rather than consumption (with the exception of a few countries, notably the Nordics), and carbon-based imports are simply replacing what is no longer produced in Europe.

One effect has been to encourage greater use of cheap coal to offset the cost of renewables. America's shale-gas bonanza has displaced to Europe coal that had previously been burned in America, pushing European coal prices down relative to gas prices. At the same time carbon prices crashed because there were too many permits to emit carbon in Europe's emissions-trading system and the recession cut demand for them. This has reduced penalties for burning coal and kept profit margins for coal-fired power plants healthy while slashing profit margins for gas-fired plants. In Germany, for instance, carbon emissions have gone up, not down; production of brown coal electricity is at its highest levels since 1990; and the country has become America's largest global customer of coal.

Many European opinion leaders are still in a state of shock, and many in denial, about the nature of their dependence, their policy misfortunes, and the implications of the global shale revolution. European leaders once thought that they were leading the way towards the era of low-carbon power. The original EU climate strategy was motivated as much by competitive thinking as it was by concern for the environment. The prevailing notion at the time was that the EU's ability to break through to a hyper-energy-efficient model in a high fossil-fuel-price world would generate competitive advantage for the EU vis-a-vis its energy-guzzling competitors. Yet in austerity conditions the 20/20/20 program imposed significant costs on EU member states, and the new energy environment has rendered questionable the price calculations that underpinned Europe's renewables revolution.



The Ukraine crisis has prompted a quick regional response from central Europe, from the Baltic States and from the Nordic countries as well. There is a realization that diversifying sources of supply is only one element in the process of increasing energy independence. New inter-connectors are being built, regional cooperation enhanced, further ways to increase energy efficiency are being explored.

As a result, the EU has an integrated climate change policy yet no integrated energy policy. Liberalization of Europe's gas markets would force Gazprom and other giants to open their pipelines to competitors, and would bring down prices. The European Commission estimates that fully integrated gas and electricity markets could yield savings of up to 65 billion euros [86 billion dollars] annually.

Some progress has been made. There are now much deeper liquid gas markets across the continent. Around half of gas is now traded on hubs. Interconnections are being put in place and the European Commission's antitrust arm is bearing down on Gazprom. Nonetheless, European energy policies remain fragmented, with many countries going their own way.

### **A New Strategic Bargain**

Senator Murphy, Senator Johnson, aligning U.S. and European energy policies is of renewed strategic importance, as key energy producing regions become more volatile and new energy producers and sources emerge, as the United States debates its shale boom and the potential for energy exports to Europe, and as the United States and the EU negotiate a potentially transformative Transatlantic Trade and Investment Partnership (TTIP). Stakeholders in government and parliaments, energy producers and consumers, energy-intensive sectors, experts and other opinion leaders need to establish a new path for dialogue across the Atlantic.

Unfortunately, current transatlantic mechanisms are broken. A formal U.S.-EU Transatlantic Energy Council and other venues exist, but their effectiveness is questionable. Each transatlantic partner is setting its own priorities with inadequate regard for the other.

Much of the transatlantic debate, of course, is likely to be influenced by how each side of the Atlantic addresses its own domestic issues -- whether the United States changes current market distortions and bans on oil and gas exports; whether the EU can create a single energy market or change prevailing approaches premised on high energy prices; or whether either can escape the lingering effects of the Great Recession.

There is potential, however, for a new strategic bargain based on a problem-solving approach using energy dynamics to help address various geostrategic challenges.

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Both the Cold War and post-Cold War models of transatlantic security partnership seem less attuned to today's challenges. While Washington has signaled its continued commitment to the Alliance, it argues that it is not unreasonable to expect European allies to step up their relative contributions and engagement. The U.S. has demonstrated that it is prepared to provide assets only it has -- whether political credibility in Kosovo; cruise missiles in Libya; or advanced communications and logistics capacities in Mali -- but it has made it clear that it does not need to command every operation and expects European allies and partners to bear the brunt of the burden for managing regional crises below the threshold of mutual self-defense.

