

AHTISAARI SYMPOSIUM: THE NEW GEOPOLITICS OF EUROPEAN ENERGY

TRANSCRIPT

On May 5, 2014, the Wilson Center's Global Europe Program hosted its annual Ahtisaari Symposium. An expert panel was convened to discuss the new geopolitics of energy in Europe. Participants included Maité de Boncourt, Research Fellow at IFRI Center for Energy in Paris; Ariel Cohen, Senior Research Fellow at The Heritage Foundation; Robin Dunnigan from the Bureau of Energy Resources at the U.S. Department of State; Brenda Shaffer, Visiting Researcher at Georgetown University; and Ambassador Wolfgang Ischinger, Chairman of the Munich Security Conference and Distinguished Scholar at the Wilson Center. The panel was moderated by Jan Kalicki, Counselor for International Strategy at Chevron and Public Policy Scholar at the Wilson Center.

Jan Kalicki:

Thank you very much. My name is Jan Kalicki, and since we're talking about books, a Wilson Center publication came out which David Goldwin and I co-edited on a relevant title: *Energy and Security*. There was a first edition seven years ago, and we thought it would be very easy to update it. It was not at all easy. The world changes really fast and I have a horrible feeling that I'm going to have to update this again. But, we have this publication from the Wilson Center, and let me say also that it's exciting for me. I've been associated with the Wilson Center since 2001, in-house as well as outside. And as I told Jane Harman, it's great to be back and to have the chance to talk with people about not only the immediate, day-to-day issues, but the longer-term, and where we are, and where we are going.

And I think that it's a special pleasure that we have with us two people I admire so very much. President Ahtisaari -- Mr. President, you chair the Advisory Council for the Eurasia Foundation, where I have the honor of chairing the Board of Trustees, and we look to the President for guidance in so many different ways. And then, of course, Wolfgang Ischinger, who gave an absolutely splendid presentation earlier, and we will certainly be discussing the implications with regard to the key element of energy. Wolfgang was very kind to agree to be a kind of final commentator and help us pull the whole morning together in our minds. And I think of your work, Wolfgang, not only as a Deputy Foreign Minister and Ambassador here in Washington, but also ongoing Chair of the Munich Security Conference, which hopefully will have its own contributions to make to the solution of these very difficult problems.

We're also honored to be joined by several close friends and colleagues. Maïté de Boncourt, who's a research fellow at Ifri in Paris. So we'll look forward very much to the French point of view, as well as your own, personal view. Ariel Cohen is Senior Fellow at Heritage Foundation. Brenda Shaffer, another old friend, visiting researcher at Georgetown University, and a professor at Haifa University. And Robin Dunnigan, who is Office Director at the Bureau of Energy and Natural Resources of the State Department, which is a wonderful step in the direction of pulling together a strategic approach in our foreign policy on these issues. And we'll have Wolfgang give us a final note.

We've agreed to limit our initial remarks to no more than 10 minutes, because what we want to do -- since we've heard a very good presentation already -- is to give just a few points that add to it from our own perspectives, then have a little bit of a discussion in the panel, and then, most importantly, have a discussion with the audience. So come half an hour before the end of this, I will shift gears very much to engaging us in the dialogue that we really should have as a group.

Having said that, let me kick off with a few provocative, I hope, questions and comments that I would ask you to keep in mind as you speak to each of your issues. The first one has to do with the title of our roundtable: The New Geopolitics of European Energy. I would say that there are some new geopolitics, but there are also some old geopolitics, and the fact of Russian dominance of the energy system -- certainly the further east in Europe you go, the more aware you are of that -- is a clearly important, not just economic factor, but strategic factor.

What's new is, interestingly enough, not so much in the world of high policy, but in the world of the international markets, and that's the development of unconventional fuels. The shale gas phenomenon, which is changing the face of international energy and opportunities not only in the United States, which has become a major gas and oil power -- in fact, we are overtaking both Russia and Saudi Arabia, so this is a very important phenomenon -- but also as an opportunity for Europe. And we can't just say it's going to happen tomorrow but, if we develop a strategy, we will be able to benefit from shale gas not just in America, but in countries like the United Kingdom and, longer-term, in Ukraine. There are other countries that are not so enthusiastic about the shale gas phenomenon, unfortunately from my standpoint, and those include France and, I believe to some extent, Germany.

So we have to think seriously here. We can't simply have it all. If we really want to be effective in terms of using energy as an incentive, as well as a point of leverage, we have to make choices. And we can't simply say "Well, we don't like this form of energy, so forget it," and then expect the Russians, who have predicated so much of their] strategy on energy, to take us all that seriously. So that's one provocative statement that I'd like to offer.

The second one is that it's interesting how the United States has not just a pivotal role potentially vis-à-vis Europe, but also vis-à-vis Asia. And when Russia becomes more and more frustrated by the European market, it talks about going toward Asia. Well, Russia is the last, not the first-comer to the Asian energy market. The first-comers to the Asian energy market include Qatar, Australia, and very likely will include Canada and the United States, which already is a very major factor in terms of investment. So it's not as if the Russians can simply provide their energy elsewhere. And I haven't noticed that the Chinese are rushing to do an energy deal -- that is, a low-price deal from the Russian point of view, or from both countries' point of view. The price will be very important, and again, I'm not holding my breath on that. So I think Russia does have its challenges in that area, and I hope our panelists will speak to that.

Last, but not least, former Russian Foreign Minister Kozyrev had some very wise advice, and that is "Do what you say. Do not allow a gap between rhetoric and action." And I always like to summarize that point by a Chinese saying, which I just love, which is "Big noise upstairs. No one coming down." So I hope our panel will persuade us that we're not in this category of saying things that nobody's going to do anything about. At this point, I will introduce Maité de Boncourt, who has kindly agreed to give us a European perspective, including a French perspective, on these issues with energy very much in mind and with a strategy of: "Where are we trying to go over time," not just "What are we going to do tomorrow" in mind.

