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OIL, OLIGARCHS, AND OPPORTUNITY: ENERGY FROM CENTRAL ASIA TO EUROPE

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

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THURSDAY, JUNE 12, 2008

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 2:33 p.m., in room SD–419, Dirksen Senate Office Building, Hon. Joseph R. Biden, Jr. (chairman of the committee) presiding.

Present: Senators Biden, Bill Nelson, Cardin, Lugar, and Hagel.

OPENING STATEMENT OF HON. JOSEPH R. BIDEN, JR., U.S. SENATOR FROM DELAWARE

The CHAIRMAN. The hearing will come to order, please.

I welcome all our witnesses. After a brief conversation with my colleague, Senator Lugar—we have a very distinguished group of—who are going to testify today, none more distinguished than the Honorable Zbigniew Brzezinski, and because of a 3 o'clock vote, and because of a time constraint our first witness has, we're going to do something a little unusual. Senator Lugar and I are going to forgo our opening statements and invite Mr. Brzezinski to make his statement. We'll get a chance to answer—ask him some questions, and we will then give our opening statements.

But, we're honored to have you here, Zbig. We're honored that you would come before the committee. And you're—as you can tell by the way we're proceeding, we always look forward to your testimony. And so, the floor is yours.

STATEMENT OF HON. ZBIGNIEW BRZEZINSKI, COUNSELOR AND TRUSTEE, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES (CSIS), WASHINGTON, DC

Dr. BRZEZINSKI. Thank you very much, Mr. Chairman. Thank you, Senator Lugar.

I'm not an expert on the energy problem, as such, but I am willing to discuss that issue in the larger context, both of the longer range and the shorter range prospects for the relationship with Russia. And let me, accordingly, do so.

I very much partake of the view that, in the long range, Russia and Euro-Atlantic community will come to share deeper and larger and wider interests. There is a fundamental comity of historical purpose, of culture between Russia and the rest of Europe, and I envisage, at some point in the more distant future, the emergence of something that has been vaguely describe as a larger community, from Vancouver to Vladivostok. In that broad context, closer

energy cooperation between the West, the European Union, and Russia—namely, Russia provides the energy, the West provides the foreign direct investment—is a shared interest, and it is a balanced interest, and it is an interest that potentially produces positive geopolitical consequences.

The problem is not in the long run, the problem is in the short run, because in the short run that shared long-term interest can become quite complicated, and, indeed, aspects of it will begin to collide against one another. More specifically, I have in mind several policies currently pursued by Russia that, in my view, create complications that adversely affect that otherwise desirable long-range vision.

First of all, we have the problem of Russia's ongoing efforts to limit the West's role in upstream aspects of energy cooperation, even while Russia energetically promotes its right to seek more active downstream role. That asymmetry is a problem.

Second, Russia seeks, very actively, to isolate the central Asian region from direct access to the world economy, and particularly to its energy supplies.

Third, we have had repetitive cases of Russian pressure on Ukraine, a pressure derived from political concerns and otherwise unrelated to the energy relationship, as such.

We have, fourth, seen instances of possible threats to Georgia from Russia, motivated not so much, in reality, by any serious territorial problems, though there are territorial problems between Russia and Georgia, but derived more from the desire to gain a controlling hand over the Baku-Ceyhan line. If the Georgian Government were to be destabilized, Western access to Baku, to the Caspian and beyond would be limited.

And last, but not least, we have seen a number of instances of energy supplies being cut to both the countries, for political reasons. These instances have been repetitive, they have occurred in several instances since 2002, and they continue to this day, insofar as actual cutoff of supplies for political reasons is concerned.

Moreover, beyond the specific problems, there is the potential, but quite serious, short-term asymmetry or vulnerability in the existing relationship between the European Union and Russia, insofar as energy supplies are concerned. To be sure, the EU needs Russian energy. To be sure, Russia needs the EU's direct investments. But, the problem is that, in any hypothetical cutoff, the consequences for the West would be immediate, the negative consequences for Russia would be much delayed, the stoppage in the flow of energy would have an immediate political and social impact, and a halt in Western direct investment, even any restrictions imposed on Russian investments in the West, would only make themselves felt much later. And thus, the political consequences would be asymmetrically unfavorable to one party—namely, to the EU—and more advantageous to the party imposing them.

Thus, we need a policy in the West that, in fact, enhances the prospects that short-term cooperation will be more consistent with the otherwise desired long-term interdependence between the West and Russia. And that should be the object of Western policy.

Let me, therefore, in a nutshell, summarize a few points pertaining to what needs to be done.

First of all, the West should more consistently, and at a higher level, seek more direct access to Central Asia. The fact is that Central Asian leaders would welcome that, but they're in a squeeze, they're basically isolated and vulnerable. It is up to the West to push hard to establish more direct links with Central Asia and to promote more direct opportunities for access. This means pushing the Baku line, the so-called "southern access to the East" for the Baltic countries—Turkey, the Black Sea, through Caspian; it means, eventually, even a much more energetic effort to explore the possibilities of a pipeline through Afghanistan from Central Asia to the south. That would maximize access to the Central Asian markets, energy markets, for the world community.

Second, we need to back the Baltic States, as well as Sweden, as well as Poland, regarding their reservations concerning the northstream pipeline being planned from Russia to Germany. The ecological concerns that have been articulated in this context are pertinent, they have political implications. I think there is a reason to be responsive to the concern of the states affected—Sweden, Poland, the Baltic States—and the United States should do so.

In addition, we should encourage Germany to diversify the benefits of any North Stream flow, once it becomes available, to make certain that it is not limited to Germany alone, but that countries east of Germany, which are part of the EU, would benefit from these additional supplies, as well.

I think, in this regard, the negative role played by a former German chancellor who is now an employee of Gazprom is noteworthy, and it does introduce a complication which cannot be entirely ignored.

Third, we should encourage and support the flow of energy from Odessa and east of Odessa, from the Caspian Sea region and Central Asia up to Brody, in Poland, and thence, either north to the refineries in Poland or west to Western Europe. Moreover, the West should more actively press Ukraine to enhance the opportunities for Western investment in the Ukraine energy sector, which has become very much dominated by corrupt practices, and has become rather exclusive.

Fourth, we should encourage continued support of the West for Ukraine and Georgia, given their vulnerability and the risks that would arise to the West if these countries were in any way subordinated or limited in their freedom of action. And I've already mentioned the significance of Georgia to the continued independence of the Baku-Ceyhan line and Western direct access to Azerbaijan.

Fifth, we should seek greater symmetry between opportunities for Russia's downstream investments in return for Western opportunities upstream in Russia. That is an issue regarding which the Europeans would be responsive, and symmetry in this regard is desirable.

Last but not least, in the longer run we should also not ignore the significance of Iran's potential energy contribution to Western energy independence. We have to be aware of the fact that energy diversification, which we seek as a goal, would become easier if both oil and gas from Iran became available to Western purchasers. That, of course, is related to the ongoing crisis with Iran, but it is

a calculation that should also be taken into account in any grand strategy that we choose to define.

In brief, Mr. Chairman, you have before you an issue of enormous complexity regarding which a much more purposeful Western response is needed and much more visible American leadership is needed. I have great respect for the U.S. officials that have been toiling in this area, and have been doing their best to improve the prospects of the West, but I am concerned by the fact that, by and large, this issue has not had the kind of leadership visibility in the United States that is needed for very good geopolitical and historical reasons, and particularly reasons related to the much more promising vision of the longer range relationship with Russia, which I mentioned briefly at the outset of my remarks.

Thank you.

The CHAIRMAN. Thank you very much.

Let me start off with a question. I think on the surface something you said that seems inconsistent. You talk—and I fully agree—that the long-term prospects for being able to work with Russia are promising, but short-term cooperation is the issue, and we need a strategy to enhance that cooperation, short term. And then, the things which you've listed, none of which at least I personally disagree with, from more direct access to Central Asian leaders to pushing the Baku line, et cetera—on the surface, they seem to fly in the face of what the Soviet—what the "Soviets"—Freudian slip—what the Russians would view as cooperation. My impression is, based on Putin's actions—which I think are very, very aggressive, in Georgia, but also in Azerbaijan— are directly related to the one thing we don't want to see happen, a disruption of the oil flowing through Georgia, through Turkey, and into Western markets. So, can you square that circle for me? How do you think—can you tell us, from your perspective, how they view this notion of greater Western access to oil that is in Central Asia beyond their direct control?

Dr. BRZEZINSKI. I think it's quite evident, from the record, that the Russian approach to this issue is essentially derived from a monopolistic ambition; namely, to maximize the degree of Russia's control over energy resources of the entire former Soviet Union. And, in that sense, the newly independent states that are major producers of energy are viewed by the Russian leadership as somehow subordinate to the Russian desire that their access to the world economy be channeled exclusively through Russian territory, through Russian facilities. In any sort of business relationship, obviously there is a temptation to maximize one's control to widen the scope of one's monopolistic authority. It's true to any contractual business relationship, almost. But, the party involved in that relationship—namely, the West—has every reason to oppose the effective implementation of such a state of affairs, because its longer range consequences are potentially dangerous. So, we——

The CHAIRMAN. Was the——

Dr. BRZEZINSKI [continuing]. Shouldn't be shy in speaking up, in raising these issues, but we should also be more active, at a very high and visible level, in negotiating, particularly with those non-Russian suppliers who, in the long run, want to be accessible to the world, but, in the short run, are squeezed.

The CHAIRMAN. Yup.

Dr. BRZEZINSKI. And the top leaders in these countries, by and large, are also top energy executives, and, in fact, probably benefit from it materially, as well. They have to be approached at a very high level with a degree of respect for their sensitivities and vulnerabilities.

The CHAIRMAN. Chairman Lugar has been preaching from this hymnal for a long time about the potential benefit that can flow from this access. In the last 2 months, I have recently attended several conferences with our EU and NATO partners, and what I'm a little surprised at—and I wonder if you could, (a) tell me whether you see the same thing, and (b) if you do, an explanation as to why—is the failure of a direct, coordinated European Union-United States response to the very heavyhanded way in which the Russians have used their oil dollars and oil, and access to oil, to apparently affect policy, from the expansion of NATO to maintaining this and increasing the prospect of a monopoly.

I find it surprising that—from my perspective—that Russia has been as effective in dividing Europe, preventing it from coming up with coherent, aggressive strategy to—not just with us, but with them, at the highest levels—deal with these central powers, to generate the very access to oil that we're all talking about. Am I making any sense by the question?

Dr. BRZEZINSKI. Yes; you are. And I think there are several causes for this condition, which you describe very accurately. First of all, the fact is that over the last several years, for reasons that we know all too well, there has been a rift in the Atlantic relationship, and, as a consequence, it has become more difficult, in general, to shape a common Western policy. Hopefully, that will begin to end, one way or another, after the elections, but that reality, I think, has impeded a common transatlantic position on this complex issue.

