

U.S. Strategy on Eurasia and Eurasian Energy

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European and Eurasian Energy: Developing Capabilities for Security and Prosperity

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Mr. Chairman, thank you for this opportunity to be part of today's discussion about energy, Europe and Eurasia. Eurasia is part of a vast region of instabilities whose evolution will have a lot to do with whether the 21st century is reasonably peaceful or not, and energy issues are crucial for the global economy. It is wise that you focus on how these items come together and what should be American strategy going forward.

For nearly twenty years, the United States has pursued a Eurasian energy strategy based on four sets of interests and objectives.

First, given the dependence of our economy and the economies of most of our allies on imported energy, we have attached importance to the development of new sources of oil and gas. The political changes that came after the Cold War made available to world markets Caspian and Central Asian resources that were previously inaccessible. Beginning with talks that Secretary of State James Baker and U.S. Ambassador to the Soviet Union Robert Strauss had in Almaty with Kazakhstani leader Nursultan Nazarbayev even before the collapse of the USSR, American officials and business leaders have engaged intensively to support Eurasian energy development.

Second, we have regarded the success of the new independent states of the former Soviet Union to be in America's interests. For over four decades, the principal threat to our way of life came from a Eurasian landmass dominated by a hostile Kremlin. More recently, new threats came from al-Qaeda, a network based in Afghanistan, but with offshoots in Central Asia. These post-Soviet countries' ability to govern effectively, secure their borders and provide better lives for their citizens matters to U.S. national security. Energy is a potential "get out of poverty" card – an asset that resource and transit countries can use on behalf of a better future.

Third, we have supported multiple pipelines. This was summed up in bumper stickers an American ambassador to Kazakhstan, Beth Jones, had printed up years ago that read, "Happiness is Multiple Pipelines." Our policy recognized that economies depending on a single set of pipelines that go through one country, Russia, will be neither strong nor independent, and their

relationships with Russia won't be healthy either. To express this positively, multiple routes, especially those like Baku-Tbilisi-Ceyhan (BTC) that lead directly to international markets, are the deliverers of real economic independence. They represent greater energy security for our European allies, too, and multiple pipelines are themselves spurs for further exploration and development.

A fourth set of U.S. interests in Caspian energy could be ungrammatically summed up as “not Iran.” It has long been U.S. policy, reflected in legislation that this committee has been associated with, to oppose the development of Iran's oil and gas industries. Caspian energy, especially gas, has been a positive complement to the threat of sanctions – an alternative to Iran for U.S. friends and allies desperate to augment and diversify their energy supplies. By helping develop pipelines to the Black and Mediterranean Seas, we have ensured that Iran could not become a principal export route for Caspian energy. Energy development and effective market-democratic policies in Eurasia have been and are ways to counter Iranian influence in Eurasia.

The next phase of Caspian energy development is natural gas, and it needs American support. The operator of Azerbaijan's offshore Shah Deniz project expects to decide in coming months on fully developing this giant gas field and on an export route to Europe for its gas. Negotiations among producers, potential consumers and transit countries on the details – and bickering over how to divide the spoils – have made progress slow. Patient U.S. diplomacy led by Ambassador Richard Morningstar has proven very helpful.

The realization of a major new Southern Corridor gas export route and the successful exploitation of Shah Deniz as a supplier to Europe will significantly advance American interests. Among other things, this progress opens the door to further progress on Eurasian energy, including to connect Turkmen and northern Iraqi gas with European and other markets. However, there is a serious possibility that well-intentioned new Iran sanctions legislation now under discussion may imperil this future. We risk undermining, if not standing on its head, a remarkably successful energy strategy that has helped our friends and allies and hurt Iran. Surely this is unintentional.

In the mid-1990s, Azerbaijan's president and a friend of the United States, Heydar Aliyev, decided on Western firms to lead the development of his country's large, offshore oil deposits at Azeri-Chirag-Guneshli (ACG), the BTC main oil pipeline, and Shah Deniz and its associated gas pipeline infrastructure. He made sure the planned pipeline routes would avoid Russia and Iran. He also thought it politic to give modest and non-controlling shares in ACG and Shah Deniz to Russia and Iran. One can argue from the vantage point of hindsight about whether this was wise policy. At the time, Azerbaijan felt its security interests could be directly threatened by both and so needed to placate them at a time when no other option for doing so was available. As I understand it, Iran sanctions language now under discussion might require BP and other Western firms with a stake in Shah Deniz to divest themselves of their investments and walk away from the project.

What will be the effect of this? Shah Deniz might not get developed. That will deprive our European friends and allies of needed gas and increase pressure on them to turn to Russia and Iran for alternative supplies. Or Azerbaijan might go ahead with the project, but to make money

it would likely have to export the gas to Russia or to Iran – unhelpful for U.S. policy on Eurasian energy or for punishing Iran. Without Shah Deniz, other Caspian gas will not get developed. No new, larger volume gas pipelines from the Caspian to Europe will be built. No Turkmen gas will flow west, little or no gas from Iraq will flow north, and the energy security of America's allies in Europe will remain more uncertain than is wise or necessary. U.S. relations with Azerbaijan, a close partner on regional energy issues for nearly two decades, will suffer, with ill effects for that country's cooperation with us on Northern Distribution Network supplies for Coalition forces in Afghanistan.

I urge Congress and the Administration to work with interested parties on Iranian sanctions legislation that will be strong and effective, to be sure, but that also will not sacrifice important and longstanding U.S. objectives and interests with respect to Shah Deniz and Eurasian energy.

Mr. Chairman, recent events in the Middle East and North Africa remind us that no energy strategy in any part of the world can ignore domestic politics or economics. In the 1990s, I and others argued that these new countries were on democratizing and market liberalizing trend lines, even if on many specific issues there were serious failings. The United States had a rich and frequent conversation at senior levels with leaders from all across Eurasia. There was buy-in on issues of interest to them *and* on issues of interest to us, including on economic and political liberalization. Virtually nowhere can one say these things now.

To ensure a reasonable level of success in these still fragile and ill-developed countries in a region marked by instabilities, we need more intense, sustained and broadened American and Western diplomacy on energy and the full range of issues that affect these countries and Western interests there. In Tashkent two months ago, I heard plenty of comments about the deterioration of U.S.-Uzbek relations after the terrible events in Andijan in 2005, but no one talked about wanting the United States less engaged. On the contrary, those I spoke with wanted us to be more present and more involved, including domestic reform. In Azerbaijan last June, I heard complaints, too, but Azeris wanted more United States, not less. The same can be said of Kazakhstan, Kyrgyzstan, Georgia, Armenia and most, if not all of the countries in the region.

It was helpful that Secretary of State Hillary Clinton and Secretary of Defense Robert Gates visited the Caucasus last summer. Assistant Secretary of State for South and Central Asia Robert Blake and others have started to redevelop U.S. dialogue with Central Asia. I would urge members of Congress and other senior officials in the Executive Branch to get us back in the game in this important region and to do so in a personal and sustained way. Go and hear out the region's complaints and concerns. Try to understand where the leaders and peoples of these countries are really coming from. Resist the temptation to judge in black versus white, good versus bad terms. Work to identify common interests and ways to advance them together. Building cooperation, drawing these countries more toward the West and toward more prosperous, peaceful and free futures will be better for all of us.

Mr. Chairman, thank you for holding this hearing. I look forward to what I am sure will be an interesting and useful discussion.

**United States House of Representatives
Committee on Foreign Affairs**

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Ross Wilson	Atlantic Council of the United States
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