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Written Testimony

Thank you Chairman Murphy, Ranking Member Johnson, and members of the Subcommittee; I appreciate the opportunity to be here today to discuss European energy security during this crucial time. The Department of State and broader administration are committed to improving Europe's energy security and working closely with our partners to achieve that.

Let me begin with an update on where the energy crisis in Ukraine stands. Ukraine has been negotiating with Russia and the European Union to resolve the issue of price, debt and future payment for Ukraine's gas imports from Russia. Russia did not accept the compromise position developed by the EU after weeks of negotiations and unfortunately ceased supply of gas to Ukraine on June 16, showing little willingness to continue negotiations until Ukraine pays off its debt. The situation is urgent for Ukraine. While Ukrainian production is sufficient to cover summer demand, without Russian gas Ukraine will not be able to meet its consumption needs when the heating season resumes. As Ukraine is a key transit route for Russian gas to Europe, it is important to note that European supplies have not been impacted; flows of gas through Ukraine continue. The Russian government has repeatedly said it would not cut supplies that flow onward through Ukraine to Europe, and Ukraine has also promised not to disrupt transit. The short-term impact of this cutoff has been relatively small in Europe because it is not in the gas-intensive heating season and because last year's winter was mild, leaving stocks unseasonably high.

However, current mild alarm in Europe cannot lead us, or our EU allies, to become passive in addressing a long-term solution. On an annual basis, Russia supplies more than half the gas consumed in Ukraine and more than a quarter of the gas consumed in the EU. Although Ukraine is importing small amounts of gas through reverse flows from Hungary and Poland, Russian imports are required to meet increased demand during the winter heating season.

So where does that leave us today? While the media and others have focused on European energy security only for the last several months, the United States Government has been focused on this issue for several years. As early as the late 1990s, we were heavily engaged in negotiations that made the Baku-Tbilisi-Ceyhan pipeline a reality despite the skepticism of experts who said Azerbaijani oil would never flow to European markets.

Our European energy security efforts intensified after Russia cut off gas supplies to Ukraine and European customers in 2009. Since then, the State Department, spearheaded first by the Special Envoy and now by the Bureau of Energy Resources, has been intensely focused on energy security in Europe, advocating energy diversification across the European continent, particularly in Central and Eastern Europe. We work hand-in-hand with the EU Commission as well as with the Energy Envoys in Eastern/Central European countries, and meet often with the Visegrad-4+ ("V4 plus") states (Poland, Slovakia, Czech Republic, and Hungary, plus Bulgaria, Romania and Croatia). In fact, DAS Yee and I just returned from Hungary and Croatia last week.

When we talk about supply diversification in a European context, there are several components that must be addressed. First is fuel mix – countries should use less by increasing energy efficiency and advancing low carbon energy sources like renewables. A diverse fuel mix could also include nuclear energy and domestic production of gas, including pursuing unconventional supplies if the conditions are right, including subsurface (geologic) potential and above-ground considerations like a strong regulatory regime and environmental safeguards.

Second, it is crucial to diversify import routes: ultimately, Europe must build an interconnected pipeline system that allows gas to flow freely throughout the continent. Finally, European countries must pursue diversification of sources away from a dependence on a single supplier. I am not suggesting that countries should eliminate Russian imports – that is neither necessary nor reasonable and Russia will and should remain a central player in the region – but introduction of alternative supplies will promote competition in the energy market. This will ultimately increase energy security while also benefitting consumers.

We as a government are working actively with our friends and allies in Europe to promote diversification with actions as well as words. We are supporting their efforts to ensure the Southern Corridor becomes a reality. We are pleased the project achieved the key milestone of securing a Final Investment Decision (FID) in December 2013. We strongly supported the creation of the Greece-Bulgaria Interconnector, which will allow gas from the Southern Corridor to supply Southeast Europe rather than just enter Central and Western Europe via Italy. For the same reason we are supportive of proposals to build an extension of the Southern Corridor from Albania all the way to Croatia via the Ionian-Adriatic Pipeline, once enough gas becomes available, ultimately supplying neighbors Hungary, Ukraine and others.