Beyond that, within Europe itself, the absence of this common Atlantic posture has further enhanced different European emphases on the part of different European players. So, we have, in Germany, a former chancellor, in effect, becoming an employee of a major Russian conglomerate, which itself is an extension of a Russian state. That's a rather peculiar circumstance. We have an Italian Prime Minister, currently and recently returned to office, who practically made a sport out of genuflecting in front of Putin. We have a government in Greece that, for a variety of historical reasons—the Cypriot problem, the conflict with Turkey—has been much more sympathetic to some of the Russian initiatives in the energy sector. We have a government in Hungary which has been strangely receptive to Russian behests, and maybe even financial inducements, which has, thus, adopted a stance on the Nabucco pipeline, which has been damaging to it. Very recently, we have had some financial interests in Austria pointing in the same direction.

Now, all of these divergent orientations or strands of conduct were made more possible by the rift in the Atlantic relationship. If that relationship had been closer, it would have been possible to maintain a common perspective on global issues. Some of these tendencies would not have manifested themselves.

The CHAIRMAN. Thank you very much. My time is up.

Senator Lugar.

Senator LUGAR. Thank you, Mr. Chairman.

Dr. Brzezinski, you were present at the Riga summit of NATO at a time that I gave a talk about the need for NATO to consider cutoffs of energy, or aggression of that sort, as an article V situation in terms of having supplies and a plan, not in the sense of sending troops. Now, I don't know what the reaction was as people visited with you; as they came up to me, they pointed out, "Well, you make a lot of sense. But, this is something we don't talk about publicly. This is a private business for each one of us, in an existential way, to work out." Subsequently, EU and NATO conferences have been held, but they've had the results that you've described well, country by country.

I took a trip in January to Kazakhstan and Turkmenistan, to name two of the countries that are in the orbit you described. In both cases, the leadership understands the desirability of having a portfolio of something beyond direct pipelines to Russia so that they have diversification. But, in the case of the Kazakhs, they have, also, issues with other private oil companies working out the Kashagan field problem, which is still daunting. In the case of Turkmenistan, our relationship is a very new one, with the new government. At the time of my visit, we had no ambassador there, and we still do not.

I mention this because President Putin himself was personally on the phone with the Presidents of Kazakhstan and Turkmenistan. He personally has been a negotiator, to underline your point of strategic importance. At best, our diplomacy with regard to all of this has been fledgling. We are thinking about these issues in meetings like one with you today, but diplomatic activity has been much less than desirable. Our trips to Ukraine have demonstrated that point. The point that you've made about the lack of development in Ukraine, of energy resources that are in that country, is manifest, even though the vulnerability is very clear to President Yushchenko. I came away from that trip with the feeling that the United States cared more about the energy problems of many European states than the leadership does. Now, that's an unfair judgment, obviously. They understand their problems, but, at the same time, are, really, unwilling to take steps toward unified policy in Europe. Maybe the rifts with us—that is, the United States—are because they don't want to talk to us a whole lot about those problems.

We saw the Czech Foreign Minister yesterday, here at a coffee the Foreign Relations Committee had, and I asked about the Nabucco pipeline. He said that hopefully something will come of the pipeline. It's been having so many reverses, it's really not clear. But, for the moment, the Czech situation is just as grim as it was a year or two ago.

I raise all of this because I'm wondering where, maybe, as you say, the election brings a new President, a new administration, a new relationship, somehow either the EU or NATO, one or the other, begins to take hold of the problem. But, at this particular point, this is a pretty bleak terrain.

Now, one good point is that the Azeris have been reaching out to the new Turkmenistani Government—I think, with some good results. And, likewise, they are trying very hard to get the Kazakhs more interested in their pipeline. Georgia still is alive and able at least to support that part of it. And the Turks could have additional pipelines if our relationship there might improve and we had needed dialogue.

What optimism do you have, as you analyzed the problem so well today, that those that we are hoping to help, as the potential victims of this kind of aggression, will take some steps to help themselves and to work with us or to work with others?

Dr. BRZEZINSKI. Well, first of all, let me note that I was in Riga when you gave your speech, and I thought it was a terrific speech at the time. And I think it is a well known fact that people like yourself, like the chairman and others, have taken more of an interest in this issue than our executive branch at a very high level. And there has been a woeful lack of a real strategic involvement of our top leaders in this issue, and of their public involvement on this issue.

In addition to it, there have been conflicting signals from the United States. We have occasionally signaled to the effect that a strategic partnership with Russia was already a reality; whereas, at best, it's only in the process of emerging, and that we have not been particularly responsive to some of the concerns of some of the European states that wish to take the lead on this issue, but don't have very visible American backing even in their own internal intra-European discussions.

Worse than that, occasionally there are even some signals from here, from one of your colleagues, a Senator from New York, who recently advocated to deal with Russia on Iran, which would, in effect, leave the former Soviet space to the tender mercies of the Kremlin. That also sends a signal to the Europeans that's perplexing.

So, I think, ultimately, the issue of leadership in the West still depends on what transpires in the United States; how visibly, at what level, and how energetically is the United States engaged in shaping some sort of response. If we do that, then I think the Europeans are much more likely to begin to diminish their internal differences and begin to take a common stand.

There is a constituency within the EU, of roughly half the members of the EU, which is quite alarmed over this issue, but there are a few key countries that are in a position either to obstruct the emergence of a common policy or, in some more extreme cases, to make their own deals.

Senator LUGAR. From your own experience in the administration, who should take this initiative? The President the Secretary of State, Secretary of Energy, or some special person delegated for this? How should we organize ourselves?

Dr. BRZEZINSKI. Well, I would think that the public leadership and signals of real interest in the issue ought to come from the President, because these issues involve also the vital interests of our key allies, from the Secretary of State, as well. And then I think it would be highly desirable if there was some individual who had the capacity to set in motion genuine initiatives on an

intradepartmental basis, because the issue itself is wider than the jurisdictions of any particular department, including the Department of State.

Senator LUGAR. Thank you very much.

The CHAIRMAN. Thank you.

Senator Nelson.

Senator BILL NELSON. Mr. Chairman, thank you.

And they've just called the vote, so I'll be mindful of that, and do it quick so that Senator Hagel—

What dramatically illustrates to me the threat to Western interests, which is what I want to ask you, is the map that's been supplied from the Department. You can't see this from there, but basically this is the existing gas fields and pipelines delivering natural gas to Europe, and most of those, in red [slightly darker in black and white], are controlled by Russia. And then, this is what is expected in 2020, in 12 years, that Russia still has its ability, but then there's the alternative of the South Caucasus pipeline and its extension on into Eastern Europe and into Southern Europe. And if that were not to occur, if Russia kept it like this, then doesn't that mean that they're going to exert political control, not only the gas from which they take it in Central Asia, but the gas and oil that they are sending it to in Europe?

Dr. BRZEZINSKI. Well, we know from recent years that when the opportunity arises, and particularly when the other party is much weaker, as, for example, the Baltic States, the reluctance to succumb to the temptation to use power—energy as political influence is very weak. The temptation is overriding. It has happened. So, that is precisely why the West has to be concerned.

I do think that, with some imagination and some initiative, it is possible to enhance diversification to obtain more access to Central Asia, either through the Caspian, more directly to Turkmenistan. And the new President of Turkmenistan seems to be at least interested in that possibility. There is the longer range Afghan possibility, pipelines to the south. And last, but not least, we shouldn't forget that Iran, which I don't think is going to be forever hostile toward us, is potentially a very major supplier of, not only oil, but especially of gas.

Senator BILL NELSON. Frequently, what they will say—and, Senator Hagel, I'll stop with this question, because I want to hear your questions—frequently, they will rebut that, saying, "Well, no, Russia really isn't going to have control, because Russia needs Europe and their energy market." And what's the answer to that, that Russia needs the European markets?

Russia
Kazakhstan
Makat
Alexandrov Gai
Frolovo
Ukraine
Moldova
Romania
Hungary
Slovakia
Baumgarten
Austria
Slovenia
Serbia
Bulgaria
Varna
Greece
Italy
Turkey
Ankara
Samsun
Erzurum
Georgia
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Google
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Dr. BRZEZINSKI. Well, it's true, actually. But, the problem is the asymmetry of consequences in the event of crisis. If there's a crisis and a cutoff, the recipients of the energy suffer immediately, the beneficiaries of reciprocal FDI suffer much later, which gives the aggressive party 6 months to a year during which to really insist on accommodation to its demands. And that's the problem.

Senator BILL NELSON. Could Putin's title change from prime minister to tsar?

Dr. BRZEZINSKI. Putin's title has changed from President to National Leader and Prime Minister—the term "National Leader" is quite often used. The National Leader of fascist Italy was the Prime Minister, the head of the state was an impotent king. The head of the state in the Soviet Union under Stalin was a person whose name practically nobody in this room will remember, but the effective leader was a person who didn't have any state position: Stalin.

Senator BILL NELSON. Well said.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Hagel.

Senator HAGEL. Senator Nelson, thank you.

Welcome, Doctor. I wanted to make just a brief overview comment on your testimony, and then ask you a specific question.

I subscribe to your analysis that you have presented; in particular, more direct and complete and wide-lens engagement in this part of the world. If there was ever an area that is clearly in our interest, and, in fact, our interests intersect from upstream to downstream, to use the term you used, the energy term, from Russia through Central Asia and deep into Europe, that intersection of interests for America is very clear. Why we have not, evidently, understood that, or why we have not framed a reference point and implemented policy to address that, I don't know. But, as you note, we will have a new opportunity, come January, with a new President, new administration, new Congress. And I would, like you, Doctor, hope that this will be very high on the agenda, because it does interconnect all of our interests in a very vivid way. And I don't know of a more vivid way than energy for the world.

You just noted again, in your response to Senator Nelson, the possibility of Iran playing some potential role here. That obviously would require a different frame of reference than our current policy toward Iran. And I happen to also agree with your thinking, that we've got to think beyond today and frame the world in what's possible, and then do that in a strategic context, not compartmentalize, like I think we have been in every country in the Middle East and on. But, we are where we are. We have another opportunity coming up.

Would you define the Iran comments a little more specifically as to what you see that could possibly happen, potentially, as you had noted in your testimony, as well as your response to Senator Nelson?

Thank you.

Dr. BRZEZINSKI. I happen to believe that the present character of the Iranian regime is quite transitional, that the large majority of younger Iranians—they are now the most significant part of the

Iranian society—is not sympathetic to their fundamentalist fanaticism, that they want to be, in varying degrees, increasing the part of what might be called the Western way of life. This is a very sophisticated country, which, in many respects, is a potentially stabilizing force in the Middle East, as it was in the past. It is a country which, at one time, had a very good relationship with Israel, a strategic relationship with Israel, based on the principle that, "The neighbor of my neighbor is my friend." And I think that is a natural geopolitical relationship between Iran and Israel. And hence, the longer range prospects, if we're intelligent about it, and if we don't plunge into some sort of a conflict with Iran which then is likely to absorb us for many more years in the current problem in Iraq, I think the prospect of real geopolitical change in Iran's orientation is pretty good in the long run. But, we have to be intelligent and patient about it.

And if that happens, then all of the energy resources of Iran could be part of the answer to what we're discussing. Part of the answer. Not the entire answer, but part of the answer, because Iran has enormous gas reserves, probably the second largest in the world. It has underutilized oil supply. They have a very retarded energy sector. If they became part of the international community, so to speak, of the world economy, we would be the beneficiaries, in terms of price; the Europeans will be the beneficiaries also, in terms of diversification.