Maité de Boncourt:

Thank you. Thanks for inviting me; I am very honored to speak at this panel. I'll give you my perspective, and as a European perspective is always hard to give, I'll nevertheless try to give you a more positive approach to what I see as a very difficult situation right now.

The crisis is mounting. I think consequences have been underestimated, and we have to review our position on what's going to be the impact on the energy markets. Although this crisis is not an energy crisis, it's a security crisis, as has been mentioned previously. The impact on the energy markets for Europe, and more globally, as you mentioned in terms of geopolitics, is likely to be tremendous, and it is also likely to impact internally the necessary reforms in Russia, and upstream investment in which Europeans have also taken a large part. That said, Europe is importing 30 percent of its gas more or less, depending on the year, from Russia. So the question is: what do we risk today given the current situation? Can we diversify our gas imports, and at what cost, and I will address this question briefly, as I think other members of the panel will, and just give you a few insights on the political options that we have.

Thirty percent of imports, but not all member states are equal. Eastern Europe, and the Baltic states, are very fragile regarding their relationship with Russia in terms of energy. For instance, Germany and Poland, as often mentioned, are very dependent on Russian gas, but it's not true for the rest of their energy resources. It means they also have coal and other supplies in their energy mix, which make them less reliant than some Eastern member states for which gas is a large part of their energy mix. The Ukrainian transit of Russian gas is about 50 percent. It's much less than it used to be, thanks to European measures.

Can that gas be replaced? I believe there is no short-term alternative to Russian gas for Europe. I mean, no alternative that is able to compete in terms of volumes or costs for European consumers. However, marginal volumes could put a competitive pressure on Russia, and that's exactly what European companies are looking for. We have a difficult external energy policy, so it's mainly about companies buying gas at the most affordable price. It is important, when you look at European gas markets, to keep that in mind.

So Eastern Europe is calling on U.S. Liquefied Natural Gas (LNG) import for some of its member states. I think they are very important volumes in terms of LNG export terminals. Currently, if you import gas through Europe, it's competitive on the European gas market. So it's good news, but it's not for now. It's not for tomorrow. If Russia suddenly cut supplies or a gas pipeline that goes through Ukraine is blown by the conflict (and we believe production costs in the U.S. could increase) this could have a structural impact on gas imports, as many contracts will be renegotiated with Russia in 2020. And this gas could also seek primarily Asian gas markets, as gas is bought at a more expensive price there, but what we want is just to have that LNG on the markets so that it could put kind of a selling price and pressure on Russia.

We also have shale gas in Europe, as three countries now have been developing their shale gas. It's the U.K., Denmark, and Poland, but I believe that this situation can change the picture. Again, it's not for now. We think at Ifri that production costs could be interesting relative to Russian gas prices in the long-term contracts, which are annexed to oil prices. We're also looking at supplies from the east Mediterranean and more gas from the Caspian. I think it's more rational to think of liquefied natural gas as an export option for these regions of Europe, because we have seen a lot of difficulties in building pipelines, like the Nabucco Pipeline that was supposed to compete with Russian exports and has failed. It was a political project, and

the costs of such pipelines, politically, and economically are not there either, so I doubt we'll have new gas pipelines through Europe in the short-term. We see that the current pipeline that's bringing gas from the Caspian to Europe has also been subject to debate around whether its economics are going in the right direction.

So, LNG markets are not playing in favor of Europe. We have a lot of import capacity as terminals for LNG. In Europe, they are empty; they're about 20 percent full. So the problem is not having import capacity. It's about finding the gas, and what is the price of the gas that we can buy as an alternative to Russian gas? So, that's the big issue. And the second issue is also more internal. It's about, once you've brought that gas to the LNG import terminals, lacking the interconnections in Europe. So for instance, Spain has a lot of import capacity, but is lacking interconnection capacities with other countries, and that's something Europe has been working on, and rightly so.

There might be game changers on gas markets. I'm thinking of smaller floating regasification or liquefaction capacity that could speed up the volumes available on the market and bring down prices for Europe, and also help countries like, for instance, Lithuania, bring in some gas if there is an emergency in a quicker way than having to invest a billion dollars in LNG import capacity. A lot of projects are planned, but as you know, we're in a deep economic crisis, so they are likely to be delayed. And once again: it's not a project, it's not a problem, it's not about capacity. It's about finding the volumes.

This is about the grand strategy of gas diversification, but, from my perspective, we're not in a grand strategy right now. We're just in short-term crisis management. And as I said, in the short-term, it's hard to find a cheap and easily accessible option. We have stocks that are full, because we had a light winter, but Russia's not going to cut its supply now, because they know it's worse if you do it in winter. But we already see the market taking into account a potential cut next winter. We can import more gas via other pipelines, or LNG, as I mentioned. I don't think it's in the interest of Gazprom, however, to cut gas supplies to Europe. Gas export to Europe contributes to a high share of the federal Russian budget. It also pays for domestic gas inventions, and more. I think it's a situation of interdependency, but the situation has been worsening. So we need to address European security of supply; whether we have the right measures to answer a short-term cut in supply, which may be actually worse if the situation lasts longer than expected.

But going back to that grand diversification strategy, if we look for alternative gas supply, would it be successful? Looking at Russia, they have a lot of spare capacity for gas they could put on European markets easily, and that would break down other project needs, because they would be very competitive. They have a very low production cost for gas. So if they would decide to pursue that strategy, this could be very harmful for any diversification import project that you would like to invest in. They have cards to play in Eastern Europe that also enter the Mediterranean region, in the Caspian, in the Middle East. And they're not only exporting gas through Europe, as you know, but they also export oil and nuclear. So we're wondering right now whether the pressure is sufficient for Russia to review its gas monopoly strategy in Europe,

looking only at markets. In the long-term, it's less sure whether Russia can maintain this strategy for mostly internal reasons.

