



# Atlantic Council

## Written Testimony of

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**Before the United States Senate Committee on Energy and Natural Resources**

**Accelerating US LNG Export Liberalization – The Geopolitical Context**

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**Room 366 Dirksen Senate Office Building**

Madam Chair, members of the Committee, I am honored to appear before you today to discuss the geopolitical implications of the LNG Permitting Certainty and Transparency Act.

The growth of natural gas production in the United States in the past decade has been nothing short of spectacular. It has resulted in increased economic competitiveness, particularly in energy intensive industries; reduced dependence on imports; and a relative reduction of greenhouse gas (GHG) emissions. This dynamic growth in gas production is expected to continue in the next decade, according to forecasts from the US Energy Information Administration<sup>1</sup>, as well as other respected analyses<sup>2</sup>.

The United States is at the cusp of becoming a major exporter of natural gas, which will provide economic, climate, and energy security benefits to America and the rest of the world. We have a historic opportunity to use this natural gas bounty to promote the principle of open global energy markets as well as greater energy security and prosperity in Europe, Asia, Mexico, and the Caribbean, and potentially elsewhere.

In my testimony, I will focus on the direct and indirect economic and security benefits of LNG exports for Europe, Central and Eastern Europe in particular, in the context of the Ukraine crisis; tensions with a resurgent and belligerent Russia; and Europe's overall energy security challenges. I will briefly address the importance of unhindered LNG exports in an Asian context with special regard to Russia's positions and ambitions in the region. Underpinned by the geopolitical arguments, I will conclude by expressing support for the bipartisan LNG Permitting Certainty and Transparency Act.

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<sup>1</sup> [http://www.eia.gov/pressroom/presentations/sieminski\\_01042014.pdf](http://www.eia.gov/pressroom/presentations/sieminski_01042014.pdf)

<sup>2</sup> Such as the 2014 World Energy Outlook by the International Energy Agency, <http://www.iea.org/Textbase/nppdf/stud/14/weo2014.pdf>

## European Energy Security in Light of the Ukraine Crisis

The Ukraine crisis refocused attention on Europe's energy security with natural gas at the center. The crisis is far from over, but it is already clear that both the scope and nature of Russia's relations with the European Union and the United States cannot remain unchanged, and that Russia's posturing and actions have profound repercussions on European and transatlantic security and prosperity.

The European Union is highly dependent on oil and gas imports (85 percent and 65 percent, respectively). This dependence will likely grow in the next two decades. Oil is a fungible commodity with a liquid global oil market, but gas trade is still predominantly regional and often monopolistic, with rigid long-term contracts and oil-linked prices to the detriment of the consumers. Russia's Gazprom still supplies close to a third of Europe's imports, roughly half of which — 82 billion cubic meters — went through Ukraine in 2013. Moscow's use of force and the cutoff of gas supplies, yet again, to Ukraine from June until November of last year was a clear signal to consumers that they will be wise to further diversify their gas supplies.

To be sure, the European Union has done, and is doing, a lot to address its energy vulnerabilities. The situation has vastly improved since the crises in 2006 and 2009 that served as a wake-up call for Europe. The EU has since adopted the Third Energy Package in a bid to create integrated EU markets for electricity and natural gas. They have also built up gas storage capacities, completed interconnectors to link up national gas markets, improved energy efficiency, and — last but not least — actively pursued diversification of sources. At their meeting in March of 2014, European leaders concluded that efforts should be intensified to reduce Europe's high rates of energy dependency. The European Commission presented an in-depth study of EU energy security and a comprehensive plan for the reduction of EU energy dependence in June of 2014. European leaders endorsed the plan in October of 2014<sup>3</sup>. Furthermore, as the next potentially major step in European integration, the European Commission will present a comprehensive Energy Union proposal ahead of the European Council's meeting in March. The Energy Union could be a major step in a long journey to a truly unified European energy market and policy. This journey started more than 60 years ago with the coal and steel community.

Yet the European gas market integration is incomplete and the Ukraine crisis reminded us of the dangers facing European energy security. Europe has only just begun to profit from gas-on-gas competition — benefits the United States has been enjoying since the deregulation of the natural gas market in 1978. While Western Europe succeeded, to a large extent, in diversifying its gas imports through LNG import terminals and agreements with other suppliers (Norway and Algeria), countries in Central and Eastern Europe remain dependent on Russia. Monopolistic markets and anti-competitive business practices prevail and result in a fragmented European gas market, especially in the continent's east.

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<sup>3</sup> European Council Conclusions, October 24, 2014:  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/145397.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/145397.pdf)

## European market integration and diversification efforts

There are four key components of reducing this dependence: improving energy efficiency, boosting indigenous (unconventional) gas production, growing renewable energy capacities, and supply source diversification. The first three components are critical elements to be discussed at another time. The fourth is the most relevant within the context of the current debate on US LNG export liberalization.