So, there is this additional element in the background of the current crisis which obviously cannot determine our strategy and tactics towards the challenge, the ongoing crisis, but which should not be ignored as a later aspect, a beneficial aspect, of a constructive resolution of the problem.

Senator HAGEL. Thank you.

The CHAIRMAN. Time is up.

And you've been gracious with your time. You can choose not to answer this question, but there's an awful lot of talk in this town—we don't know whether it's true—that there may be a very short-term view about Iran between now and the election, and that there may be some provocation, either emanating from us or from Israel. What would be the consequences, in terms of the issue we're talking about here, if, in fact, there were a direct confrontation, physical confrontation, a military confrontation, in some way, with Iran now?

Dr. BRZEZINSKI. I think the consequences, in the short run, would be extraordinarily destabilizing, insofar as a calm and rational electoral process in this country is concerned. And I think it would create public anxiety and anger, both of which will be very susceptible to demagogy. And it would make a rational national choice more difficult.

In the longer run, by becoming involved in some sort of a collision precipitated by the hypothetical events that you have mentioned, the United States would become bogged down in an ongoing conflict, which would then span Iraq, Iran, Afghanistan, probably Pakistan, and we would be bogged down for many, many years to come, unable to exercise a constructive global role, with some countries that we have a complicated relationship with clearly benefiting from that, in terms of their influence. Certainly, in terms of

the issue we have been discussing, it would obviously be adverse to our interests, of the interests of the West. And I think we would enter a much more chaotic phase in world affairs.

So, I certainly hope that, in the foreseeable future, common sense and rationality will dominate our approach, and that no one seeks to exploit what is a very vulnerable situation for very short-term national benefits.

The CHAIRMAN. Doctor, we should have you here more often. I appreciate you taking the time.

We have two distinguished panelists to follow. We're going to recess to go vote. We'll be back. At which time, I'm going to make an opening statement, and Senator Lugar will make an opening statement. We've already opened, but we'll both make a statement, and then we'll invite our panelists to make comments, and then we'll ask questions.

Again, Dr. Brzezinski, it's always a pleasure to have you here. I always learn something when you are here.

And we are now recessed to vote. We'll be back in about 10 minutes.

Dr. BRZEZINSKI. Thank you, Mr. Chairman.

[Recess.]

The CHAIRMAN. We'll come to order.

I thank the witnesses for their indulgence. Probably all of you know, but I know for sure Leon knows the way this place works; we're like Pavlov's dog, the bell goes off and we have to respond.

We have a very distinguished panel: Dr. Leon Fuerth, research professor at The Elliot School of International Affairs, George Washington University; and Ms. Baran, who's the director of the Center for Eurasian Policy, the Hudson Institute, in Washington, DC; and Mr. Kupchinsky—am I pronouncing it correctly? Mr. Roman Kupchinsky—I said it right the first time—is a partner in—is it pronounced the AZ——

Mr. KUPCHINSKY. AZEast.

The CHAIRMAN.—AZEast Group, from New Jersey.

And we welcome all of you here. And I think what I'll do, since the chairman got grabbed, as he was getting in the elevator, by a group of press people—why don't we do our statements? I apologize to you all having to listen to this, but I'm going to ask unanimous consent—and since I'm the only one—no, I'm not the only one here, I see Ben Cardin is here—I might be able to get it—to ask that the opening statement I'm about to make be placed at the appropriate place in the record.

Senator CARDIN. I was going to object, Mr. Chairman, as I really wanted to hear it, but I won't object. [Laughter.]

The CHAIRMAN. Well, I'm going to be very brief and put my statement in the record, but I'd like to hear, if he's back in time, Senator Lugar's statement.

The biggest worry for American families today is the state of the economy, and the biggest worry of our economy is the explosive rise in the price of oil. And, as we all know, it's hitting family budgets every time they fill up their tanks. And, as we heard in a previous hearing in this committee, our dependence on oil has weakened our economy, driven up our defense expenditures, and put our foreign policy in a straightjacket, and that's why, following the leadership

of Senator Lugar, this committee has made an issue of energy security and its role in our foreign policy in the focus of many of our hearings in recent years, and will continue to be the focus of additional hearings.

We already heard from Dr. Brzezinski on the game being played out in the Caspian Sea region, and, as he pointed out, the stakes are very high, they involve hundreds of billions of dollars in oil and infrastructure, and the resurgence of Russia and the emergence of the issue of energy security in Europe. And it has played out in the region, rife with its own historical instabilities, shifting alliances of shaky regimes. And this region is one of immense importance to our security and the security of our allies. The mostly Muslim nations that are uncertain whether to look East or West are the field on which these issues are being played out. Its energy resources could offer significant additional supplies to the global market that is basically maxed out now. But, there is also opportunities there for us to pursue, opportunities for diplomatic and security successes, that could contribute to a more stable region and a more stable global energy future.

These opportunities are out there, but only if we seize them and only if we give this region and these challenges the attention, resources, and diplomatic skills they need, and, as Dr. Brzezinski says, attention at the highest levels of our Government.

So, the—I would ask unanimous consent the remainder of my statement be placed in the record. But, let me end by saying that I cannot think of anything that is of a greater consequence to our foreign policy right now; and the key, to me at least, is figuring out how—and I'm going to ask the witnesses this—how we can form a common response by the West to the power of the energy exporters.

So I hope we'll explore those issues. And, unless Senator Lugar is in the wings here, I don't want to hold the panel up any longer, I would—is he out there? OK.

[The prepared statement of Senator Biden follows:]

PREPARED STATEMENT OF SENATOR JOSEPH R. BIDEN, JR.

The biggest worry for American families today is the state of our economy. And the biggest worry for our economy is the explosive rise in the price of oil. It is hitting family budgets every time they fill their tanks—it threatens a new wave of inflation as the price of everything from food to textiles to chemicals is pulled up by skyrocketing oil prices. As we have heard in previous hearings before this committee, our dependence on oil has weakened our economy, driven up our defense expenditures, and put our foreign policy in a straitjacket.

That is why, following the leadership of Senator Lugar, this committee has made the issue of energy security and its role in our foreign policy the focus of many hearings in recent years. We will continue that focus with additional hearings.

Today we will hear from a panel of distinguished witnesses, beginning with Dr. Zbigniew Brzezinski, on the Great Came being played out in the Caspian Sea region. The stakes are high. They involve hundreds of billions of dollars in oil and infrastructure, the resurgence of Russia, and the energy security of Europe.

It is played out in a region rife with its own historical instabilities, shifting alliances, and shaky regimes. And this region is one of immense importance to our security and the security of our allies. It is mostly Muslim nations that are uncertain whether to look West or East. Its hydrocarbons fuel Europe and could offer additional supply for a global market that is maxed out.

But there are also opportunities there for us to pursue, opportunities for diplomatic and security success that could contribute to a more stable region and a more stable global energy future. These opportunities are there, but only if we seize them,

only if we give this region and these challenges the attention, resources, and diplomatic skill they need—at the highest level.

As complicated as the flows of oil and gas into, through, and out of this region look on a map, the basic elements we will examine today are clear.

Russia controls the old, Soviet-era infrastructure for moving oil and gas in the region. That infrastructure reinforces Russian influence because on top of its own oil and gas, Russia is the major buyer of its neighbors' hydrocarbon resources and a major seller of those same resources, through its pipelines to Europe. that arrangement suits Russia just fine. As we discussed in our hearing yesterday on Sovereign Wealth Funds, Russia has amassed a "Stabilization Fund" of over $127 billion. They have used some of that wealth to buy into the parent company of Airbus, and have threatened to expand those holdings substantially. That company is a major European defense supplier.

No wonder the President and Prime Minister of Russia spend more time running Gazprom than they do running the country. It is not just the sheer volume of oil and money that is enhancing Russia's power; they have shown that they are willing to use their dominance of both ends of most existing pipelines to extract not just economic deals, but, increasingly, political influence.

Russians love chess. Our strategic response on the chess board of Central Asia must be to establish a presence on parts of the board they do not yet control. That means laying down new pipelines that add alternatives—that introduce real competition—to the monopoly Russia has enjoyed. Giving more choices to both suppliers and customers should help wring waste and inefficiency out of the system—bringing a situation where supply and demand, not threats and bribes, set prices.

Those pipelines need not just billions of dollars of investment, but also the rule of law, property rights, and predictability that investor demand. Those pipelines require building alliances among the nations they traverse, the suppliers needed to fill the pipelines, and the consumers at the other end.

And we need diplomacy to forge a common strategy among energy consuming countries in Europe, a shared effort that can confront Russian dominance. That puts diplomacy at the center of our approach to this region. a key question for this hearing must be: Are we deploying the diplomatic resources, the attention, this issue demands?

Senator Lugar and I are particularly interested to know if our government has the right people, in the right positions, to achieve our goals. Do we have the right pieces in play to confront the Russian position?

One way to form a common response to the power of energy exporters is a global deal to reduce the threat of climate change by cutting emissions from fossil fuels. That will mean global-scale commitment to alternatives and to rules that give investors a predictable future, a smart deal that protects economic growth. The longer we delay that deal, the longer we delay our own domestic energy and climate plan, the weaker our hand in dealing with Russia, or with OPEC. Our addiction empowers them.

I have worked with Senator Lugar on a Resolution calling for renewed U.S. leadership in international climate negotiations. Progress on those talks will be part of a move away from our dependence on oil, the root of so many of our foreign policy issues.

Senator Lugar is a genuine expert on this region. He has been there more than half a dozen times, most recently in January of this year. He's the most senior U.S. official to visit Turkmenistan since their new President took office.

I can't think of anything that is more important to our energy policy than the issues we will discuss at this hearing. Of particular interest to me, is why we seem to have an inability to form a powerful common response and how we can form that common response.

I want to welcome Dr. Brzeznski back to this committee, and I look forward to hearing from our panel of distinguished experts on this topic.

The CHAIRMAN. Why don't we begin, Dr. Fuerth, with you. And the floor is yours.

STATEMENT OF LEON FUERTH, RESEARCH PROFESSOR, THE ELLIOT SCHOOL OF INTERNATIONAL AFFAIRS, THE GEORGE WASHINGTON UNIVERSITY, WASHINGTON, DC

Mr. FUERTH. Thanks, Senator Biden.

I have to begin my comments with a request to the committee, and that is that you expunge the title "Dr."—"Professor" will do.

My grandmother would have been so proud if the Ph.D. were there also, but plain "Mr." will do very well. Thank you.

The CHAIRMAN. Well, "Mister"——

Mr. FUERTH. Excellent.

The CHAIRMAN. The chairman just walked in.

Would you like to make your opening statement?

Senator LUGAR. Well, Mr. Chairman, I'll just ask that my statement be made a part of the record——

The CHAIRMAN. All right.

Senator LUGAR [continuing]. Because I'd like to proceed, as you would, with the testimony of our witnesses.

The prepared statement of Senator Lugar follows:]

PREPARED STATEMENT OF HON. RICHARD G. LUGAR

Increasingly, access to energy is at the heart of security concerns for nations around the world, including the United States. The Foreign Relations Committee has undertaken a series of hearings on energy security since 2005. Among other conclusions, these hearings have pointed to an urgent need for developing alternative energy sources, expanding the attention given to energy issues in our diplomacy, and improving alliance cohesion on energy matters.