So my last point will be: why are we in this situation? We had two energy crises already with Russia in 2006. In 2009 you had countries, like Bulgaria, left in the complete dark with all power plants closed for two weeks in winter. I think a lot has been achieved, and we can thank the European Commission for that. We've put in place emergency plans. We've put in place new infrastructure, like reverse flow, to have the market be more connected, and we've improved coordination and solidarity among countries. So this has been done, and I think the European Commission has gone as far as its legal competencies can. But the first problem I see is that problem of European gas markets. The European gas demand right now is very unstable. It doesn't favor investments. So we're lacking investments in internal infrastructure, because we have a nuclear gas demand, and this is because we have had very incoherent energy policies, including the allotment, for instance, of renewables, in a way that's damaging the gas market and security of supply in Europe.

Secondly, we have had no European foreign energy policy. We have failed on Nabucco, the pipeline in the south of Europe. We have seen a declaration at the beginning of the crisis of, for instance, the German Energy Minister saying that it was not a question of reviewing energy relations with Russia. And we see now Eastern European countries, and even Austria, going for projects like the South Stream pipeline -- that's a project defended by Russia, and that the European Commission has been trying to block by every means possible. Bulgaria also raised concerns when some Visegrád member states sent a letter asking for U.S. LNG to be put on the market, saying they would not agree with such a position, because they have very strong links with Russia. I think the political situation tends to the right, as it shifts the political balance to the detriment of a gas-prone position in Europe. We need to see how far. The European Commission, so far, has stuck to its traditional instrument, their internal gas market. Market liberalization and systematic opposition to the abuse of the dominant power position of Gazprom in European markets has, to some extent, been part of a situation in which Gazprom has been able to buy down the value chain a lot of things in the gas markets. So we need a change in the treaty, but the question is: who wants a political Europe?

And thirdly, I think we have failed to build an EU-Russia dialogue. There has been a lot of misperception, and I was there when the Ukrainian Association Agreement was proposed to Ukraine and the Russians were not invited. So this was really taken badly by the Russians; they don't see it now as a win-win situation and they have strengthened their opposition to an EU neighborhood policy following our steps towards a Ukrainian Association Agreement, which France and Germany also opposed in the beginning. So there is a kind of anti-Russian rhetoric in Brussels that has been, in my perspective, very damaging for EU-Russia relations. Thank you.

Jan Kalicki:

Thank you very much, Maïté. That's a very helpful start. So shall we shift, Ariel, to an American perspective? Looking at these issues, and how we can further our energy strategy as part of a larger effort in the light of Ukraine and Russia?

Ariel Cohen:

Thank you very much, Jan. I always admired your career and your expertise, so it's a particular pleasure to be here. And thank you to the Wilson Center for inviting me. I think I'm not overdramatizing if I say that this crisis in Europe today is the most important crisis of the post-Cold War era. It is as serious as the Russian invasion and occupation of Budapest in '56, of Prague in '68, but the fundamental difference is that back then there were clear rules of the game, there was what later became known as the Brezhnev Doctrine, spheres of influence. Some of us thought, in this town and in Europe, that after 1991, this is history, that there are no clear spheres of influence, and that use of force to grab your neighbor's territory to protect the co-ethnics, something that characterized Europe in the previous century during its darkest moments, is behind us. Well, it turns out it's not, and energy is playing a key role in enabling and facilitating Russia's behavior vis-à-vis Ukraine.

First of all, as my French colleague mentioned, Europe is dependent on Russian gas -- 30 percent of the consumption -- but it is like an average temperature of patients in a hospital. Some, like Scandinavian countries, or Great Britain, are not dependent at all; but others, like Central and Eastern European countries, including the Baltic NATO members, the Czechs, the Bulgarians, et cetera, are dependent 100 percent on Russian gas. My favorite is: at some point several years ago, Finland depended on Russian gas at 108 percent.

Half of what is imported goes through Ukraine, which is 15 percent, and the prices vary. The historical price for Ukraine was \$268 per thousand billion cubic meters (BCM). That involved the agreement on the naval base in Sevastopol, and of course, with Sevastopol now in Russian hands, the Russians abolished the agreement, and the asking price of the demand is at \$485.50 cents per BCM, in addition to the current debt of \$3.5 billion, which knowing the dire economic conditions in Ukraine, I have no idea how they're going to pay. The Russians may ask for the Ukrainian gas distribution system as payment in kind, or an unpleasant alternative would be to give the IMF loan to Ukraine, and then transfer a good chunk of that loan to Vladimir Vladimirovich in Moscow. And again, the estimates vary. The Ukrainians, I think, admit to 3.5 billion, but the Russian figure is already in double digits in billions.

This is a very important source of revenue for Russia, of course, both oil and gas. Putin in a recent speech said that in the Russian economy the budget balances at \$95 a barrel. Many of the long-term Gazprom contracts are linked to the price of oil although, increasingly, there is pressure from Europe to decouple the gas price from the oil price, and even with this high price of hydrocarbons, the Russian economy started to slow down. It was 1.3 percent growth for 2013, and the projected growth now is between minus 1.3 to 1.5 percent -- this is before the sanctions are actually biting. So it is not in the Russian interest to escalate, if one assumes a rational player, of course; different parties assume different levels of rationality for different players. So it would not be in the Russian interest to keep escalating and bring to disruption the flow of gas and oil through Ukraine.

One geopolitical answer to that is, of course, the North Stream Pipeline. Gerhard Schröder is a Chairman of the consortium, and had a very nice party recently in Russia to which members of Angela Merkel's cabinet came, as the mess was going on in Ukraine. And the other pipeline is South Stream; that would bring 30 BCM a year, very expensive, and Brussels and EU Energy Commissioner Guenther Oettinger are doing their part to slow it down, if not to stop it. Of course, the Austrian decision to sign bilaterally with Russia, and bring South Stream to Baumgarten is not helping a coherent European gas policy, as my French colleague just mentioned. Furthermore, the Europeans are diversifying with TANAP, Trans-Anatolian Pipeline, and then instead of going to Baumgarten, it went to Italy through TAP, Trans Adriatic Pipeline. There is a possibility, of course, that there will be a second spur in the Balkans, and also to Austria, although it could be that Gazprom is now foreclosing that option. It's kind of like a chess game with real countries, and real pipelines.