We are working closely with colleagues in the EU's Directorate-General for Energy (DG Energy) to advance east-to-west and west-to-east interconnections of infrastructure in Central and Eastern Europe. These efforts are already producing successful projects such as the recent announcement of the Hungary-Slovakia interconnector. We also support proposals to build liquefied natural gas (LNG) terminals at critical points on European coasts, from Poland to Croatia to the Baltics. In short, Mr. Chairman, we agree with our European allies on the critical need for Europe to improve its energy infrastructure by constructing new pipelines, upgrading interconnectors to allow bidirectional flow, and building new LNG terminals to diversify fuel sources.

We commend the European Union for legal reforms that accelerate market integration and promote diversification of fuel types, sources, and routes. Known as the Third Energy Package, these reforms laid the foundation for a common, regulated, and transparent gas market across the EU. The Third Energy Package separates control of energy supplies from the infrastructure that delivers that energy, so natural gas suppliers, for example, must either divest from ownership of pipeline infrastructure or allow an independent operator to manage the pipeline. It gives any purchaser of gas full control over the product, allowing whoever holds title to the energy the right to sell it onward to any other interested customer, thus eliminating destination clauses. And obligatory third-party access eliminates monopoly control over pipelines, allowing any entity to compete to use gas infrastructure to deliver its product to any consumer who seeks to purchase it.

Part of the answer for Ukraine's energy security is its integration into the EU's energy market. However, before this integration can happen successfully, it is essential that, Ukraine reform its energy sector. If it does not, and if corruption and inefficiency continue along with crippling energy subsidies for consumers, Ukraine will be right back where it started before long.

That's why we are working with Ukraine on internal reform, governance, and efficiency improvements. A major precondition for the financial package from the IMF, and for U.S. and European assistance, is Government of Ukraine action to reform its domestic price and subsidies. The interim government is to be commended for passing and beginning to implement these reforms, but it will be up to the Poroshenko government to see them through. It will be necessary to fight corruption in the energy sector, unleash private investment, and stick to consumer price increases to incentivize energy efficiency improvements, all of which will have a major impact on Ukraine's energy security and economic growth. Ultimately, it is up to the Ukrainian people and their government to achieve this level of domestic reform, but the Administration believes it is our responsibility to provide what tools we can to assist them – and ensure the political space to maneuver – wherever possible.

Getting back to the current state-of-play, the United States, although not party to the trilateral gas negotiations, is working closely with Ukraine and the EU to identify solutions that will bring an end to the current crisis and make the Ukrainian and the EU gas supply systems more resilient in the future. EU Energy Commissioner Günther Oettinger, his cabinet and DG Energy have done an incredible job, and we are in weekly contact with Commissioner Oettinger and his staff, and with Ukrainian Energy Minister Yuriy Prodan, on this issue.

We have worked closely with the governments and pipeline operators of Ukraine, Hungary, Poland and Slovakia and with European energy companies to see gas flowing west to east from Europe into Ukraine. Thanks in part to these efforts, gas is now flowing from both Poland and Hungary into Ukraine. In late April in Bratislava, with close involvement of the EU and the State Department, the governments of Ukraine and Slovakia also signed an MOU on reverse-flow – an agreement which will allow gas to begin to flow from Slovakia into Ukraine as soon as September. Although the volumes will be small initially, they could increase significantly over the next year and help Ukraine benefit from Europe's competitive energy market.

In view of the risks to European gas supplies during a dispute between Russia and Ukraine, the G-7 energy ministers also agreed to collaborate in support of contingency planning by vulnerable countries for the upcoming winter season met in Rome on May 5-6, 2014. We are working with the Department of Energy as they coordinate an effort to assist the most vulnerable central and southeast European countries to assess their situation and share best practices.