In 2006, at the NATO summit in Riga, Latvia, I asserted that the Western Alliance must 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. I argued that 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 timely availability of diverse energy resources. I noted that 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 military attack. Moreover, in such circumstances, nations would become desperate, increasing the chances of armed conflict and terrorism.

Unfortunately, since Riga, the trend has moved away from European unity on energy supplies. Recently, Russia has concluded energy supply agreements with Greece, Bulgaria, Hungary, and Serbia. The Kremlin has an agreement with Germany to construct the Nord Stream pipeline and with Italy's ENI to construct the South Stream pipeline. The current go-it-alone approach by many European nations will result in increased European dependence on Gazprom, greater vulnerability to supply disruptions, and less alliance cohesion on critical foreign policy issues.

Meanwhile, the oil and gas rich nations of Central Asia are relying almost exclusively on Russia to transport their energy exports. Undoubtedly, these countries have an interest in maintaining productive trade relations with their large northern neighbor. But Central Asian nations need only look across the Caspian Sea to Azerbaijan to gain a sense of the potential benefits of maintaining a second option for oil and gas exports.

Gazprom's monopoly-seeking activities cannot be explained by economic motives alone. It is difficult to distinguish where the Russian Government ends and where Gazprom begins. Clearly Gazprom has sacrificed profits and needed domestic infrastructure investments to achieve Russian foreign policy goals. The Kremlin and Gazprom have shut off energy supplies to six different countries during the last several years.

The trans-Atlantic community must do more to establish a credible energy security strategy that diversifies energy sources for all of Europe, establishes a collective framework to work with Russia, and refuses to tolerate the use of energy as an instrument of coercion. A first priority should be completing the so-called East-West energy corridor to bring oil and natural gas across the Caspian from Central Asia to distribution points in Central Europe. This will help diversify gas supplies to Europe, thus increasing its collective bargaining position. Success requires leadership in three key areas.

First, the United States Government must bolster its diplomatic engagement with Central Asian nations. When I visited leaders in Kazakhstan and Turkmenistan earlier this year, they told me that they want more dialogue with the West. The willingness of these governments to discuss trans-Caspian alternatives will not be converted into investments on the ground without high-level engagement. Former President Putin's personal diplomacy has been critical to Russia's success. It is time

for a U.S. President to visit Central Asia. Likewise, I encourage President Bush to invite the President of Turkmenistan for his first visit to Washington.

Second, we cannot take for granted the progress made in Azerbaijan and Georgia. To ensure maximum benefit from the Baku-Tbilisi-Ceyhan and South Caucasus pipelines, the trans-Atlantic community must continue to support the democratic transformations in the Caucasus. An unfortunate result of the recent failure to grant Georgia a NATO Membership Action Plan is the appearance that Russian intimidation can affect the alliance's approach to Caspian security.

Third, numerous NATO and EU Member States have pursued agreement on the critical Nabucco natural gas pipeline—intended to be the final link connecting Caspian energy resources with European consumers—but it is being challenged by the Russian-backed South Stream pipeline proposal that would cross the Black Sea. Reluctant European governments must be convinced that their long-term security interests are served by the Nabucco pipeline.

Chairman Biden and I have urged the administration to appoint a special energy envoy to help address these issues. Ambassador C. Boyden Gray's appointment lends significant weight to this initiative by virtue of his close relationship with President Bush. United States backing for the BTC and SCP pipelines has been a strategic initiative embraced by multiple administrations and undergirded by bipartisan support. The Bush administration must make substantial progress on these projects during its last 7 months, and the next administration must hit the ground running on this issue.

I thank the chairman for this hearing and join him in welcoming our distinguished witnesses.

The CHAIRMAN. Well, Leon, as far as I'm concerned, you're still a "Dr." We'll call you "Professor."

Professor——

Mr. FUERTH. "Professor" will do.

The CHAIRMAN [continuing]. The floor is yours.

Mr. FUERTH. Thank you.

I'm going to try to keep this as close to 7 minutes as I possibly can, but I——

The CHAIRMAN. We've kept you waiting. Don't worry about keeping us.

Mr. FUERTH. It's just that 8 years of being a professor at GW has corrupted me; I'm used to a captive audience for 2 hours at a stretch.

You've asked me to provide background on how the Clinton-Gore administration recognized the significance of Caspian energy and how it organized itself to deal with the subject. But, I also understand that your interest in this subject is not simply historical, but is forward-looking. That is, you are searching that experience to see whether there is something in it that can apply to things that are still ahead of us as a country.

The CHAIRMAN. That's correct.

Mr. FUERTH. Well, my narrative on this subject actually has to begin 2 years before the Clinton-Gore administration took office, in the midst of the collapse of the Soviet Empire, because that collapse destroyed Russia's control of the Caspian region and created circumstances where new rules of the game could be written, and, in fact, had to be written, since none existed after the collapse of that order of business there.

So, when the Clinton-Gore administration took office, we were doing so in the midst of the wreckage of an old world order; in fact, it felt as if pieces of that world order were still falling around our heads. And we felt that our predecessors in the Bush administration had handled this collapse with considerable skill, but it was up to us to figure out what next, on a field where most of the old

ideas and rules of thumb had disappeared. It was a particularly critical time. We felt that the Russian Federation was at the edge of a free-fall and that, for various reasons, you could not exclude the possibility of a complete societal collapse in a country which still controlled the world's biggest nuclear arsenal.

So, at the very most senior levels of the Clinton-Gore administration, we had to confront this, where we also felt that there was a huge opportunity in the midst of these difficulties, because the Russian Government was in the hands of reformers who seriously wished to create a society based on the rule of law and on market economies. They may have had other motivations, but we dealt with them often enough and under conditions of duress, such that we concluded that that really was their dream.

We understand that—well, we understood that there was only a limited amount that we could do to help this, but we also felt that this was a millennial opportunity to reconstruct the world political system on a foundation that included a more positive United States-Russian relationship.

So, that is why the United States accepted President Yeltsin's proposal, which he made in April 1993 in the Vancouver summit, that both sides should establish a very senior group to help convert broad declarations of intent into actual change on the ground. Now, this was the point of origin of the United States-Russia Binational Commission, otherwise known as Gore-Chernomyrdin, after the two individuals who were responsible for it.

That Commission began its operations in September 1993, and its first mutually agreed goals included cooperation in spaceflight and energy. There were no precedents for the level of collaboration that we both had in mind in this field. They were going to intrude almost equally—in equal measure upon areas of policy that both we and the Russians would previously never have opened up to each other to that extent.

The Russians accepted our interest in their energy production, because they were in a bad way. Their energy fields were no longer producing, and, in fact, were producing, but were—at a declining rate. And that was because they had failed to invest properly in modernization and in good management. They needed foreign investment, they needed foreign technology, if there was going to be any hope of avoiding a situation where Russia was going to turn into a net importer of energy from the rest of the world. In fact, the only thing that prevented that from happening was the general condition of the Russian economy, which was so bad that their requirements for energy were, at least for that period of time, greatly reduced. If they were operating at a normal level, they would have to have been importing already.

Over time, this commission expanded to include committees that covered almost the whole spectrum of societal life on the Russian side. When these commissions met in a given room, you had almost two-thirds of the U.S. Cabinet and about the same number of the Russian ministers present. And the success of this operation depended—if you're looking for clues to the future, it depended upon going way out of our way on both sides to build this on the basis of parity of respect and to look for ways to handle inevitable strong

differences in such a way that both sides would come out feeling that their core interests had been protected in the final bargain.

Well, the second expansion of NATO, in July 1997, is a prime example of that kind of challenge, and Caspian energy was another. Both of these cases involved strong objective and psychological challenges to core Russian conceptions of territoriality and security. The expansion of NATO meant that the loss of Eastern Europe was permanent. The presence of the United States asserting that it had commercial interests and that its enterprises had commercial rights in the Caspian underscored for the Russians the fact that they had lost an empire that had been assembled, not in the Soviet time, but under the tsars, and it was not an easy thing for them to absorb psychologically, not to mention commercially and politically.

Now, the Caspian chapter actually began in the winter of 1995, when a colleague of mine from the National Security Council came to see me and said that she felt that the U.S. Government was not yet alert enough to the energy potential of the region, and that there was not yet a sufficiently good policy in place for dealing with it, and that in the absence of such a policy, there was a growing risk that Russia and Iran would make themselves the gatekeepers to the resources of the Caspian region, which was still in the process of being documented, but what we knew of them suggested that they were really quite vast. And if that were to happen, Russia and Iran would acquire tremendous geostrategic leverage, including the ability to strangle Turkey's economic growth. So, I had the latitude, in the way things were run those days, to check into assertions like this, and, for that purpose, I was able to draw upon the expertise of every relevant part of the U.S. Government, including the intelligence agencies.

It's interesting to remember—for me to remember—that, at that point, you couldn't find people who had this specialty in the U.S. system. In the intelligence community, for example, it was necessary to kluge together groups of analysts who, among them, covered the necessary range. After months of waiting, the first report I got back from them on, let's say, the way in which oil and gas might leave the region, began from the Russian border, but excluded China, and it was necessary to send the intelligence people back with a reminder that the world energy system was a unity, and that for us to understand it at the policy level, they would have to go back and present us with something closer to an actual working model of what it would be.

Now, in the course of these discussions, with working people from all over the executive branch, the elements of a policy took shape. And I can repeat them to you here.

The United States would favor multiple pipelines to carry oil and gas out of the Caspian into world markets. We would welcome a Russian role in this system, providing it was organized along commercial patterns rather than the old state-driven patterns. We would oppose Iranian involvement in this process until and unless Iran took steps to meet us on certain issues, especially the nuclear issue. In support of these policies, the United States Government would follow the commercial logic of private-sector enterprises and

be prepared to apply U.S. diplomatic influence in the region to help consolidate support of governments that control the rights-of-way.

In doing this, we had to be careful not to be drawn in to the particular and specific plans of any part of the U.S. private sector, but in order to understand how they viewed the decisions in front of them, it was necessary to talk.

The United States Government would, therefore, try to bring to bear the resources of the Export-Import Bank, OPIC, and the Trade Development Agency. But, again, we would have to do this in ways that respected the fact that these are independent agencies and are obliged under the law to make their own decisions, after due diligence, on any kind of lending to any kind of private venture.

The stated basic objectives of this proposed policy were: Prevent Russia and Iran from successfully imposing a dual-key lock on exploration and transport of oil and gas reserves from the Caspian; buttress the independence of the newly emerged states in the Caucus-Caspian region; protect the economic and political stability of Turkey; contribute to the long-term stability of the global energy system; and a coequal priority was to find a way to do this without fracturing the larger United States-Russian relationship that we were in the process of trying to build.

It remained as a next step to convert this sketch of a policy into an official statement of American policy. And a way to do that was to take it through the formal decisionmaking process, which meant a meeting of the Deputies Committee to present it, followed by a meeting of the Principals Committee to present it, followed by a decision taken at that meeting, backed by the President, that this is the road we were going to follow, followed by announcements to concerned governments that the United States had a policy and it was thus and so.