But I do believe that TANAP is extremely important. It can be a trunk to which north Iraqi gas, if and when it can, high political risk though it may be, will connect. And two more: somebody may say this is a science fiction or energy fiction (never say never in this business) but, there is also the Trans-Caspian Gas Pipeline from Turkmenistan. It's very short and, if and when the Russians and the Iranians agree to some kind of modus vivendi in the Caspian with the demarcation of national sectors, abundant Turkmen gas, and then if -- big if -- the relationship with Iran improves, you can hook up massive Iranian gas supplies to the TANAP trunk, put some pressure stations, increase the through put, and bring it there.

Shale gas is an option, of course, with Bulgaria, France, and Germany being anti, Britain, Poland being pro. Theoretically, if things calmed down, there are shale and Chevron projects in Ukraine. There's some amount of shale gas there. It's very politicized. Environmentalists, of course, are involved. And nuclear. Why on Earth would Germans increase the pollution and CO2 emission by mothballing their nuclear reactors, and maybe buying French electricity -- of course, good business for France -- and bring coal instead to Germany to fire these stations? Renewables: the EU now, to my surprise, started talking economic sense in the high cost of the renewables. I'm the first person to support solar and wind, if they are economically competitive, but we see the sad case study of Spain that spent all this money, and now needs to backtrack giving renewables not such a good name.

So to conclude, the shale gas from the U.S., as long as we don't currently have the terminals, especially not on the East Coast, as long as the Asian prices are higher than the European prices today, U.S. gas would be barely competitive in my estimation -- something like 12 per a million BTU -- in Europe with transportation, liquefaction, and regasification -- all the chain. So this is an answer probably three, four, five years from now. We need answers here and now. We need a coherent trans-Atlantic energy policy, and energy geopolitical answers to the challenges we're facing vis-à-vis Russia in Ukraine, and in Europe. Thank you.

Jan Kalicki:

Thank you very much, Ariel. And now for more of an official perspective, but a personal one too, I hope. It's good to have Robin Dunnigan here with us, and I understand you've been very

actively engaged in dialogue from the U.S. with Europe on these issues, so we look forward very much to your remarks.

Robin Dunnigan:

Thank you for having me, and I'll try not to repeat much of what my previous two colleagues have said -- I agree with a good portion of it all. I want to go back to one thing Maité mentioned, which is to frame my remarks before I talk about Ukraine in particular, which is the cutoff from Russia to Ukraine in January 2009. I think it's an interesting five-year period to look at, because of what's happened since then.

So, one of the first things that's happened since is, the United States energy position has changed dramatically, as has been referenced in others' remarks. Let's just look at gas alone. Five years ago, most analysts thought that by 2035, the United States would be importing about 60 percent of our gas needs. Last year, we imported 5 percent of our gas needs, and in three or four years we're going to be a net exporter of gas. It's just a massive shift in the gas market, and a massive shift in our own gas position in the world. There's also been a similar shift in oil - - not quite as dramatic -- but in the last two years, we've added a million barrels a day, and we're on track to do that again this year. It's just a huge difference, when you look at the global energy markets and the U.S. role in those markets.

Another change is, right after the Russia cutoff to Ukraine, the Obama Administration came into office. And then Secretary Clinton, newly minted Secretary of State, was meeting with her European counterparts in Europe and here in the United States, and what she was hearing from everybody was Ukraine and Europe's vulnerability, because of the dependence on Russian gas. And I think it's fair to say it influenced her perspective on just how critical energy is to a nation's national security. Not long thereafter, she created the Energy Resources Bureau within the State Department, and we are the first ministry of foreign affairs in the world to have this bureau. And the sole, the real core mission of the Bureau is to ensure that when energy is critical to our national security we recognize that and form our policy accordingly.

Not long after our Bureau was founded, we started the U.S.-EU Energy Council Meeting. That's chaired by the Secretary of State and the Secretary of Energy on the U.S. side and their counterparts in the EU, which is now Catherine Ashton, and the Director General for Energy Guenther Oettinger. That council has met every year for the last five years. We met most recently in Brussels in April. I was there with Secretary Kerry, Deputy Secretary Poneman from Energy from our side, and Ashton and Oettinger on the EU side. And the council's mission is to look at energy security in both the United States and Europe, and how we can work together to ensure that we are doing what we need to do to be secure. It is a strategic-looking council with a strategic plan going forward, and it recognizes, at least from our perspective, that Europe's energy security is critical to our national security.

So that's another thing that's happened since 2009. That cooperation has been pretty intense, and I think -- my son's high school basketball coach likes to say -- "You've got to put in the work." And part of what we've been doing over the last four or five years is putting in the

work. Some of it's tedious, some of it doesn't seem strategic when you're doing it, but from Europe's perspective, implementation of the Third Energy Package is absolutely critical. Ending destination clauses for gas in Europe is critical to where Europe is today. Or, requiring gas storage to be at a certain level. Europe's gas storage is about 50 percent today. That's not bad. Anti-trust cases taken by EU competition, and then the support for these interconnectors and reverse flows, which again, are kind of tedious: going to the Slovakia-Ukraine border, and looking at the pipelines, and seeing how you can technically reverse flow, and who's going to pay for it. But Europe's been getting the work in, and we've actually been working very closely with Europe over the last three or four years to support that process.

I think it's interesting, today Director General Oettinger held a four-hour meeting in Brussels with industry to look at -- not Ukraine, at all -- to look at Europe's energy security in the context of what's going on. The Director of my Bureau, Carlos Pasqual, is there today, and again, they're doing this tough work of: Europe needs to do more. What more needs to be done, and how can we work together with industry to look at LNG, look at export terminals, make sure the infrastructure is there, make sure the Southern Corridor' -- that's the gas that was mentioned by both of my colleagues, moving from the Caspian through Turkey to the rest of Europe -- making sure that project happens, and making sure that connectors, new spurs go from the Southern Corridor TANAP and TAP, up to the rest of Europe.

