

A Concert in Energy Security: Building Trans-Atlantic Cooperation to Confront a Growing Threat

by Richard G. Lugar

It is a pleasure to be here today at the American Council on Germany. As a member of the Council's Congressional Advisory Committee, I applaud the effort that brought this group of leaders together to discuss the challenges that we face and the need for a unified response.

In today's geo-strategic environment, few threats are more perilous than the potential cutoff of energy supplies. The use of energy as a weapon is not a theoretical threat of the future; it is a current reality. Those who possess energy are using it as leverage against their neighbors. In the years ahead, the most likely source of armed conflict in the European theater and the surrounding regions will be energy scarcity and manipulation.

We all hope that the economics of supply and pricing in the energy market will be rational and transparent. We hope that nations with abundant oil and natural gas will reliably supply these resources in normal market transactions to those who need them. We hope that pipelines, sea lanes, and other means of transmission will be safe. We hope that energy cartels will not be formed to limit available supplies and manipulate markets. We hope that energy-rich nations will not exclude or confiscate productive foreign energy investments in the name of nationalism. And we hope that vast energy wealth will not be a source of corruption within nations whose people desperately ask their governments to develop and deliver the benefits of this wealth broadly to society.

Unfortunately, our experiences provide little reason to be confident that market rationality will be the governing force behind energy policy and transactions. The majority of oil and natural gas supplies and reserves in the world are not controlled by efficient, privately owned companies. Geology and politics have created oil and natural gas superpowers. According to PFC Energy, foreign governments control up to 79 percent of the world's oil reserves through their national oil companies. These governments set prices through their investment and production decisions, and they have wide latitude to shut off the taps for reasons of politics and power.

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The vast majority of these oil assets are afflicted by at least one of three problems: lack of investment, political manipulation, and the threat of instability and terrorism. As recently as five years ago, spare production capacity exceeded world oil consumption by about 10 percent. As world demand for oil has rapidly increased in the last few years, spare capacity has declined to 2 percent or less. Thus, even minor disruptions of oil supply can drive up prices. Last year, a routine inspection found corrosion in a section of BP's Prudhoe Bay oil pipeline that shut down 8 percent of US oil output, causing a \$2 spike in oil prices. That the oil market is this vulnerable to something as mundane as corrosion in a pipeline is evidence of the precarious conditions in which we live.

Because natural gas is traded regionally and because Europe is dependent on a few suppliers, the risk that natural gas supplies will be used as political leverage against an individual country is even greater than that of oil.

It would be irresponsible for the European Union and NATO to decline involvement in energy security when it is apparent that the jobs, health, and security of our modern economies and societies depend on the sufficiency and organization of diverse energy resources. Energy may seem to be a less lethal weapon than military force, but a sustained natural gas shutdown to a European country in the middle of winter could cause death and economic loss on the scale of a more conventional military attack. Moreover, in such circumstances, national desperation would increase the chances of armed conflict and terrorism.

The trans-Atlantic community must move now to address our energy vulnerability. Sufficient investment and planning cannot happen overnight, and it will take years to change behavior, construct successful strategies, and build supporting infrastructure. No issue is more likely to divide allies in the absence of concerted action.

Last November, I delivered a speech at a conference prior to the start of the NATO Summit in Riga, Latvia. I urged leaders to identify the response to an energy cutoff as an Article V commitment and develop an action plan to respond to such events. Article V of the NATO Charter classifies an attack on one member as an attack on all. Originally envisioned as a response to an armed invasion, this commitment was the bedrock of our Cold War alliance and a powerful symbol of unity, which deterred aggression for nearly fifty years. It was also designed to prevent coercion of a NATO member by a non-member state.

I am not suggesting that the Atlantic Alliance respond to energy cutoffs with military force. Rather, I am advocating that the Alliance commit itself to preparing a range of options for jointly deterring the use of energy as a weapon and responding if such an event occurs. Though I focused on NATO's role last November, I would applaud greater preparation and coordination on energy by the EU, as well. Although attention to energy security issues is expanding within NATO and the EU, neither has yet demonstrated the decisiveness and cohesion that are required.

The trans-Atlantic community must develop a strategy that includes the re-supply of a victim of an aggressive energy suspension. The identification of

alternatives to existing pipeline routes, as well as financial and political support for the development of alternative energy sources, are crucial to deterring the use of energy as a weapon. A coordinated and well-publicized trans-Atlantic response would reduce the chances of miscalculation or military conflict. Confronting this challenge will not be easy or comfortable. States will be required to tighten their belts and make hard choices. But, if we fail to prepare, we will only intensify our predicament.