Now, the first accomplishment of this policy and the diplomacy that was related to it was to bring about an agreement in September 1995 on the construction of a relatively low-capacity pipeline to move oil from Baku to the Port of Supsa, in Georgia, and from there the oil would be loaded onto barges and then ultimately shipped to markets by way of the Bosporus.

This agreement created all the basic precedents that were needed to reach agreement later on a full-scale pipeline for oil to run from Baku to the Turkish port of Ceyhan. And this was announced at a regionwide meeting in Istanbul in June 1998.

The management of this policy had to be unusual, because the policy itself was unusual. And I want to stress, when you think about the future, that the design of a policy has to have an echo in the design of the system that you create to manage it, which is often not the case.

Caspian policy could not properly be managed from any one part of the executive branch or in any single directorate of the National Security Council or in the National Economic Council. Every time we tried to figure out a conventional placement of this policy, we found that some critical element of it would likely be distorted by where we were going to put it. So, instead, we decided to convert the improvised mechanism that we were using into a sanctioned ad hoc arrangement. And what we had was essentially a very large

rump group of people, sent by every interested executive-branch agency, meeting in the Old Executive Office Building about once a month or as often as needed, chaired jointly by myself and by a national security director chair, where the diplomacy was in the hands of two successive ambassadorial-rank individuals from the State Department, and where the lead agency would be the Department of Energy. It was improvised, but it was effective. It gave us good situational knowledge of what was happening. We understood, in a timely way, where the blockages were, and we could move our assets to try to deal with them.

One of those assets was Vice President Gore, who was chairing binational commissions with Kazakhstan, as well as with Russia, and who already had gotten to know the heads of government of every state in the region. And so, when the system jammed and could not go forward, the last recourse would to—would be for the system to come and ask the Vice President to use those contacts to try to line up the various parts of the chain so that they would come into agreement with each other and make the pipeline possible.

It had many ways to fail as a policy. There could be no guarantee that concerned governments would agree to cooperate. They didn't have the tradition of cooperation with each other. The idea of compromise was somewhat alien to a winner-take-all approach to bargaining on their part.

It wasn't sure that U.S. energy companies were going to wind up picking any routes at all, because they had their reasons for doubts, or that if they picked routes, it wasn't sure that these would actually correspond to what we thought were strategically valuable approaches. And it wasn't sure that the lending agencies run out of the U.S. Government would think that these were good investments either. And in no case were we in a position to simply impose our will. It was a question of herding cats, but we succeeded, partly because, I think, the underlying idea was correct and had elements that were attractive to each one of the players.

And so, we—the result of our success is the existence of the Baku-Tblisi-Ceyhan Oil Pipeline, and the fact that this was able to come into existence without a confrontation between ourselves and the Russian Federation. And it took some—and it took some doing to make sure that that didn't happen.

Now, what does this offer, in terms of considerations for the future? As I mentioned before, there is to every policy an organizational component, and often we ignore the organizational component and treat it after—as an afterthought, but it—how we pick the organization may determine greatly whether we will succeed in our diplomacy as we move forward on a policy.

The Clinton-Gore administration was open to new thinking across bureaucratic limits. It was open to bureaucratic improvisation in ways that strengthened the underlying interagency machinery. It was inclusive and transparent to its participants. And I speak as one who operated at the top of the system, and who would have immediately recognized any other mode of operation, as a detriment to my own responsibilities to the Vice President.

Decisions were developed by open processes, and, once established, policy pretty reliably guided practice. And where practice

revealed deficiencies in policy, there were easy ways, at least expeditious ways, to develop modifications of the policy to support the change we needed.

We used the intelligence system continuously and purposely. Intelligence personnel did not become advocates for policy, but they were invited guests at every discussion of where the United States policymakers were trying to go, and so, they understood from the beginning what it was that we most needed to know from them in order to help us figure out what to do and how to do it.

We did our best to make sure that the process was buffered against political end runs from interests outside. We were ready to solicit information and insight from private corporations, but we did not give them any reason to think that we would fine-tune our approach to match their particular vision of their commercial interests.

We developed—and this is very important, I think—comprehensive, all-points relationships with the other governments concerned so that energy was not the only thing we were coming to talk to them about, and not the only reason they had to listen to us.

We developed and used high-level contacts for the most stubborn and urgent of our bilateral issues, but these contacts were used sparingly, only when no other approach would work.

Most importantly—and this is practically a separate subject—we were consciously redefining the scope of national security in order to include major economic issues, and we redesigned the policymaking machinery to better express priorities and tradeoffs between traditional and new conceptualizations of national security. I think one of the reasons why my NSC colleague had to come to see me to say that we didn't have a policy was that, at the very beginning, the idea of Caspian energy did not appeal to her other colleagues as a national security matter, simply because it was out of the ordinary. These are transitions in thinking that have to be made carefully, and they have to be made energetically and in time.

Today, I think we face new questions about the proper scope of national security, and I think those are going to be just as important to help the country find its opportunities in the future.

I heard the latter part of Dr. Brzezinski's presentation, and I share his view that the United States is not faring particularly well, in terms of efforts to build energy networks that are outside of Gazprom's control. I think they are moving faster and maneuvering better than we are because they have support from the very most senior levels of government and the continuous attention of the very most senior elements of government.

And I have the impression, although I am now out of this business—but, I have the impression, from just following it, that the U.S. Government has lost its focus on this subject—I mean, because other matters consume its attention, and that's understandable. But, political freedom is still what we're all about, and, since Colonial times, our leaders have understood that political independence does not coexist with economic servitude. So, it's getting to be time to pick up our socks and pay attention to an important part of our economic destiny, which is located in such subjects as access to the energy of the Caspian.

[The prepared statement of Mr. Fuerth follows:]

PREPARED STATEMENT OF LEON FUERTH, RESEARCH PROFESSOR, THE ELLIOT SCHOOL OF INTERNATIONAL AFFAIRS, THE GEORGE WASHINGTON UNIVERSITY, WASHINGTON, DC

The committee has asked me to provide background on how the Clinton-Gore administration recognized the significance of Caspian energy, and how it then organized itself to deal with this subject. As I understand it, however, the committee's interest is prospective rather than historical. It wants to know what elements of this experience may be valid, as the United State turns to face the accelerating and multiple strategic challenges arising from energy. This testimony will therefore be structured as a historical account, interspersed with markers to indicate what may be lessons of continuing importance, and ending with a brief set of recommendations.

Caspian energy policy was formed during the second Clinton-Gore administration, but it cannot be understood outside the context of events and innovations of the first 4 years. Those earlier developments conditioned how we came to recognize the importance of Caspian energy, how we formed a policy to deal with it, and how we organized internally to manage that policy and to conduct a diplomacy constructed upon it.

The narrative actually begins 2 years before the Clinton-Gore administration began its existence, as a consequence of the implosion of the Soviet empire, which destroyed Russia's control of the Caspian region.

The Clinton-Gore administration took office as the wreckage of the old world order was still settling. Our predecessors had handled the collapse of the Soviet Union and the Warsaw Pact with great skill, but it was up to us to deal with the aftermath. The Russian Federation was on the edge of free-fall. Its economy was devastated, and its new political institutions were extremely fragile. There were early signs of hyperinflation. Public suffering was considerable. There was deep moral dislocation. The military was broken. The Communist Party apparatus was the only nationally organized political force in the country, and it was intent on recapturing power. Other political forces representing extreme nationalism hovered at the edges. One could not exclude a complete societal collapse in a state which still possessed the largest nuclear arsenal on the planet.

We—meaning the senior tier of national security officials in the new administration—also believed that there was a huge opportunity in these circumstances. The government of the Russian Federation was in the hands of reformers, whose agenda was to create a society based on the rule of law and driven by market economics. We recognized that the United States was the only government able to marshal a positive international response, on a scale anywhere near what would be needed. We understood that our chances of success were not particularly high, but we also believed that what was at stake was a millennial chance to create a post-cold-war world organized around a collaborative United States-Russian relationship.

President Boris Yeltsin had serious personal and political weaknesses, and we recognized them. But we also saw in him and in his government a serious interest in moving beyond the Soviet experience, domestically and internationally. After a period of deliberation at the outset of the new administration, the decision was made for the United States to present itself to the Russians as a potential partner in what we hoped would be the birth of a new society. That kind of effort demanded not just moral but organizational and material support. It carried substantial political risks. But the risks of inaction were assessed as much greater.

That is why the United States accepted President Yeltsin's suggestion, made at the April 1993 summit in Vancouver, that we needed a new form of bilateral organization to operate at the highest political levels. This was the point of origin of the United States-Russia Bi-national Commission, aka the Gore-Chernomyrdin Commission. It was also the point of origin of the Russia Policy Group under the leadership of (then-Ambassador, and later Deputy Secretary of State, Strobe Talbot. The objective of the Commission was to make sure that high-level agreements would actually be converted into material change on the ground. The objective of the Policy Group was to create a venue for coordination that would embrace every major stakeholder in the executive branch, and supercharge the NSC interagency process. Together, the Commission and the panel were designed to assure constant orchestration and followthrough, working across traditional bureaucratic boundaries in both governments.

The Bi-national Panel began its operations in September 1993. Its first mutually agreed goals were to develop new forms of cooperation in two important areas: Space flight and energy. There were no precedents for the level of collaboration we had in mind. They would intrude almost in equal measure upon areas of policy that

both we and the Russians would previously never have opened up to each other. The Russians accepted joint work in space in the hopes of preventing the dissolution of their space industries. We embraced this work, partly to augment U.S. capabilities, and partly because we feared that Russian technology would otherwise be up for sale to the highest bidder: Notably, Iran. The Russians accepted cooperation in energy because the output of their oil and gas fields was plummeting, and could only be restored with infusions of outside capital and technical skill. We viewed the potential collapse of Russian energy production as a threat to the political stability of the Federation, and a threat to the stability of the global energy market. We also believed that Russian extraction procedures were technologically backward, and were causing avoidable environmental damage locally in the form of massive spills, and globally through the emission of greenhouse gases.

Over time, the Commission expanded to include committees in defense conversion; energy; environment; health; science and technology; along with various task forces on issues ranging from tax law to safe storage of plutonium from Soviet warheads. There was also a side agenda in which the Commission's two principals acted to clear the way for what would become a series of summit meetings at the level of Presidents. The story of how these processes worked is as much a matter of attitude as of substance. Success depended upon going out of the way to build relationships based on parity of respect, and to look for ways to handle inevitable differences in a manner which would support basic American and Russian interests, yet not rupture underlying forms of cooperation.

The expansion of NATO is a prime example of such a challenge. Caspian energy was another. Both cases involved strong objective and psychological challenges to core Russian conceptions of territoriality and security. The expansion of NATO marked the permanent liquidation of the Soviet empire in Eastern Europe; and the assertion of American economic and strategic interests in the development of Caspian energy, drove home to Russian leaders their loss of dominion over a region that had been an integral part of the Soviet Union. Both processes represented objectives that the Clinton-Gore administration regarded as vital to the design of a stable post-Soviet world, yet each also put at risk the kind of United States-Russian relationship that would be central if the design were to become a reality.