So a lot of it over the last five years doesn't always sound exciting or strategic. A lot of it sounds sort of tedious, but I think it's made a big, big difference. Nevertheless, let's talk a little bit about Ukraine, because I think Ukraine is one of those countries that are particularly vulnerable. We've already mentioned some statistics, but Ukraine uses about 50 BCM of gas a year, and it gets about half of that from Russia, and it doesn't have any other real short-term options. Some of these reverse flow options that we're talking about, they're really there for Ukraine, from Slovakia, Hungary, and Poland. Even if all of them came online today, it still wouldn't reach 25 BCM. So the bottom line is: no matter what, Ukraine needs to buy Russian gas. So the immediate focus for the United States working with our EU counterparts in Ukraine is "Okay, if Ukraine needs to buy Russian gas, the first thing they need to do is pay off their debt." They need to pay off their arrears, or they don't have standing for a commercial negotiation for a decent price. So we're working with Ukraine and Europe and the IMF not so that IMF funds go to pay off Russia, but so that they can use some of the loan guarantees that they're being provided or other financial vehicles to pay off the true 2.2 to 3.5 billion dollars' worth of arrears to Russia so they can move on.

That's the immediate term. We're also looking in the immediate term at some more reverse flows. There was a memorandum of understanding signed last week with Slovakia and Ukraine on starting those reverse flows -- really important. They've been talking about that for three or four years and not doing it. So with huge diplomatic effort over the last month by my office, Tom Cunningham, who works for me, has been out to Ukraine. We had a technical team there last week. Signing that and starting to make progress on those reverse flows is an immediate-term measure that will help Ukraine, but we also have to look at the medium- and long-term. In the medium term, their domestic gas consumption can be increased. Most analysts think

that they could increase by almost 30 percent by not doing that much, because they're using old Soviet technology. I think their gas production has been pretty flat for the last 20 years. So we've sent out two technical teams to work with industry and work with the Ukrainian government and Energy Ministry to look at how production can be increased. There's also potential -- again, this isn't immediate, but in the next five or seven years -- in unconventional gas, there's efficiency measures that they can put into place, and we're sending out a technical team to look at that together with the EU. So we're doing a lot, and like I said, a lot of it is just putting in the work.

I want to talk a little about U.S. LNG exports, because it's a question that I'm asked at least twice a day by European counterparts. The U.S. has all this new LNG, we're going to be exporting -- couldn't we just put more of that on the European market and help that way? Just a couple of notes to kind of ground truth that a little bit. The first is that, in fact, we already have helped, because we're importing less, and there's more LNG on the market in general, and that's affected leverage with Gazprom. Over the last three or four years, I think every European utility has renegotiated its contract with Gazprom. And part of the reason they could do that is because we're importing less LNG, and the markets are a little more flexible.

So that's one thing. The other thing is: the United States doesn't decide this tanker goes to this country. The United States approves licenses for companies, and we approve a license that says a company can export to a non-Free Trade Agreement country. We've approved seven of those licenses. But, who the commercial entity exports to is a commercial decision, and Ariel mentioned the difference in gas prices around the world right now. I'm not getting into what the unit says, but let's just say that it's \$5 in the U.S., \$10 to 12 in Europe, and \$16 and \$17 in Asia. So who a commercial entity exports to is a function of price, really, and we don't get to decide where it goes. But I don't think it really matters, because if there's more LNG on the market, it's good for global markets, and we're not the only ones with new gas finds, or new gas production -- East Africa, eastern Mediterranean. There's a lot of new gas out there that could be coming online. I think it's dangerous to predict gas markets, so I won't do that, but it's fun to dispel some myths around U.S. LNG exports, and that it's not a silver bullet.

Jan Kalicki:

Thank you very much, Robin. That's very, very helpful, and next is Brenda Shaffer, my friend from Georgetown, and also Israel, and I would love to have your perspective, including the supply route issues that we were hearing about a little bit.

Brenda Shaffer:

Thank you. We have a crisis of one nature and our response has been addressing a problem of another nature. I mean, we have a security crisis that most of our response around the table has been about -- as if it's an energy crisis. I agree with Ambassador Ischinger that, where it is important is the wakeup call for a general problem in European energy security, but again, I think we should be very modest about how it will affect the security outcomes in Ukraine and security outcomes in general.

So, what do we have even before Russia invaded Ukraine? We have a situation in Europe of rising emissions, rising coal consumption, decreased natural gas consumption, uncompetitive electricity production prices, failing utilities, narrowing security of supply -- all of these home grown, not connected to Russia, or something that could be addressed in the Russian context. So there are a lot of things Europe can do at home to improve its energy security regardless of its outcome, its relationship with Russia.

First what we're seeing, I think, unfolding in terms of some of the policy options even related to gas and to Ukraine is making sure that the Eastern European part of the EU is actually in-line with the European energy policies. You're seeing European countries speaking with multiple voices, and it's probably that countries do not have the same dependencies on Russia, the same security concerns, and so it probably comes out of this quite perilous situation that they're in, but until being a part of NATO and being a part of the EU means something in terms of your common energy policies, Europe is not going to be able to ride out this crisis.

Second, we should be careful about the benefits of rerouting Russian gas. As much as we talk about these reverse flows, it's still taking Russian gas and moving it through a different pipe. And I recently attended a number of meetings in Europe where Gazprom executives were there, and they're --saying 'if we really wanted to cut off the gas, we could cut off that gas as well.' So, we have to be careful; reverse flows are very important when you have an extreme demand, and you need to move from one market to the other, when you have some sort of technical glitch and a pipeline is offline, or a power station isn't working, but it isn't really a political solution, because if gas is going to be cut -- and I agree with most of the panel here that Russia probably will not fundamentally cut the gas to Europe -- it will be cut to those same markets that it's going to reroute through.

