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SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
Oversight Hearing on “Liquified Natural Gas and U.S. Geopolitics”

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Good afternoon, Mr. Chairman, Ranking Member, and Members of the Committee. I am Peter B. Doran, President and CEO at the Center for European Policy Analysis (CEPA). I want to thank you for inviting me here today. It is an honor and a privilege to give this testimony. I would like to submit my written testimony for the record and offer a summary of my thoughts on “Liquified Natural Gas and U.S. Geopolitics.”

Mr. Chairman, my organization is a U.S.-based non-profit policy institute dedicated to the study of Central Europe. At CEPA, we have developed an on-going effort to inject new insight, analysis, and ideas into current considerations over the role U.S. energy exports (such as LNG), and to support the efforts of America’s allies and partner countries to establish an energy future that is safe, secure and based on the rules of the market. The timing and scope of this hearing could not be more relevant.

Based on our research and reporting at CEPA, my main message to the Committee is this:

There is no such thing as “cheap” Russian gas. More than the cost of a Btu (British thermal unit), energy relations with Russia impose high political and geopolitical costs on countries, customers, and the idea of fair play in a marketplace. The Russian government derives immense benefit from placing these hidden costs on its customers, most especially when they allow the Kremlin to use energy as a weapon—or most recently—as a wedge issue between America and Europe.

More than practically any other commodity, energy relations bind countries together. Russian leaders understand this dynamic. They want America’s allies to be dependent on Russia’s state-owned energy companies to fuel their economies and keep their citizens warm in winter. In order to do so, Russia seeks to limit—where possible—outside energy competition in Europe. This is Russia’s aim—and we should not let the Kremlin win.

If ever there was a time for robust American leadership in Europe—and to increase our own ties that bind us closer to allies and partner countries—this is it. The problem is that, for now, Russia is ahead of us.

For the first time since the 2008 Russia-Ukraine Gas Crisis, America’s allies in Europe face a return to the dangers of widespread, long-term energy dependence on Russia. During the

previous crisis in 2008, the Russian government demonstrated its ‘winner-take-all’ approach to energy deals when it abruptly halted winter natural gas shipments to tens of millions of consumers extending from the Ukrainian border all the way to the Eastern Balkans. The Kremlin had turned energy into a political weapon.

What followed in the wake of this crisis was a groundbreaking response from the EU to construct a new network of regulatory and legal fortifications against monopolistic energy suppliers. This effort was historic in nature and broad in scope, and in many ways important. Only, these steps were just a set-back for monopolistic energy suppliers—not a knock-out. In Russia’s case, the Kremlin’s state-owned energy sector has now offered a response: the Nord Stream 2 (NS2) pipeline.

This Committee should have no doubt: Russia’s NS2 project is not a straight-forward commercial venture to link Germany with Russian gas fields.

Instead, NS2 has a larger strategic purpose: to undercut the EU’s energy supply security, to close large parts of Europe to gas-on-gas competition, and to isolate and damage America’s strategic partner: Ukraine. These outcomes present a mid- to long-term danger to American interests, yes. But they are a far more existential challenge to the immediate national interests of our allies and partner countries in Europe. We should take this challenge very seriously.

Mr. Chairman, I would suggest to the Committee that the solution to this geopolitical challenge has three parts—and America plays an essential role in each.

First, we should view America’s capacity to export LNG to the world as more than just an economic boon at home. This capacity offers profound strategic benefits to America. As Members of the Committee are aware, over the last two decades the North American shale revolution has positioned the United States to bring ever-increasing levels of LNG (and crude oil) onto the global energy market. It is exceptionally beneficial to our allies and partner countries in Asia, Europe and elsewhere. In some cases, our energy shipments are helping to diversify allies away from sole-source dependence on Russia. This has been a long-standing aim of U.S. foreign policy. And we are only now beginning to achieve it. Together with supplies from the Middle East and other regions, Americans can take pride in the fact that we are helping to protect vulnerable consumers beyond our shores; and to increase their leverage in energy negotiations with Moscow. These are great outcomes.

Second, energy interconnectivity is happening. There was a time when individual markets in Europe were cut off from America, isolated from their neighbors, and largely dependent on a single pipe(s) from Russia. That’s changing. Today we are seeing how new infrastructure is beginning to redraw the energy map of Europe. This change is beginning to give consumers *options*. On the U.S. side, facilities like the Sabine Pass LNG terminal (and others) give our companies the ability to reach new export markets abroad. Meanwhile in the Central-East European (CEE) region—a region that previously enjoyed few alternatives to Russia—we have seen the construction of coastal LNG terminals in Świnoujście (Poland) and Klaipėda (Lithuania); as well as the realization of necessary interconnectors across borders. The overall result is positive. These interconnectors represent a major step towards achieving the goal

of encouraging market forces to match supply with demand in the CEE natural gas sector, but the job is far from done. Interconnectivity is a crucial precondition. The main question of getting non-Russian gas to vulnerable consumers is still unresolved for some land-locked countries. Major infrastructure development is still an unfinished business.

A third part of the solution exists in the policy realm. Congress should be commended for doing its part. I would highlight for the Committee the importance of the “Countering Russian Influence in Europe and Eurasia Act of 2017,” and applaud the provisions directing the Department of State to work with the government of Ukraine to increase that country’s energy security. The Administration deserves equal recognition. When Sec. Rex Tillerson declared America’s opposition to NS2 in Warsaw last month, his statement was welcomed by many allies from the Baltic to the Black Seas. For years, Europeans asked America to lead from the front. Now we are—and we are not alone. We have allies in Europe who support us. Sec. Tillerson was correct when he stressed in Warsaw how America’s opposition to NS2 was based on our mutual strategic interests with Europe. NS2 is a threat to everyone. And thanks to Congress, the Executive Branch has an arsenal of new tools to counter the spread of the Kremlin’s malign influence in the energy space. If deployed carefully, judiciously, and in the right sequence then the Administration’s expanded armory of policy tools—including sanctions—may have a beneficial effect in halting the spread of Russia’s malign influence across Europe. It is a robust toolkit that, as a citizen, I would like to see fully employed in support of our allies and partner countries.