U.S. leaders look to progress in Europe's efforts to enhance its capabilities as the most visible measure of its commitment to a fuller partnership in maintaining transatlantic and global security. So far they have been disappointed. Yet if the United States would add energy to the mix, there is a reasonable chance that Europe may respond.

A strategic initiative of this type would be more than a crude energy-for-security deal. But at its core the United States would signal willingness to work energetically on an energy partnership with Europe, including U.S. exports, and European partners would signal a willingness to step up their geopolitical engagement in regions abutting Europe and engage in more proactive efforts to address a range of geopolitical challenges, many far from European shores. This strategic package might usefully consist of various elements, including the following.

An *Allied Energy Security Act (AESA)*, under which the U.S. Congress would fast track waivers of Department of Energy export licensing for up to 100bcm of natural gas to NATO allies or member states of the European Union. Above 100bcm the normal export licensing process would apply. The AESA would also permit the White House to seek further waivers from DOE procedures from the Senate should a 'grave supply situation' arise that could threaten the security of its allies. This would be similar to national security exemptions, currently in place, which allow the U.S. administration to take action that might otherwise be in violation of certain regulations. At my last count 6 export applications have been approved and 24 are awaiting action, although this may have changed recently. The approval of AESA would be important for commitments by U.S. companies to invest in European LNG capabilities.

In parallel with the AESA, NATO allies and EU member states would commit to enhance their responsibility for Western energy security in the Mediterranean and the Gulf. This would mean at a minimum that France and the United Kingdom would have to be willing to maintain substantial naval forces in the region, potentially taking over from the U.S. Fifth Fleet in Bahrain.



These efforts would be buttressed by those of the NATO Alliance itself. Allies have already agreed that NATO has a legitimate role to play regarding energy security. As the Alliance's major operational focus on Afghanistan winds down, there may be more policy space for greater NATO attention to energy issues. For instance, as part of an expanded and realistic plan for NATO partnership with North Africa, NATO countries could support and advise Libya and Algeria on pipeline security and oil fields and help them create a secure platform for continued production and investment in fossil fuel facilities, including Algeria's rich shale resources. NATO could even take a lead across the Mediterranean basin to reinforce supply security for all states in the region. This could include training, exercises and education to help protect the states from terrorist attacks, threats of supply cut off and technical threats to supply. This would also include cooperation with the member states in maintaining energy security in the EU and the European neighborhood. It would include technical security of pipelines and energy facilities as well as a broader range of measures to support EU and regional action.

Energy should become a key element of the negotiations on the Transatlantic Trade and Investment Partnership (TTIP). More effective energy cooperation was not an original impetus for the talks, but should now be incorporated to facilitate U.S. energy exports to Europe, align standards in areas such as e-mobility and energy efficiency, reduce tariff and non-tariff barriers to clean energy goods and services, and create mechanisms for mutual recognition of regulatory processes regarding energy innovation. In essence, members of the TTIP and the Trans-Pacific Partnership alike should be eligible for waivers to DOE licensing requirements.

The United States and its European partners must reengage strategically on Wider Europe. Twenty years after the European revolutions of 1989, much of Europe has integrated. But the unsettled spaces of Wider Europe are significantly less democratic, less secure, and less aligned with the West than some years ago. Russia's forceful annexation of the Crimean region of Ukraine, and its active support for armed separatists in other Ukrainian regions, are the most dramatic but by no means the only examples of this challenge. The U.S. and its European allies should reengage to help stop backsliding and to project stability. Successes in this region — secure energy production and transit, more effective democratic governance grounded in the rule of law, progress against corruption and trafficking, peaceful resolution of conflicts, more confident and prosperous market economies — could resonate significantly across the post-Soviet space and into the broader Middle East, and enhance the region's potential as a strategic bridge. Failure to deal with the region's problems risks dysfunctional energy markets, destabilizing competition and confrontation among both regional and external actors, festering separatist conflicts, and greater transnational challenges, the negative consequences of which could spill over into Europe, Eurasia and the Middle East. While much progress depends primarily on the people of the region, much also depends on the nations of the West.