Third, we have to be careful not to beautify Ukraine in this crisis. The energy aspects of this crisis, including in 2009, were also connected to Ukrainian behavior. It wasn't the clear Russian bad guys and the clear Ukrainian good guys here. Ukraine, for instance, houses the most important Gazprom storage facilities in Europe. So, if they were a reliable storer of gas, they could have actually used this as very important leverage over Russia, and also make it a very attractive storage facility for European utilities. But under successive leaderships, it doesn't matter which Russian-oriented, Western-oriented have siphoned off gas, have not paid their bills, have not successfully managed this storage facility, they have not been able to turn it into a positive asset. And again, in terms of paying their bills, this is a legitimate Russian concern. I mean, I would like to see if a Canadian power plant wasn't paying its bills to an American supplier, at a certain point, if that company would keep supplying gas to those Canadian consumers.

Also, there are a number of infrastructure tools that can enhance security of supply that Europe has not utilized effectively. I don't think 50 percent storage is good -- that means 50 percent of the storage is empty. So, I think we have a number of ways -- whether it's political or technological, gas security is a challenging thing to do -- whether it's storage facilities, dual fuel capability, or power plants, additional interconnectors -- yes, it's better than 2009, but Europe

has not done enough. And I think the reason it's not done enough is because it's delegated most of this to the private market, and said "Okay, you go out there and build this storage." "You go out and build the interconnectors." Well, this isn't good business. People don't put millions of dollars into getting a very anticipated reward from storage facilities. These are the kinds of infrastructure that governments have to put in place. Here in the United States, we've had a very similar debate on infrastructure and the role of government, but in energy security, it's even more pronounced.

I agree with what Robin said about our caution in terms of seeing the LNG exports as a silver bullet. Europe's gas consumption has been going down --the lowest percentage of Europe's energy consumption since 2004 comes from LNG. This is not because of Russia. This is because of the price. The real threat to gas today in Europe is not Russian gas; it's American coal. And the choice has not been: "Oh, just get us more LNG." I mean, the debate here is really interesting. You're not hearing any European utility owners saying, "We want more LNG." They know they can get LNG from Qatar, from Australia, from a variety of sources. They're not buying it because of the price, and even if you flood more LNG out there, it doesn't mean that someone's actually going to buy it. The sad fact is that even many of those European companies that are buying the LNG are actually sending it to Asia. Even this idea of destination clause -- we like that destination clauses mean that Russian gas can be rerouted. We don't like that it means European utilities can be selling it to Asia. It's sort of a two-edged sword here.

What we understand in terms of price is that, if we want more gas into Europe, it's actually going to be pipeline gas, because only pipeline gas can be in the price zone that Europe can afford. I think the fact that the Southern Corridor was sanctioned in December 2013, prior to the crisis, showed some good thinking on Europe's part to plan for its economic recovery, to plan to have gas in place that is affordable and can compete, again, with American coal, not with American LNG.

I believe that the Southern Corridor is a super highway and that, once it's built, it will be much easier for other markets to link into this, such as in the Balkans, which Ariel mentioned, or other suppliers, whether it's from Iraq, from other parts of Central Asia, or potentially the Eastern Mediterranean, if there are additional discoveries, could link into this super highway. So, it's very important. But this is a super highway that's very difficult to manage. Seven countries transiting six regulatory systems, four separate commercial projects, 12 investing companies, 12 gas buyers costing about \$45 billion right now. So while this is a very important super highway that could be built, also Russia has noticed this. And it's easy to pull some of the parts of this away. It's very important for Europe to make sure that this project receives proper nurturing from the EU to have its success.

I agree completely with what Ariel says. We need to look at the specific markets in Europe that are more vulnerable, not looking at Europe as a whole, and try to understand its situation. And again, we might need to have two separate discussions -- one on security, one on energy. Preparing and improving Europe's energy security, of course, will lower its vulnerability in the security sphere, but it's only a very small part of solving the security problem in Europe.

Jan Kalicki:

Well, thank you very much. That's a sobering lead-in to the final speaker. And, Wolfgang, I wonder whether we could ask you to explain to us how one fills in Polish Prime Minister Donald Tusk's energy space. I also have in mind UK Prime Minister David Cameron's comment: "This is not a fifth-tier issue; this is a first-tier issue." What is going through my mind listening to all these presentations is the disparity of dependencies and exposures on the European side, and the bifurcation between commercial and political interests. It's true -- let's face it. It's true in the United States, it's true in Europe.

So, in the world that I used to occupy, the way you deal with things like that is not just having nice conversations between politicians and commercial people. You talk about incentives. You talk about evening the playing fields so that those who are exposed are compensated. Very complicated business, but when you're really and seriously into strategy, you have to make that step, and since you treated us to a very nice introduction, maybe you can help us figure out a way to deal with these problems, because we are not unified, not even in the U.S., and certainly not in Europe. And then you talk about Euro-Atlantic. And then you look at President Putin. He is talking to his counterparts at the highest level. He is talking to his industry and telling them what to do. Compare that reality with the reality that we face here in the West and ask ourselves, what do we do, and how do we manage it?

Wolfgang Ischinger:

Thank you, Jan. I think practically everything has been said, except not by everyone. I think I should be very brief. Just a few points. First, energy was not, until recently, part of the international security debate. We used to talk about tanks, and missiles, and armed forces in the international security debate, but energy was not part of this. Now, of course, it is or it has to be. I think that's obvious. No one on this panel would disagree, and I'm sure no one here in the audience. In fact, when I think about what kinds of agenda items I should place on the agenda of the next Munich Security Conference, obviously one part of the conference will need to be devoted to some aspects of the issues that we discuss here. And we've tried to do that for the last couple of years already.

In fact, at the end of this month, I am flying home to Berlin for two days, because we are, outside the normal routine of having the Munich Security Conference at the beginning of the year, organizing a conference specifically on energy at the end of May with a number of international participants. So, it is now part of the international security debate, and will remain there.