Now, if this assessment seems positive—and indeed there is a lot of good news here—I would add a note of caution for the Committee: be wary of the next phase in the fight over NS2.

This is my second message to the Committee: **The contest over the future of NS2 is likely to intensify in 2018; and its consequences could reverberate for many years to come.**

As stated earlier, the NS2 pipeline is not a purely commercial venture. This project serves the Kremlin’s geopolitical aims. These are in direct conflict with our own.

Ultimately, NS2 is intended to shut down gas-on-gas competition in Europe—and to isolate America’s strategic partner: Ukraine. NS2 is a direct challenge to America’s win-win approach to our relations with European allies. By contrast, Russia sees its interests in NS2 in terms of win-lose—and the Kremlin wants us to lose. Let’s disappoint Vladimir Putin.

In the commercial realm, we want Europe to enjoy the benefits of gas-on-gas competition, where supply and demand determine prices—not international politics. As a threat to gas-on-gas competition, Russia’s NS2 will be bad for European consumers. Moreover, the pipeline will make entire countries and regions inside the EU more vulnerable to the use of energy as a weapon. In the past, Russia has repeatedly used energy as a weapon against its neighbors. There is good reason to believe that it could do so in the future. It is why the establishment of enduring, market-based alternatives to Russia are firmly in line with U.S. national interests; and the interests of everyday Europeans.

A second area where our energy interests conflict with Russia is over the future of Ukraine. Here too, Russia's NS2 pipeline serves a geopolitical purpose—one that runs counter to our own. By completing NS2, Russia will be able to deny Ukraine between \$2-3 billion a year in gas transit revenue. Moscow seeks to isolate Ukraine in the energy space and pressure it financially. The Russian government does not want Ukraine's Western-orientated policies and reforms to succeed. Once again, we want the opposite.

Ukrainians have already showed the world that they seek a Western future for their country. The United States wants Ukraine's success to be a resounding refutation of Vladimir Putin's authoritarian model. And unlike Putin, America has a very clear and compelling interest to see that Ukraine succeeds.

If Russia's NS2 gambit is ever going to be completed, then its owners will need to pull off a series of financial, regulatory, and legal victories. In terms of finance, it appears that the pipeline's backers will not be able to bear the full cost of NS2 out of Russia's coffers. The pipeline will therefore need outside lenders to assist with financing. On the regulatory front, NS2 must receive a series of approvals at the national and European levels in order to proceed. A final 'green light' from Germany—for example—would almost certainly pit Berlin against other European capitals who feel they would be negatively impacted by NS2. Diplomatic cooperation and multilateral communication between the United States and European allies will be essential on this front, particularly if disagreement over the pipeline between EU Member States sets up a third battle in the EU court system. Even if Russia loses its NS2 gambit in the political or legal realm, it will gain by creating ruptures between its presumed competitors in the West. This makes energy deliberations in Europe a national security priority for the United States.

Mr. Chairman, these questions are front and center for my organization, CEPA, and like you, we will be watching such developments closely.

Looking ahead into 2018, the potential challenges may seem great—but so are the opportunities. We should never doubt that America's new energy abundance grants us a tremendous economic benefit at home and a strategic advantage abroad. When we consider risks on the horizon, Europe should be at the forefront of our attention. If Members of this Committee, leaders in the Administration, the private sector, and the expert community are going to defeat Russia's attack on long-term energy security in Europe (via NS2), then allies on both sides of the Atlantic will need to apply the right combination of commercial, diplomatic, and legal mechanisms to stop NS2. The stakes for Europe are tremendously high—and the clock is ticking.

For the recommendations that follow, CEPA has developed a package of ideas to address different dimensions of the energy & geopolitical problem-set in Europe—and how America might play a beneficial role.

I present them to the committee for consideration.

Recommendations

- **When it comes to NS2, European law is on our side—let's encourage Member States to use it.** Congress and the Administration should encourage EU

Member States to mobilize their clear and vocal support in Brussels for the full and uniform implementation of the EU's 2009 Gas Directive. They should make it abundantly clear: EU law applies to everyone uniformly—Russia does not get its own special exemptions. Full and uniform implementation of the 2009 Gas Directive could halt NS2 in its tracks.

- **Leverage our soft power to the hilt.** The Administration can ramp up its diplomatic engagement in countries like Croatia, where Russia wants to prevent a new LNG facility from being constructed on Krk Island. Croatia needs to know: it does not stand alone, but with the United States. Its LNG project serves a strategic purpose in Europe. When completed, Krk Island would open up non-Russian gas alternatives to consumers across Southeast and Central Europe.

- **Make energy security part of Ukraine's success story.** Fair competition and market liberalization are just as important for Ukraine's energy sector as they are for the EU. Ukraine stands to gain as much—and more—from a diversification of its energy imports. Finding ways to prioritize U.S. exports of energy to Ukraine will benefit our own economy and strengthen our foreign policy position East of NATO.

- **Energy is a front in Russia's information war against the West—let's defend that front.** CEPA research has shown how outlets of Russian propaganda are conducting a comprehensive disinformation campaign to manipulate the energy vulnerabilities of allies like the Baltic States. Its narratives are calibrated to divide U.S. allies against each other, while spreading the false impression that the EU does not support energy independence from Russia in the Baltics. When crafting America's all-of-government approach to counter-propaganda, addressing energy disinfo should be a priority.