As Europe becomes more and more concerned about Russia's behavior and reliability as a supplier of natural gas, and rethinks its entire energy and gas supply security strategy, the relative importance of alternative sources will grow. Lessening dependence on Russian gas is vital for safeguarding Europe's security and integrity in the medium- and long-term.

Europe has access to multiple sources of piped gas as well as LNG supplies. Yet, in addition to the risks associated with supplies from the east (Russia), piped supplies from both the south (Algeria, Libya, and Egypt), and the southeast (the Southern Gas Corridor) these sources face their own challenges. All these sources have additional costs that Europe will have to factor in. Though Algeria — as the third-largest gas supplier of Europe and with the fourth-largest shale gas reserves globally — has so far escaped the turmoils in the MENA region, one should recall the unprecedented scale of the attack by Islamic militants against the Amenas gas facility in 2013. The Amenas attack and other domestic and regional security challenges raise the spectre of potential disruptions in the future. Libya is in the middle of a civil war with both oil and gas supplies interrupted for prolonged periods of time. Given the political disarray and abysmal security situation, Libyan supplies will likely remain volatile. Egypt has turned into an energy importer as its domestic consumption has increased.

The Southern Gas Corridor could be a critical component in Europe's diversification efforts. In the medium- and long-term (beyond 2020), the corridor has the potential to become a major source of gas for Europe from the Caspian, the Eastern Mediterranean, and the Middle East. Yet the corridor's prospects should be realistically assessed. It is by no means a short-term solution. The corridor faces multiple political and security challenges from a renewed Russian effort to derail it by diverting major volumes of Russian gas through Turkey (as Ambassador Richard L. Morningstar, former Special Envoy on Eurasian Energy argues about the Turkish Stream concept replacing the cancelled South Stream<sup>4</sup>); an increasingly authoritarian and heavy-handed Azeri leadership, under tremendous Russian pressure; instability in the Middle East, especially in Iraq; and the uncertain prospects of securing gas from Central Asia via the planned Trans-Caspian Pipeline.

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<sup>4</sup> Ambassador Richard L. Morningstar: The Demise of South Stream. <http://www.atlanticcouncil.org/blogs/new-atlanticist/the-demise-of-south-stream>



While prices in Asia remain higher than in Europe this gap may close depending on various factors that are difficult to anticipate. Another Russian cutoff would quickly increase prices in Europe, while gas demand in Asia may grow at a slower rate than predicted. Therefore, US gas could be a viable alternative for Europe. Indeed the contracts concluded by Cheniere Energy to ship gas from the Sabine Pass LNG terminal are predominantly with European utilities and traders.

Furthermore, the benefits of major volumes of US LNG exports should not underestimated in the context of their effects on future price formation in various regional gas markets. As distinguished experts such as David L. Goldwyn, Chair of the Atlantic Council's Energy Advisory Group, emphasized in their testimonies before this esteemed Committee, expectations of future supply drive energy prices and impact infrastructure investment decisions made today. I strongly agree with Anita Orbán, Hungarian Ambassador-at-Large for Energy Security, who in her testimony in front of the House Foreign Affairs Committee last April said: "the mere existence of a credible alternative supplier exerted significant downward pressure on the natural gas prices set by the dominant supplier." Receiving clear indications from the United States that LNG exports will be available to European allies for future purchase will have an immediate effect inasmuch as they will put further pressure on Russian market share and prices by presenting an alternative source of supply in the medium term.

Such indications will also guide investment in and construction of gas transportation infrastructure in Europe, particularly in Central and Eastern Europe, where the prospect of increased liquidity on the global LNG markets will accelerate the completion of the planned North-South Corridor. This corridor would help diversify the sources of energy for all Central and Eastern European states, create a regional energy market, and increase leverage vis-à-vis Russia during gas contract negotiations. In Lithuania and Greece, for example, already functioning LNG terminals enabled both countries to secure substantial price discounts from Gazprom. The almost-completed LNG terminal in Świnoujście, Poland, and the one proposed on Krk Island, Croatia, would play a similar role, enabling Central Europe to tap into an increasingly global LNG market. Prospective shipments from the United States will further improve the competitiveness of these projects and help allied nations access cheaper natural gas vital to their economies. As the Atlantic Council's report on the North-South Corridor, co-chaired by Gen. James L. Jones and Central Europe Energy Partners Chairman and Lotos CEO Pawel Olechnowicz, put it: "[the completion of] the North-South Corridor is crucial to the completion of an effective single European energy market, one that can receive inputs of oil, gas, and electricity from a variety of current and prospective European and non-European suppliers, and distribute them throughout Europe on a competitive basis."<sup>5</sup>