The difference is that the future role of NATO in Central and Eastern Europe was recognized as a crucial issue from the beginning of the administration, and was dealt with by well-established processes within the national security apparatus: Whereas the question of Caspian energy was not recognized for several years, and had to be addressed by an improvised system for which there was no precedent. The fact that we were able to succeed owed much to the Gore-Chernomyrdin experiment and to the consultative procedures that had evolved to support it. It also depended upon extensive operational experience within the U.S. Government, for handling policy and organizational issues generated not only by Gore-Chernomyrdin, but by a series of other binational commissions: United States-Egypt (chaired by Gore and President Mubarak), established in September 1994; United States-Kazakstan (chaired by Gore and President Nazerbaev) established in November 1994; United States-South Africa (chaired by Gore and then-Deputy President Mbeki), established in March 1995; and United States-Ukraine (chaired by Gore and President Kuchma), established in September 1996.

The Caspian chapter began in the winter of 1995, when a National Security Council office director named Sheila Heslin came to see me to say that she believed that the U.S. Government was not alert to the energy potential of the region, and that there was no policy for dealing with it. In the absence of such a policy, there was a growing risk that Russia and Iran would succeed in making themselves the gatekeepers to what already was established to be an immense new reserve of oil and gas. Both governments were already developing juridical claims by which they would, in effect, assert dual rights to seabed drilling, and both were moving toward an arrangement whereby oil and gas would exit the region either by way of GAZPROM's pipeline system transiting Russia to Europe, or by way of a north-south pipeline that would run south through Iran, to exit that country by way of coastal terminals. Were this plan to succeed, Russia and Iran would acquire tremendous geostrategic leverage, including the ability to strangle Turkey's economic growth.

I had the latitude to explore these assertions, for which purpose I drew upon the knowledge of an ad hoc interagency group that included all pertinent agencies, including the CIA. It was not unusual for the Office of the Vice President to function in this manner, as the precedents for it were already established because of the binational commissions. The Vice President, moreover, had by this time established personal links to every President in the region, and was in a position to draw upon these connections to help establish a new policy designed for regionwide application.

In this capacity, he provided a political link trusted by the bureaucracy to operate accurately and effectively within the bounds of national policy, as established by the President. His engagement made U.S. operations more continuous than would otherwise have been possible, given that Presidents are intermittently available.

At a certain moment in my exploratory discussions the basic elements of a potential U.S. strategy took form:

- The United States would favor multiple pipelines to carry oil and gas out of the Caspian into world markets.
- United States policy would welcome a Russian role in this system, to be organized along normal commercial patterns.
- The United States would oppose Iranian involvement in this process, until and unless Iran took convincing steps to repair its relationship with the United States—notably, to meet our concerns about their nuclear program and intentions.
- In support of these policies, the United States would follow the commercial logic of private sector enterprises which were then considering various pipeline concepts. We would be prepared to apply U.S. diplomatic influence in the region to help consolidate support of governments controlling rights of way.
- The United States Government would seek to bring to bear the resources of the Export-Import Bank, OPIC, and the Trade Administration Agency (TDA), but would take care to do this through consultation, and not by means that would abridge their legal independence.
- The stated basic objectives of the policy were to: Prevent Russia and Iran from successfully imposing a dual-key lock on exploration and transport of oil and gas reserves from the Caspian; buttress the independence of the newly emerged states in the Caucasus/Caspian region; protect the economic/political stability of Turkey; and to contribute to the long-term stability of the global energy system. A coequal priority would be to find ways to do this without fracturing the larger United States-Russian relationship, by making it clear that the objective was not to exclude Russian commercial activities.

It remained to convert this general framework into official policy, and to construct a more formal process for managing its many elements in government. Conversion to formal policy was a relatively straightforward process, involving a blending of well-established informal and formal systems. There already existed multiple informal levels of communication among Cabinet-level officers and deputies. These informal systems did not make policy, but simply provided a way to identify new issues and to initiate early thinking. The next step was to schedule a discussion of Caspian energy policy at a meeting of the Deputies Committee; and having done that to move it—with the imprimatur of the deputies—to the first available Principles Committee meeting.

The Principles Committee rapidly endorsed the need for a policy and supported the proposal I have outlined above. By coincidence, then—Secretary of Energy Peña was scheduled to have a series of routine meetings with leaders in the region. We decided to capitalize on this by making it the occasion to unveil U.S. policy and to seek the endorsement of these leaders for it. Their reactions were very supportive. The Vice President opened a dialog with the Russian Government in the margins of a Gore-Chernomyrdin meeting. Chernomyrdin's response was polite and not confrontational, but showed us that Russian leaders continued to feel a proprietary interest in Caspian energy, despite their loss of control over the region.

The first accomplishment of this policy and its related diplomacy was to bring about agreement, in September 1995, on construction of a relatively low-capacity pipeline for the transport of oil from Baku to the port of Supsa, in Georgia. From there, the oil would be loaded onto barges and ultimately shipped to markets via the Bosporus. Although small in scale, this agreement created all the basic precedents needed to reach agreement on a full-scale pipeline for oil, to run from Baku to the Turkish port of Ceyhan (announced at a regionwide meeting in Istanbul, in June 1998).

The Caspian policy could not properly be managed from—within any one executive branch agency, or in any single directorate of the National Security Council, or in the National Economic Council. Conventional placement of the policy always seemed to be at serious cost to one or more of its objectives. Instead, we decided to convert the improvised mechanism used during the policy's formation, into a hybrid management system to coordinate its execution.

The plenary group of this body was large enough to permit all interested agencies to engage. It met more or less monthly, but in any event, as needed in the Old Executive Office Building. It was cochaired by myself and by a senior NSC department head. External diplomatic actions were coordinated by the Department of State

through an individual of ambassadorial rank: Initially Dick Morningstar, and then John Wolf.

The senior Cabinet lead was held by the Secretary of Energy: First Frederico Peña, and then Bill Richardson. The Vice President could be engaged at the request of the group, through me. The President could be engaged at the request of the group, through the National Security Adviser. The system fed smoothly into the formal policy system as needed, and it fed into the formal interagency on a constant basis. It generated very good situational awareness. There were no rogue actors.

The Caspian energy policy had many ways to fail. There could be no guarantee that concerned governments would find it in their interests to cooperate, that U.S. energy companies would pick routes for economic reasons that would overlap the strategic interests of the U.S. Government, or that U.S. lending agencies that had legal independence in lending decisions, would be convinced of the soundness of any resulting proposals. But the policy did succeed, and the Baku-Tbilisi-Ceyhan oil pipeline is in operation today as a consequence. We also succeeded in bringing this project to fruition without a confrontation with the Russian Federation.

What lessons, if any, does this history offer for the future? As you know, since leaving government in 2000, I have been a research professor at the George Washington University. My subject has been an effort to find ways for democratic forms of governance, such as ours, to handle the increasing pace of change that characterizes the modern world.

I have come to understand that the United States is having to confront policy challenges that are not merely complicated but complex in the theoretical meaning of that term: They involve the interaction of systems of events within other systems of events; they resist permanent resolution because solutions to old problems mutate into new challenges; they do not display linear or predictable relationships between cause and effect, so that seemingly minor changes of input produce abrupt, and even discontinuous changes of output.

I have also come to believe that the best approach our Government can use in its efforts to manage complex issues will be based on networked forms of organization. Networks handle complexity by dispersing authority to act in a structure where the distance between "the field" and "headquarters" has been shortened by eliminating middle layers of management, and by substituting sophisticated information systems. These systems maintain coherence by using feed-back channels to measure performance against expectations, and to generate corrective responses based on learning.

The Caspian energy issue was a complexity phenomenon, although we certainly did not recognize it as such at the time. The methods that we improvised to run our policy, like the systems that we developed to run the binational commissions, were, in fact, examples of networked organization. In hindsight, I see that my colleagues and I were dealing with complexity, without realizing the full implications of that fact, and we were experimenting with networked organization without understanding the theory. We were able to do both of these things because the administration offered us the latitude to ask unorthodox questions and to put into place equally unorthodox responses.

The administration was open to new thinking across normal bureaucratic limits. It was open to bureaucratic improvisation in ways that strengthened the underlying interagency machinery. It was inclusive and unusually transparent to its participants. Decisions were developed by open processes. Once established, policy reliably guided practice. Where practice suggested deficiencies in existing policy, changes could be made rapidly within the system rather than outside it. The intelligence system was employed continuously and purposefully. Intelligence personnel did not advocate policy, but were present as it was debated and knew what its information requirements were.

We made sure the process was buffered against political end runs, or even the appearance of political influence. We were ready to solicit information and insight from the private sector, but we did not fine-tune our policies to match their commercial interests. We developed comprehensive, all-points relationship with other governments, such that energy could be approached in terms of even broader concerns. We developed and used high-level contacts for the most stubborn or urgent of our bilateral problems, but used these relationships sparingly and only if normal government-to-government contacts were stalemated. Most importantly, we were consciously redefining the scope of national security to include major economic issues, and we redesigned the policymaking machinery to better express priorities and tradeoffs between traditional and new conceptualizations of national security.

I believe that these are attitudes and concepts lessons that will be helpful as we deal with energy issues of exponentially increasing difficulty. Over the last 8 years, the United States has fared less well in terms of routes for the transport of gas out

of the Caspian. Early on, it became apparent that Gazprom intended to make a stand on winning this prize, and that to accomplish this, the Russian Federation was prepared to fully mobilize its resources. The United States has not done likewise, and the results are evident.

There is of course, the South Caucasus Pipeline, which connects gas from Azerbaijan's fields in the Caspian to Turkey. But, in general, my impression is that the United States is not doing well in terms of Caspian gas. Under Putin, the Russian state has reestablished dominance over the decisionmaking of its oil and gas enterprises, and has effectively merged with Gazprom. We have already seen efforts to use that power for blunt political objectives in Eastern Europe. The European Union—after ignoring its energy dependency on Russia for a generation, is alert at last, but is not responding very effectively. The so-called Nabucco gas pipeline—to move gas into Europe through Austria, using routes through Bulgaria and Romania, is apparently being overtaken by Russian efforts to block any access except by way of the Russian pipeline system.

As best I can determine, the U.S. Government has lost focus. Other matters consume the attention of our highest officials, and that is understandable. But political freedom is still what we are all about, and since colonial times, American statesmen have understood that political independence cannot coexist with economic servitude. Whoever wins the next election for President, will need to broaden the focus of national security, and proceed accordingly.

The CHAIRMAN. Thank you very much.

Ms. Baran.

STATEMENT OF ZEYNO BARAN, DIRECTOR, CENTER FOR EURASIAN POLICY, HUDSON INSTITUTE, WASHINGTON, DC

Ms. BARAN. Thank you, Mr. Chairman, Senator Lugar.

I would like to also summarize my statement, and I'll try to stick to my 7 minutes.

I share Dr. Brzezinski's geopolitical framework, so I'll skip to my second part, and I will build on Professor Fuerth's description of how policy evolved.

There's already a great basis that policy can be built on—in fact, is built on—it just needs to be elevated to a higher level. So, I think what we really need more than anything else is top-level engagement at the Presidential level so that the next phase of the Caspian-Central Asian-European energy corridor can be built.

We've already seen what the Russian increased influence on European foreign policy through its use of energy is leading to divide-and-conquer strategy, and how that was used at the NATO summit when Georgia and Ukraine were not offered MAP.