Second, you've already said it: there are a number of difficult issues for the EU to grapple with. One is to get its act together -- and I wish I had more time this morning to talk about that one -- in order to create a credible, European defense posture. That's very hard, because we come from very different areas. France is a nuclear power, so is Britain. Most of the countries are small countries with fewer than 10 million people. So, we come from very different traditions, and pooling and sharing, creating something that's united is very hard, politically in terms of

defense industry, and in terms of national traditions. Some countries are more pacifist. Others are slightly less pacifist. There were countries that traditionally have been neutral. Others are members of NATO, and so on and so forth.

As has been said, I just want to underline the point for energy, you have 28 countries, for some of which energy is not an international problem, because they have enough of it -- Norway is not a member of the EU, but would be a good example. They have enough to sell to everybody. Britain and a few other EU member countries are on the exact opposite end of the spectrum of most, if not all, of the new Eastern European member countries of the EU. Germany is smack in the middle: dependent on imports, because we don't have much of our own, unfortunately, and I agree with those who have made the point that our public, and to a certain extent also, our government leaders have not done a good job of talking to each other about the advantages of shale. It's been treated as if it comes from the devil. As if it's only poison that's going to be in the ground and in our water, et cetera, et cetera. Some of the propaganda actually came from the U.S. Some movies became quite popular in Europe. So that it is a big public problem.

Are we going to be able to resolve it? I believe, as I tried to say earlier this morning, the ripple effects of the Ukrainian crisis are going to provide us with a useful push; whether it's going to be good enough remains to be seen. But I think we should try to use this opportunity. Guenther Oettinger, whose name has been mentioned, the EU Commissioner in charge of energy has tried to do his best. I believe he has really tried to do a good job in advancing the cause of something that deserves to be called an EU energy policy. And an EU energy foreign policy.

Are we going to get there? Again, I believe such proposals as the one that comes not just from some low-level bureaucrat, but from the Prime Minister of Poland recently, will invigorate the debate. The Tusk proposal of a European energy union, I think that's the way to go, and I hope that we can find a way to smooth out the differences between those who do not really need help from others, and those who are totally dependent on the help of other members inside the EU and outside.

Just one word on this strange German situation, speaking as a German. I mean, I'm the first to be critical of the way in which my own government decided, unfortunately without consulting either the French or the EU as a whole, or other interested neighbors, overnight practically to abandon nuclear. I think in Paris, to this day people think we've gone crazy. It's a shock. It's been a shock. That was not a good model for how we should be coordinating our positions, but let's face it: our public in Germany -- and I can't explain to you why our public is more sensitive here than other European publics -- our public has been critical/negative about nuclear and nuclear energy ever since the disaster of Chernobyl. This was in the mid-80s. And some of the fall out of Chernobyl came over the territory of at least parts of Germany, and that has left a lasting impression. Whether one believes that it's rational or not, it's just a political fact. So, Germans loved the idea of closing down nuclear, even if it makes very little sense in terms of environmental and the use of coal, as you have correctly criticized.

Let's see how far we can get in being the world champion of renewable technologies. Some part -- I wouldn't say there's a consensus -- but some part of the German energy community and the political elite believes that the future is going to be based, at least to a significant percentage, on renewables and if German industry can play a leading role in providing the kinds of forward-leaning technologies, that would be a business for the future, and not like building old classic engine cars which is more like a 19th or 20th century kind of business proposition. The debate is on-going in Germany. You should not believe that there will ever be a coalition created in the German public sphere that would change this anti-nuclear position again. I believe there's almost a consensus now that this is the way to go forward, even if it doesn't make sense from an international point-of-view, and even if our business community is extremely worried about the fact that our competitive position in world markets is terribly affected by it, with the rising price of energy in the domestic market.

Finally, one word on how we have tried -- just as a footnote, maybe -- how we have tried to mitigate the dependence on Russia. If you are dependent, as we've been to a significant percentage, on Russian gas, and certainly also on oil, what can be done in order to deny your supplier total control over you, and in order to deny your supplier the possibility of using this energy dependence as a "political weapon"? Very difficult issue. One way we tried to approach it was by inviting Gazprom, for example, to invest downstream, as we say. In other words, we said "If you are such a great and reliable supplier, why don't you buy some of the gas stations that are going to be selling the stuff that comes through your oil and gas pipelines, and invest in some of the refineries or some of the technology, expeditive technology that is needed at the other end of the pipeline, in Germany or in our neighboring countries." And that has, to a certain extent, actually happened.

So, we tend to believe that -- and that's my last remark -- when we look back at even the period of the Cold War and the 20 years since, that neither the Soviet Union nor the Russian -- this or past Russian -- governments have actually used the gas or oil weapon against us directly. I mean, they've used it against Ukraine, no doubt about it. But we believe that, to a certain extent, this attempt to create an incentive for the suppliers to be involved in maximizing output, and in making a profit from the downstream investment was actually the best thing we were able to cook up, to invent in order to not reduce our dependence, but reduce the political potential fallout from that dependence. I'll stop here.

Jan Kalicki:

Thank you very much, and you've been most patient as an audience. I'll take perhaps at least two questions at a time, and try to cover some ground by doing that.

Henry Hatger:

Henry Hatger, researcher and now retired government. I see the interconnection between the economic issue and the political issue involving the Ukraine crisis, how extensive it is. Almost a month ago, China indicated that through CCTV they're willing to mediate this crisis. That was basically over the Crimea at that point, and it's now extended over the entire region, basically,

mostly the eastern Ukraine. I wondered has this gone anywhere. Does anybody want China to mediate a crisis? President Teddy Roosevelt mediated the Russo-Japanese conflict, and was able to come up with a plan in New Hampshire, and he got the Nobel Prize for it. So, why can't this be done on this crisis?