### **US LNG and Russian positions in Asia**

Liberalized US LNG exports would also make a difference in Asia. Introducing certainty into the permitting process would benefit Asian consumers and contribute to the emergence of a more liquid and competitive Asian gas market. Russia plans to double its share of the global LNG trade by 2020 (an admittedly ambitious goal given the financial constraints) by increasing LNG supplies to both Europe and

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<sup>5</sup> Completing Europe – From the North-South Corridor to Energy, Transportation, and Telecommunications Union, November 20, 2014. <http://www.atlanticcouncil.org/publications/reports/completing-europe-from-the-north-south-corridor-to-energy-transportation-and-telecommunications-union>

Asia, and tap into the growth of Asian demand. Furthermore, Russia entered into a major deal with China that would, in principle, provide 68 billion cubic meters of gas per year to China for 30 years after 2018/19. Similar to Europe, US LNG exports can be a tool to limit Russian market share and ensure that Russian gas is exported to Asia under competitive terms. Henry Hub-linked US LNG contracts will provide Asian buyers increased negotiating leverage and pricing flexibility.

### **Why should this matter to the United States?**

As Vice President Joe Biden underlined in his speech at the opening of the Atlantic Council Energy and Economic Summit in Istanbul, Turkey, in November of 2014, “Global energy security is a vital part of America’s national security... [European] energy security is an especially vital regional security interest because of Russia’s track record in using the supply of energy as a foreign policy weapon against its neighbors in violation of basic commercial and international norms.”<sup>6</sup> Energy Secretary Ernest Moniz emphasized in his opening speech at the same summit that “[e]nergy security is the collective responsibility of allies and friends.”

Europe’s energy security, in particular, is a matter of US national security as it points to a strategic vulnerability of key allies. Europe’s integrity and unity is, to a large extent, contingent on its ability to secure energy supplies. Of particular concern is Russia’s stranglehold over Central and Eastern Europe, especially in the context of the Ukraine crisis. Energy import dependence limits the political options available to Central and Eastern European countries as transatlantic allies. Compromising energy security and corrupting the energy sector are at the heart of Russian ambitions in this space. As we have seen in countries like Hungary and Bulgaria, the energy sector is the primary conduit for heavily corrupted deals with Russia that limit the political room for maneuver and question these countries’ ability to act as a reliable ally and conduct an independent foreign policy that is both in the national and allied interest. This is especially unnerving in the context of the ongoing standoff with Russia, where the European Union needs unanimity for every major decision, such as to uphold or extend sanctions.

Of further concern is that lower oil prices that will start to fully feed into Russia’s long-term gas contracts in the spring, coupled with the temporary deal with Ukraine, and the promises of Russia to deliver gas through Turkey may lure some countries in Europe into a false sense of security, especially in the absence of alternative supply prospects. Oil-indexed long-term contracts may seem attractive when the prices are down though the oil price drop may very well prove to be short-lived<sup>7</sup>.

A robust US energy diplomacy is critical in supporting the European Union on all these fronts. I commend the leadership and efforts by Special Envoy and Coordinator for International Energy Affairs Amos Hochstein and his predecessor, Carlos Pascual, whose Bureau of Energy Resources at the State Department has done, and keeps on doing, a tremendous job in supporting European interconnection,

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<sup>6</sup> Remarks by Vice President Joe Biden on European Energy Security to the Atlantic Council Energy and Economic Summit, Istanbul, Turkey, November 22, 2014. <http://www.whitehouse.gov/the-press-office/2014/11/22/remarks-vice-president-joe-biden-european-energy-security-atlantic-counc>

<sup>7</sup> David L. Goldwyn: Here’s Why Saudi Arabia Has Let Oil Prices Fall — and Why They Could Revive by Year’s End. <http://www.atlanticcouncil.org/blogs/new-atlanticist/heres-why-saudi-arabia-has-let-oil-prices-fall-and-why-they-could-revive-by-years-end>

market integration, and diversification efforts, while also lending critical support to Ukraine to reform its energy sector.

**Madam Chair, Members of the Committee:**

US LNG export is no panacea. It will not provide a quick fix for Europe's energy security problems, nor will it push Russia to its knees — at least not in the short-term. But major volumes of US LNG would significantly shift the balance on global gas markets, introduce much-needed additional liquidity and potential alternative supplies for allies in a vulnerable energy security position, and push down prices globally, increasing economic growth prospects and the usage of gas replacing coal to the benefit of our climate.

To fully reap the domestic and international benefits of the natural gas boom, the licensing process needs to be accelerated and placed on firm and transparent footing. The US Department of Energy (DoE) has been quicker in granting such conditional approvals in the past year than before. Yet a transparent process for DoE approvals would promote much-needed certainty and predictability. Therefore, I strongly endorse the LNG Permitting Certainty and Transparency Act. It is time for the United States to practice what it preaches: open markets and transparent investment climate versus resource nationalism and unpredictability.