Of course, the main difference from the 1990s, where there was great success, is that we have a much stronger and united Kremlin currently occupied by a man who used to be the head of Gazprom, the state gas monopoly, and the new Gazprom chairman is the former Prime Minister. Former President Putin has personally visited each of the relevant European and Eurasian countries, and met repeatedly with their top leaderships in order to lure them to join his energy projects.

Clearly, it is not realistic to expect the U.S. President to micromanage these issues, but it is important to make clear our strong and bipartisan commitment to the Caspian-Europe energy corridor. There is already great work done at the deputy assistant secretary level, and now, thanks to Senator Lugar's initiative, once again we have a special envoy for Eurasian energy. But, I think it's also time for reinforcement of all the work that has gone into working with European allies, as well as Azerbaijan, Georgia and Central Asian allies, from the Secretary of State's and the President's level. I

agree with you, Senator Lugar, I think a visit, by the top leadership to the region would be important. But, I would add, in addition to the President and possibly Secretary of State, a Senate delegation, maybe chaired by you two, would go a long way.

Now, what are some of the projects, and what is the vision that needs to be backed? I won't talk too much about oil. I believe that was discussed earlier. Also because gas is much more geopolitically important when we talk about Russia's influence. And here, the Nabucco Pipeline is critically important for Caspian gas reaching European markets without Russian control. This pipeline will start in Turkey and go through Bulgaria, Romania, and Hungary, terminating in Austria at that country's Baumgarten gas storage and distribution hub.

Russian leadership does not want Nabucco to break their monopoly, and it is systematically trying to undermine it. At first, the Kremlin wanted Gazprom to be included as partner in Nabucco so that Russian gas would be transported via this pipeline. Of course, it was rejected, since this move would have annulled the raison d'etre of these projects.

Putin was eager for a second pipeline connection, to be built from Russia to Turkey, called Blue Stream II in order to reach the Turkish gas market first and keep Caspian gas out. Turkey did not want to undermine the Central Asian-European gas corridor and said no. When Russia could not derail Nabucco in Turkey, it simply moved to bypass this country and came up with a competing project, called South Stream Gas Project to send gas to Bulgaria directly and from there to Greece. South Stream targets the same markets and utilizes almost identical routes to Nabucco. In fact, three of the five countries along Nabucco's route are also part of South Stream's intended route. You can see the route on the map that I've distributed.

Sequencing is key. If South Stream is built first, it will pull Turkmen and Azerbaijan gas to its direction and leaving little reason for Nabucco to be built for Caspian gas. From an economic perspective, it is utterly impossible to build a pipeline, over $10 billion—Nabucco—unless investors are confident that the market on the consumer side will be sufficiently large.

The important difference between Nabucco and South Stream is ownership. Nabucco will be privately financed, and therefore, needs to be commercially viable; whereas, South Stream is backed by state-owned Gazprom, which is perfectly willing to finance projects that do not make commercial sense, so long as they support the strategic goals of Moscow. Unlike Western companies, Gazprom is also willing to use pipelines at minimum capacity. It loses money in the short term, but in the long term, thanks to having killed all competition, it will end up with a web of pipelines in its control.

Gazprom may actually be unable to meet its supply contracts, according to the International Energy Agency, as soon as 2010. But, from Gazprom's perspective, this surplus capacity it may have with all of its pipelines will have no negative effect. If all of Gazprom's pipelines are constructed in the proposed timeframe, then Nabucco will most likely not be constructed, and Russia's dominant market position will be enhanced; and so, European consumers will be left competing against each other for scarce Russian resources, driving

up prices and granting Russia ever-greater leverage. Energy prices would escalate and Moscow would be able to extract political concessions from consumer countries in exchange for greater gas supplies.

If South Stream is constructed, Gazprom will actually enjoy this surplus of export capacity, and it could use this capacity to transit other gas. What Moscow might be anticipating is the formation of a cartel-type organization for natural gas, which will be led by Russia, and coordinate supply going to Europe. Reportedly, there is a plan in the works to create an international platform for members of such an organization to determine a common gas pricing formula and to discuss new gas pipeline routes and swap arrangements. They would then be able to divide up markets and gain monopoly control over prices.

Now, a lot of it is about European energy security strategy, but we know that EU is not able to come together. Already in 2007, there is an EU special coordinator appointed for this position, but this person has not yet visited Azerbaijan or Turkmenistan. As of May, this person began serving as the mayor of The Hague and spends only minimum amount of time on this project. The EU cannot be taken seriously in its commitment to Nabucco, at least in obtaining Caspian gas for it, if they leave the coordination of this project to an occasional presence while the whole Kremlin machinery is working to undermine it.

Russia and Russian influence groups argue that there's not enough gas in Azerbaijan, Kazakhstan, or Turkmenistan to make Nabucco viable. This is the same argument used to sow doubt in the investors' and countries' commitments to BTC, the Baku-Tbilisi-Ceyhan pipeline. Then we also heard there was not enough oil in Azerbaijan, the pipeline was not commercial, it was merely an American political project.

Of course, if there was, indeed, no large gas volumes in these countries, President Medvedev would not have chosen Kazakhstan as his first foreign visit and would not be courting his counterparts in Azerbaijan and Turkmenistan, which he plans to visit in early July.

In addition to maintaining its monopoly over Kazakh and Turkmen gas exports, the Kremlin hopes also to begin exporting Azerbaijani gas via its network to Western markets. All three nations are able to provide more than enough gas for Nabucco and several other pipeline projects, provided action is taken now. Each of the three have shown that they want to send large volumes of gas and oil westward, but they are increasingly under Russian pressure. They've managed to resist, so far, but now they need to see political will from the West. And ultimately, if the U.S. would not risk the ire of Russia, how can they be expected to do so?

Now, specifically on the countries, Azerbaijan, as I said, has more than enough to supply the first phase of Nabucco Project, but to do so, the project in the Shan Deniz field needs to be expedited, and that will only happen if the political risk is mitigated, which, again, requires U.S. leadership.

Turkmenistan is believed to possess some of the largest gas fields in the world. As far back as the 1990s, Turkmenistan committed 30 bcm of gas westward. This gas will go first to Turkey and then

to Europe. Current estimates indicate that there is a lot more gas available in Turkmenistan, but unless we move now, Russian and Chinese companies will continue to increase their stakes and send their gas in their direction. Gazprom has already been able to reach some long-term and large-volume contracts. This is the time to pull the Turkmen close.

I think it's also very important to send a clear signal to the Turkmen that, regardless of who the next President is, the U.S. will remain committed to large quantities of gas reaching European markets via the proposed corridor. This means no longer sending confusing messages, such as being content with Turkmen gas going to China.

Azerbaijan and Turkmenistan, as we heard from Dr. Brzezinski, have had frozen relations for many years, but they have now improved their relations, because they understand the importance of the partnership. But, despite the good will, there will be issues that will prove difficult for them to resolve on their own, and we need, again, U.S. involvement.

Then, Kazakhstan, of course, has significant gas that can be exported, but I don't think that country will be able to do so unless there is sufficient progress with the other two.

The United States needs to work closely with Turkey as well, which has been very critical country for the European-Caspian Corridor vision. Ankara has not seen a clear and determined U.S. commitment to Nabucco. This has resulted in unnecessary stalling in reaching the necessary agreements. What is needed at this point is the reestablishment of a consultative mechanism between the diplomats on both sides. The Turkish Foreign Ministry views pipeline projects from a strategic perspective, which is precisely what is needed, and which is why United States-Caspian envoys have been based at the State Department. Such a mechanism needs to be formed and begin working immediately, but that alone will not be sufficient. Turkey needs to remain committed to the southern-corridor vision. Instead, if it thinks of itself as just a transit country for gas reaching Europe, then there is no reason for it to say no to Russian or Iranian gas transiting its territory, especially given that many European countries are proposing this.

It's also important to recognize Turkey's fast-growing energy demand and the difficulty for its leadership to continue to say no to alternative gas from Iran and Russia. As I said, by rejecting Blue Stream II, so far it has only been bypassed and hasn't increased its gas. There is a way for the U.S. to help those in Ankara to share the same vision for Nabucco and the gas race. It is also necessary to hold a trilateral working group with Turkey, United States, and Iraq, to ensure Iraqi gas production and commitment to this pipeline, as well.

Iraqi gas is important to maintain and build increased momentum for Nabucco. Fully recognizing Iraqi gas's importance, Gazprom has also recently intensified its actions to sign a deal of its own.

Finally, it is important to hold a strategic discussion with European allies on the long-term implications on Russian gas politics. But, in the short term, it's important to impress upon key Euro-

pean allies that the Caspian, indeed, is a realistic option, provided that they do not lose focus.

Thank you.

[The prepared statement of Ms. Baran follows:]

PREPARED STATEMENT OF ZEYNO BARAN, SENIOR FELLOW AND DIRECTOR, CENTER FOR EURASIAN POLICY, HUDSON INSTITUTE, WASHINGTON, DC

Mr. Chairman, Senator Lugar, and distinguished members of the committee, thank you for the opportunity to appear before you today. As diversification away from Russian and Russian-controlled energy transportation across Europe and Eurasia is critically important for America's national security interests, I am honored to be able to share my views with you on this critical topic.

Top-level U.S. engagement is essential for the establishment of the Central Asia-Europe Energy Corridor. At risk is the future of the vast space Russia considers as its backyard: The Eurasian, Black Sea, and Baltic Sea regions. European Union solidarity and transatlantic unity are also in danger.

RUSSIAN CHALLENGE TO THE ALLIANCE

The most recent example of Russia's increasing influence on European foreign policy and its "divide and conquer" strategy was NATO members' inability to reach a consensus on offering a Membership Action Plan (MAP) to Georgia and Ukraine. Most from Northern, Eastern, and Central Europe agreed with the American position that the two countries should receive MAP, whereas many West Europeans sided with Germany, which opposed MAP extension largely due to their desire not to anger Russia. In the end, a non-NATO member Russia was able to de facto veto the American proposal—the first time this has happened in NATO's history.[1]

While Georgia and Ukraine have been promised "eventual" NATO membership, an emboldened Moscow has since intensified its efforts to undermine Georgia's territorial integrity by its aggressive actions in separatist Abkhazia. The Russian Government has also begun to challenge Ukraine's integrity by claiming sovereignty over Crimea.

The split within NATO on issues related to Georgia and Ukraine mirrors the rift that has formed on the issue of Europe's energy diversification. The European countries that have long-term energy partnerships with Russia are often reluctant to take foreign policy stances that may irritate Moscow. It is up to the United States to support strongly the diversification of Europe's energy supply away from Russia. America's European allies need to take strategic foreign policy decisions without fear of a potential Russian backlash.[2]

We know that the Russian leadership wants to establish their country as an illiberal "sovereign democracy." Moscow enjoys playing by different rules than the West, particularly the United States. Former President and current Prime Minister Vladimir Putin clearly stated this vision for Russia during his speech in Munich in February 2007. European and American failure to acknowledge the Kremlin's use of energy as its primary tool in achieving this vision has resulted in ineffective policies, which, above all, damage Russia's chances to evolve in a liberal direction.