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Perhaps the most important short-term energy mission of the Alliance is to provide diplomatic and economic support for alternative energy routes from Central Asia and the Caucasus. Diversity of energy supply and transportation would be strengthened with Caspian oil and gas, yet necessary interconnections to bring the fuels directly to Europe have been stalled. The effort to establish these new connections suffered a setback in May when Russia signed an agreement with Kazakhstan and Turkmenistan to deliver natural gas from Turkmenistan to Russia, so that Moscow may continue to control Turkmenistan's gas exports to Europe. It would be far preferable, in terms of diversity of supply, if Turkmenistan could be persuaded to sell its gas directly to the Europeans through a pipeline under the Caspian to Azerbaijan and Turkey. Meanwhile, individual European countries are tempted to reach bilateral deals with energy suppliers. Though the impetus to do so is understandable, these bilateral deals must not prevent unified action. Each of our political and economic bargaining positions is strengthened when we act in concert.

The Atlantic Alliance also should cooperate in expanding the global strategic petroleum reserve coordinating system. Global reserves are coordinated through the International Energy Agency. Membership in the current system is limited and should be expanded to include major consumer nations, such as India and China. Given that oil is a globally traded commodity, a strategic reserve system that lacks the participation of major consumer nations will never be as effective as it should be. In addition, Alliance countries should expand their own oil reserves and ensure that they are at least meeting treaty obligations to maintain prescribed levels of petroleum products.

A greater challenge is the creation of a coordinating system for the supply of natural gas in case of emergency shortages. Such a system would require the resolution of many political and technical questions regarding how reserve natural gas would be stored, transported, and shared. It would likely require additional infrastructure to transfer alternative gas supplies. We would also have to plan for rapid transitions to alternative power sources where practicable. Despite the demands of this challenge, a natural gas emergency coordinating mechanism would

provide incalculable value in preventing or responding to a crisis.

As we strive for Alliance unity in meeting these challenges, the United States and Europe must narrow the gaps between our national energy priorities. Europeans have demonstrated more political will than Americans in dealing with climate change, while Americans have been more concerned with geopolitical factors in the international energy debate. I am optimistic that trans-Atlantic views are converging. There is an increasing recognition, for example, that we must rapidly deploy alternative energy and energy efficiency technologies, and that such a deployment will be enhanced by international cooperative endeavors.

Recently, Secretary of State Condoleezza Rice and German Foreign Minister Frank-Walter Steinmeier convened the “US-EU Energy Technology CEO Forum” in order to find common areas of action. This meeting brought together energy technology company executives from both sides of the Atlantic. The group is developing recommendations for cooperative action to ease trans-Atlantic energy vulnerability. Beyond the group’s contributions, this exercise is a testament to the need for multi-national public-private partnerships in the energy field.

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Earlier this year, I wrote to German Chancellor Angela Merkel and urged her government to focus on energy security during Germany’s presidency of the European Union. I argued that Germany is uniquely situated to provide leadership in this area. Berlin can play a key role in bridging the gap between those capitals that are facing aggressive tactics against their energy infrastructure and those governments that are rushing to secure long-term contracts. The US-EU Summit in Washington offers Germany and the United States an important opportunity to underscore issues related to emergency energy preparedness, diversification of supply routes, and harmonization of policies on biofuels and other renewable energy sources.

Beyond constructing strong policies related to energy, a united trans-Atlantic community must engage Russia and other energy-rich nations. We must speak clearly with Russia and other energy producers about our concerns and our determination to protect our economies and our peoples. We should ensure that competition, transparency, and antitrust rules form the basis of international energy transactions—an objective endorsed at the St. Petersburg G-8 Summit. In the best case scenario, Russia would comply with the Energy Charter Treaty of 1994 and the Transit Protocol. More broadly, we should outline the clear benefits of a future in which Russia solidifies consumer-producer trust with the West and respects energy

investments that help expand and maintain production capacity. The fickleness of energy markets affects not only consumers, but producers as well. Energy is a two-way relationship and will remain so even as Europe and the United States diversify their energy resource base.

By their nature, alliances require constant study and revision if they are to be resilient and relevant. They must examine the needs of their members and determine how the freedom, prosperity, and security of each member can be safeguarded. For more than a half century, the trans-Atlantic community has prospered while meeting common threats and expanding the zone of peace and security across Europe. Nevertheless, if we fail to reorient the trans-Atlantic relationship to address energy security, we will be ignoring the dynamic that is most likely to spur conflict and threaten the well-being of alliance members.

If the trans-Atlantic community stands together, we have significant leverage. If we are divided, then one EU or NATO member can be played off against another. The stakes are high—if we wait even a few years, we are likely to find our security in further jeopardy. Leadership by the United States and Germany is essential in this process. I look forward to working closely with the American Council on Germany, friends in Berlin and Washington, and each of you here today to provide this leadership.