We are also working to develop and implement programs to increase Ukraine's energy production and efficiency. The Bureau of Energy Resources is overseeing a U.S. government and donor effort to increase private investment to boost gas production from existing fields, strengthen transparency and management of operations and revenue management at Naftogaz, Ukraine's state-owned oil and gas company, and build the Government of Ukraine's capacity to manage the implementation of production sharing contracts for unconventional gas exploration

and development. Within one year, we could introduce improved technologies to increase production in existing gas fields. Additionally, the European Bank for Reconstruction and Development (EBRD) will be a primary partner to pilot a new tender to open existing fields up to private sector investment and increase domestic gas production. On unconventional gas, through the Bureau of Energy Resources' Unconventional Gas Technical Engagement Program (UGTEP), we are working with the government of Ukraine to assist them in preparing and implementing their responsibilities under contracts with international oil companies to increase unconventional gas production in a commercially- and environmentally-sustainable manner. The U.S. Government also is sending a petroleum geologist to provide advice about unconventional gas exploration. Finally, it is critical that Ukraine reduce the country's energy intensity. Thankfully, the United States has a long history of support for energy efficiency in Ukraine. Most recently, USAID's Municipal Energy Reform Project (MER Project) is designed to enhance Ukraine's energy security as well as to reduce and mitigate GHG emissions resulting from the poor use of energy resources in Ukrainian municipalities.

These efforts complement the work of our European partners. We have encouraged Europe to take other steps. It is critical that countries with storage capacity use the summer months to aggressively increase their supplies.

All of these actions and issues do not operate in a vacuum. To better understand prices and security concerns in Europe, let me say a few words about the global energy context. First, energy demand is rising rapidly in non-OECD countries, particularly in Asia. So developed energy markets will need to contend with this increased competition from emerging markets. Second, we anticipate significant new supplies of natural gas coming onto the market in coming years. This jump in natural gas production is led by the United States and Australia, but could soon include dramatic increases from exciting recent discoveries along the eastern coast of Africa, in such places as Mozambique and Tanzania, from Canada, and in the Eastern Mediterranean. These supplies can and should be included in the medium- and long-term diversification plan for Europe. But to make that happen, Europe must implement the kinds of infrastructure improvements I discussed earlier.

We encourage Europe to build new liquefied natural gas (LNG) terminals to increase its import capacity from these emerging suppliers. LNG import capacity is especially needed on the Baltic and Adriatic coasts to bring non-Russian supplies to the Baltic and Central European markets. Lithuania has built an LNG terminal that will become operational in December 2014. Poland's LNG terminal could start operations in early 2015. Estonia and Finland must agree by this summer on a location for a Baltic regional terminal to remain eligible for partial EU funding of the project. A proposed terminal on Krk Island in Croatia would bring in supplies from the south. With the completion of reverse flow with Hungary, Croatia could become a gas import hub for Southeast Europe and the Balkan states. When DAS Hoyt Yee and I were in Croatia and Hungary last week, we encouraged the two countries to work together more closely to address their mutual energy potential. Hungary can provide an important link for alternative gas supplies to Ukraine from Croatia. We urge these three countries to conclude an MOU that commits to deliver of gas from Croatia to Ukraine via Hungary.

The EU has created a list of Projects of Common Interest (PCI) to prioritize trans-European energy projects that cannot be built with commercial financing alone. Projects will be partially funded from a €5.85 billion fund for 2014-2020. We support the EU efforts to identify and help fund the most critical projects. It is essential that the EU and individual countries coordinate and implement these projects without delay. We have been in close discussions with the European Commission and with EU Member States from Finland to Hungary to Greece to sustain this momentum.

Mr. Chairman, the United States is committed to improved energy security in Europe, because it is in our own national security interest to do so. This is an Administration-wide effort. The Secretary of State and the White House are also directly involved. At the fifth U.S.-EU Energy Council, Secretary Kerry underscored the need to advance diversification efforts for the EU's security and to work in partnership with the EU on Ukraine. President Obama discussed energy security with Polish President Tusk and other regional leaders on his visit last month. And I traveled with Vice President Biden to Romania and Cyprus in May, where he discussed energy security with the leaders of those countries. Mr. Chairman, I'd like to conclude my remarks by quoting what Vice President Biden said publicly in Budapest: "the development of a secure, diverse and interconnected energy market in Europe is the next big step for our European colleagues to initiate in a great project of European economic integration."

Thank you. I welcome your questions.