Andrei:

Andrei. Actually, I have two observations. The first one is I've heard several times that have been mentioned "Ukrainian crisis." To my mind, it is not Ukrainian crisis. It is Russian-Ukrainian crisis at the best, and actually it's the Russian-Ukrainian war. I think it's better to accurately describe the situation. And the second one: we have heard wonderful presentations on the problem of how to reduce the energy dependence of Europe on Russia. As far as I understood, there is no short-term or even medium-term solution to this problem. And this is probably the most important one. They're either kind of approaches to solve some kind of marginal issues, but there is no strategic solution in any foreseeable future, and this is probably one of the most important conclusions. And coming back to Ariel's observation at the very beginning of his presentation, what is the difference between all those crises that he has mentioned? Hungary, '56; Czechoslovakia, '68; or Berlin '61; or Greece in '62, and the current one. That time, the West in Europe did not have energy dependency from the Soviet Union, unlike right now.

Jan Kalicki:

Thank you, and I am putting Maïté up to a response.

Maïté de Boncourt:

My history classes are very far away. No, I have to do a realist reading, right now, looking at the situation. I may be young, but I've spent some time in Brussels and for me, I see lots of energy coming to Europe, political options rising each time we have a crisis. But in the back doors, it's business as usual. And so, companies in Russia -- European companies -- may have been advised also to lobby the Russian government and tell him about the rising costs of his actions. So, you can pass also some messages, I think, through the sort of business as usual. You can also try to calm down the situation, because that interdependency, I think is in the interest of the EU, but also of Russia to calm down matters.

So, my view on that is that there is a point in which we have to come and have an open discussion with Russia on these matters, but it doesn't mean that we have to negate Russian interests in Ukraine. But indeed, I think the two matters are separate, and I just question the use of a commercial instrument to solve a political crisis. But some believe, especially in France, if you look at security specialists, they're very worried about what has happened in Crimea. They say that it's negating Europe's stability. So, I think we have to find solutions there, but I'm not sure about the overlaps of the two, and whether our energy interests are conflicting with our security interests. I think they should be linked, and they could help also solve some security issues.

Jan Kalicki:

Thank you. Other questions? Answer the China question. Anyone want to take that on? Yes, Ariel.

Ariel Cohen:

Don't you think it would be an evidence of a fundamental shift in the global balance of power if we cannot mitigate or intercede in that crisis, and the honor went to China? This was, indeed, indicative of the rise of the American power, that the U.S. could and did facilitate the conclusion of the Russian-Japanese war. But I don't think China is interested. I don't think China, in terms of its self-awareness, wants to play that role yet. Eventually it might, but I did not see Ukrainian leadership going to Beijing asking for that. They did go to Beijing and ask for investment, and they got \$3-plus billion of investment, some of it in the Crimea, and God only knows what will happen with that Chinese investment. I don't think it was expended, but it was requested and committed. But definitely, having been in meetings with Mr. Putin and heard him talking about Russo-Chinese relations, as well as his deeply felt antipathy towards this country, he would listen to Chairman Xi much more today on Ukraine and on other issues than he would listen to our Commander in Chief.

Jan Kalicki:

Given the Chinese reaction to the U.S. offer to mediate in the South China Sea, I think it's kind of an unlikely scenario, but let's ask another question.

Dominick Toksof:

Thank you. My name is Dominick Toksof. I work at USIP. I just have a very quick question, especially for Ms. Dunnigan. Just on the energy negotiations between the Ukrainian government and Gazprom that should follow soon, because of the gas prices right now. In these IMF funds that have just been granted for Ukraine last week, how much is there a guarantee that these negotiations take place in a kind of goodwill situation, as mentioned in, I think, the document. And how much is the intention of the community involved in these negotiations. Maybe that might be helpful in the negotiations. Thank you.

Dieter Dettke:

Thank you. Dieter Dettke. Back to the question about stabilizing Ukraine, and that's a very important immediate, urgent task. And obviously, you know, it's hard to do this against Russia. Right? If we try this, and then the Russians are already threatened in terms of energy crisis, and even ask the Ukraine now to pay in advance for their gas bill, and if you look at the amount of the gas bill, it just happened to be about the size of the whole Western health package. So, can you give us a little bit of perspective how to manage that difficult situation of stabilizing the Ukraine, if necessary, against Russia? How can that be done?

Jan Kalicki:

Well, the first question was directed towards Robin, and if you want to try a little bit on the second, please. And then others will jump in.

Robin Dunnigan:

I think I understood your question. What has been the involvement of the EU and the U.S. in the IMF package negotiations, and are you really looking at how that will help them with their negotiations with Russia?

So, and tell me if I'm not getting it right, but one thing that's been happening that I think has been very useful has been the role that Director General Oettinger has played in facilitating negotiations between the Ukrainian Energy Minister and his counterpart in Russia, Novak. They met on Friday, I think? The three of them had very, very good meetings at looking at some of the key issues that you mentioned, sir, prepayment, the arrears, the price, and agreed to continue to meet over the next month or so, and to continue to have discussions about how Ukraine cannot only pay its arrears, but come to a price that works for all parties.

When you look at that in the context of the IMF negotiations, I think in the IMF package, what's important is that the first tranche is supposed to be dispersed now and it has been dispersed. It was agreed last Thursday, and the first tranche should come out in the next couple of days if it hasn't already. But it's not just the money itself. From the IMF, EU, the U.S., and other donors. What the package does to allow Ukraine to access financing for doing things like paying its arrears, and paying for the gas that it's getting. So, I think this combination of the aid packages, including the IMF package, starting to be dispersed in the next couple of weeks and months, the role that the EU and others have played in facilitating conversations between Gazprom, the Russian government, and also that world plane -- Carlos Pasqual will be in Ukraine tomorrow to talk again to the Energy Minister about how the three key issues are the arrears, the prepayment, and the price, and how we can look at those in the next couple of weeks.

Jan Kalicki:

I want to thank the speakers very much for a very interesting discussion. I can't resist pointing out in the area of strategy that we've been talking about these \$15 and \$20 billion sums. I can't help but point out that the cost of Iraq and Afghanistan was \$2 trillion. We might want to think a little bit about our sense of proportion with regard to grand strategy, over lunch, of course. Thank you very much.