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The next 2-3 years are critical for setting out the long-term patterns of managing the future development of the Arctic region. As Arctic ice melts, Arctic states and other major economic powers, such as Japan and China, are increasing efforts to exploit energy resources and fisheries, open shipping routes, and variously reinforce a commercial, military and coastal security presence. All this is taking place across the backdrop of a fragile geophysical environment already degraded in many areas and disproportionately subject to the effects of global warming. The United States and its North American and European partners need to set forth a comprehensive approach to the Arctic, backed at high level, to address key interests and prevent potential future crises before the melting ice brings differing national agendas into conflict.

Energy discoveries in the Eastern Mediterranean could offer the transatlantic partners a way to clear the many blockages in the region, including the Cyprus problem, to create a basis for significant offshore development.

There is significant potential for more effective U.S.-EU efforts in energy research and development. Joint efforts to advance clean coal technologies and carbon capture, storage and sequestration could not only benefit the transatlantic partners; China and India will continue to use coal, so changes to coal production techniques could have significant global impact. Aligning standards on safe nuclear energy would also lift global standards. Consideration might be given to a U.S.-EU Clean Energy Bank and Transatlantic Energy Innovation Fund. The Clean Energy Bank, which would be open to others, would underwrite the risks of developing new, commercially viable technologies. It would help commercialize new technologies, some of which might be developed under the Innovation Fund. That fund would support joint research and development to accelerate the introduction of new technologies for electric mobility (car technology, batteries, infrastructure); super smart grid; renewable energy development and deployment; carbon capture and storage; and energy efficiency. Such agreements would allow the EU and United States to pool scarce research resources, encourage faster and broader roll out of new technologies, and rapidly develop common standards for new technologies for further dissemination.

Substantive, practical projects that reinforce transatlantic cooperation could also help to "de-ideologize" U.S. and EU approaches to climate change. Multilateral climate discussions have essentially become donors' conferences. It is essential to transform them into a more robust platform for engagement on related issues of economic and technological development and trade. The chances of that happening are higher if the United States and the EU align their approaches.

EU-U.S. energy cooperation would be further enhanced through greater attention to the Energy Renaissance that is occurring across the *entire* Atlantic Basin. Over the next 20 years the Atlantic is likely to become the energy reservoir of the world and a net exporter of many forms of energy to the Indian Ocean and Pacific Ocean Basins. The Atlantic is



setting the global pace for energy innovation and redrawing global maps for oil, gas, and renewables as new players and technologies emerge, new conventional and unconventional sources come online, energy services boom, and opportunities appear all along the energy supply chain. Together these developments are shifting the center of gravity for global energy supply from the Middle East to the Atlantic Hemisphere.

Our Center at Johns Hopkins SAIS is coordinating an *Atlantic Basin Initiative* to advance this new agenda. Leading private and public sector leaders from all four Atlantic continents will meet this November in Mexico at the inaugural *Atlantic Energy Forum* under our auspices to consider ways to facilitate and develop Atlantic Basin energy trade and investment; remove barriers; eliminate illicit energy trade; enable best possible access to capital, further development and interconnection of energy transport infrastructure; improve energy access and reduce energy poverty; and promote energy mixes designed to minimize negative environmental consequences in cost-effective ways.

Allow me as a final point to stress that in my view the United States should take the lead on a strategic debate on energy security in the transatlantic community. For this the forthcoming NATO summit must task the North Atlantic Council to regularly discuss the issue and make recommendations relevant to the Alliance as a whole, or to individual member states. NATO needs to monitor national policies from a security standpoint.

Thank you for your attention.