Since Russia cut off gas supplies to Ukraine on January 1, 2006—the same day it took over the presidency of the Group of Eight (G–8)—there has been increased awareness in Europe of their dependence on Russian gas supplies. There is talk about formulating a united external energy policy within the European Union to diversify supply sources and routes, but the 27 countries have been unable to reach consensus because of conflicting priorities.

The EU has so far failed to come together as a single voice partly because the issue has not been framed correctly. The unity they need is in negotiations with Russia, and specifically its giant gas monopoly Gazprom, which serves as the Kremlin's leading foreign policy arm. There is simply no other country that poses the same political and economic challenge to the EU.

WANTED: U.S. STRATEGIC ENGAGEMENT

European energy security and supply diversification as a concept is important, but this is not an area where direct U.S. involvement is necessary or appropriate. U.S.

[1] Both Senator Barack Obama and Senator John McCain have expressed strong support for extending MAP to Georgia and Ukraine.

[2] Germany already imports 40 percent of its gas from Russia, more than any other West European country; by 2020 this figure is expected to reach over 60 percent

leadership is needed, however, to enable Caspian producers (mainly Azerbaijan, Kazakhstan, and Turkmenistan) non-Russian controlled export options to Western markets. Europe's independent access to Caspian hydrocarbons would prevent further Russian control over their energy infrastructure, and thereby their foreign policy.

There is an excellent precedent: The Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum (BTE) pipeline projects. Even though the governments of Azerbaijan, Georgia, and Turkey backed these projects, it was the United States Government's unequivocal support that allowed these countries to proceed without fear of Russian repercussions. Similarly, American leadership gave companies the confidence to invest in a major project like BTC or BTE that might have faltered in light of strong opposition from Moscow. In fact, even though the consortia for the BTC and BTE pipelines consisted mostly of European companies, European governments relied on U.S. diplomacy to shield their companies from Russia.

Thanks to these two pipeline projects, Azerbaijan and Georgia are now free to develop their future policy without undue foreign pressure. Extending the energy corridor further east to Turkmenistan, Kazakhstan, and Uzbekistan would provide these Central Asian countries with such freedom as well. Surrounded by Russia, China, and Iran, all three have made clear their desire for a direct Western outlet in order to maximize their negotiation power and also to solidify their independence from Russian influence. As long as almost all their revenues come from Russia, they cannot feel completely independent.

Unlike in the 1990s, we have a strong and united Kremlin, currently occupied by a man who used to be the head of Gazprom. In some ways the switch from Gazprom to the Kremlin was not a major change for Medvedev because the policies of Gazprom and the Russian Government have been inexorably intertwined. Gazprom is the state's largest source of revenue and the engine that has driven Russia's economic recovery. The company is primarily state-owned and many of Gazprom's corporate leadership currently hold—or previously held—high-ranking positions in the Russian Government. In addition to the President himself, there is his assistant Konstantin Chuychenko, executive director of RosUkrEnergo and head of Gazprom's legal department; and the new Gazprom chairman, former Prime Minister Viktor Zubkov.

Putin has personally visited each of the relevant European and Eurasian countries, and met repeatedly with their top leaderships in order to allure them to join his energy projects. The most notable of these gas projects is the Nord Stream gas pipeline that will connect Russia and Germany. This politically divisive project is headed by Gerhard Schröder, who extended $1.2 billion credit guarantee to this pipeline just prior to stepping down as German Chancellor.

Clearly, it is not realistic to expect the U.S. President to micromanage these issues. Yet, it is important to make clear our strong and bipartisan commitment to the Caspian-Europe energy corridor. There is already great work done at the deputy assistant secretary level, and now, thanks to Senator Lugar's initiative, there is once again a Special Envoy for Eurasian Energy.[3] Now is the time for reinforcement from the Secretary of State and the President.

BRINGING NON-OPEC CASPIAN OIL TO WESTERN MARKETS

On oil, there is the BTC, as well as the Baku-Supsa pipeline ending in Georgia's Black Sea coast to transport Caspian (mainly Azerbaijani) oil to Western markets via non-Russian controlled routes. Baku-Novorossiysk and CPC pipelines also bring Caspian oil westward, but with Russian involvement. Russia has used its shareholder position in CPC to delay the expansion of this pipeline bringing Kazakh oil to the Black Sea, thereby hindering production.

Moreover, Moscow has conditioned the expansion to the commitment of necessary volumes of oil for its planned Burgas-Alexandroupolis (B–A) oil pipeline. The B–A pipeline will transport oil from the Black Sea via Bulgaria and Greece. In principle, the U.S. should be supportive of such a pipeline, but Russia has 51-percent ownership. This may not be the best route for Kazakhstan or for private companies who may not want to submit to further control by the Russian Government. The U.S.

[3] President Bill Clinton created this position in 1998, and appointed Richard Morningstar as "Special Advisor to the U.S. President and Secretary of State for Caspian Energy and Diplomacy." Following the signing of key agreements for the BTC and BTE pipeline projects, this position gradually was abolished and key responsibilities transferred to the European and Eurasian Bureau at the State Department. Morningstar served as U.S. Ambassador to the EU following his assignment; newly appointed Special Envoy Boyden Gray is currently serving in this position concurrently with his role as U.S. Ambassador to the EU.

should inquire further about the ownership and structure of this pipeline, which would be the first Russian-managed oil pipeline in the EU.

Diversification from Russian control in the Western direction is a key reason for Kazakhstan to commit its oil to BTC. The Kazakh-Azeri connection is critically important to enlarge the East-West energy corridor and to reliably bring significant amount of new, non-OPEC oil to world markets.

Additional Kazakh oil will go westward to Georgian Black Sea ports (Kulevi and Supsa). Some will reach markets via tankers crossing the Turkish Straits and some via straits bypass routes. A portion of that oil, along with Azerbaijani oil, should be sent to European markets via the existing oil pipeline starting in Ukraine's Black Sea port, Odesa, and continuing onward to Brody. Odesa-Brody was actually built for that purpose but failed to secure supply commitments from oil producers. As such, it has been operating in reverse direction ever since, transporting Russian crude from Brody to Odesa. In May, at the Kyiv conference, Azerbaijan, Georgia, Ukraine, Poland, and Lithuania not only reached consensus to switching Odesa-Brody back to its intended direction, but also to support extending the pipeline to the Polish city of Plock. From there, it would connect to the existing Polish network, enabling oil to continue to the Baltic Sea oil terminal of Gdańsk.

The U.S. needs to ensure that Azerbaijan, Kazakhstan, and private oil companies would not once again be subverted as this project would connect Ukraine to the East-West corridor and strengthen its pro-Western orientation. Now that Ukraine has been officially promised NATO membership, it should be firmly anchored in the broad Caspian-Europe energy corridor.

GEOPOLITICS OF GAS: NABUCCO VS. SOUTH STREAM

On gas, the challenge is bigger due to the nature of natural gas as a tradable commodity—there is no global market, and the construction of costly pipelines effectively locks consumers into a prolonged contract with producers. This means that Moscow can more easily manipulate dependence into political and economic leverage. Natural gas is vital to the economies of many European nations—and the fuel's primacy is growing. The prospect of being forced to pay a higher price for that gas, or even having the supply of that gas curtailed, can exert a powerful influence on a country's domestic and foreign policies.

Thanks to U.S. support for Caspian-Europe direct gas connection, BTE has already been built, and its extension to Greece began operation in November 2007. The Turkey-Greece pipeline has enabled gas from Azerbaijan to flow all the way to the EU free from Russian control. Construction will soon begin on an extension of the Turkey-Greece connection to Italy, named the TGI pipeline.

Meanwhile, the Nabucco pipeline has become a litmus test for the ability of the EU and the U.S. to complete a project that is a stated priority. Nabucco (named after Giuseppe Verdi's opera) is intended to have a capacity of 31 billion cubic meters that will enter Europe through Turkey. The pipeline will traverse Bulgaria, Romania, and Hungary, terminating in Austria at that country's Baumgarten gas storage and distribution hub. It was originally introduced by Austria to bring mostly Iranian gas to European markets; now it is backed by the U.S. to transport Caspian and Iraqi gas to European markets. I will briefly discuss Iraqi gas later. Iranian gas for Nabucco is still occasionally discussed, especially by Austria, but until relations with Iran settle down, it is all but pointless to even discuss this option.

After recognizing that Nabucco and TGI would break their monopoly of transporting Caspian gas to Europe, the Russian leadership took several steps to undermine them. At first, the Kremlin wanted Gazprom to be included as a partner to have Russian gas transported via these pipelines. However, it faced opposition since the move would have annulled the raison d'être of these projects. Putin was also eager for a second gas pipeline connection to be built from Russia to Turkey, called Blue Stream II, in order to reach the Turkish market first and keep Caspian gas out.

In other words, there was a race for the Turkish market. Having learned from its experience with Blue Stream I, which I will explain shortly, Turkey did not want to—once again—undermine the Central Asia-Europe gas vision by reaching another major agreement with Russia. Turkey thus made clear its continued commitment to the work with the U.S., EU, and its Central Asian partners.

When it became clear that Nabucco could not be derailed in Turkey, Russia moved to bypass it by piping into Bulgaria directly, and from there Greece. So, in June 2007, Gazprom came up with a massive subsea pipeline project, the South Stream pipeline. Although the details of this venture are yet to be solidified, it is clear that South Stream, with a planned capacity of 30 bcm, will be one of the world's largest

and most expensive pipelines ever built. Estimates of cost vary, but most analysts predict it would cost twice as much as Nabucco.

The signing of the South Stream pipeline project took place in Moscow between Greek Prime Minister Kostas Karamanlis and outgoing Russian President Vladimir Putin on April 29. Former Italian Prime Minister Romano Prodi was offered the chairmanship of the project by Gazprom CEO Alexei Miller and Eni head Paolo Scaroni, mirroring former German chancellor Gerhard Schröder's appointment to direct Gazprom's Nord Stream pipeline. Prodi was previously head of the European Commission, and his support would be essential for the pipeline's success, given that there is growing unease in Brussels and Washington about Gazprom's expansion into Europe. So far, he has declined to take the position.

South Stream targets the same markets and utilizes almost identical routes to Nabucco. In fact, three of the five countries along Nabucco's route are also part of South Stream's intended route. The pipeline would cross the Black Sea to Varna, Bulgaria. From there, South Stream will split into two smaller spurs: One heading West through Greece, beneath the Ionian Sea and into southern Italy; and the second heading north through Serbia and Hungary, terminating at Austria's Baumgarten storage facility. There may also be additional lines constructed to northern Italy via Austria and/or Slovenia.

Baumgarten is critically important in Russian strategy as it will make Austria its partner in serving as the clearinghouse for gas coming to Europe. Austria is involved in both Nabucco and South Stream, and both pipelines will bring gas to Baumgarten. In January, Austria's partially state-owned energy company OMV signed a deal giving Gazprom 50 percent ownership in Baumgarten. As we know by now from other such partnerships Gazprom has formed over the years, the 50 percent would not mean equal partnership—Gazprom, and thus the Russian state, would in reality have a much bigger say. Furthermore, Gazprom just last week announced that an intergovernmental agreement will soon be signed to appoint OMV as South Stream coordinator for Austria. The growing OMV-Gazprom partnership is important, especially in light of OMV's desire to take over Hungarian MOL, which is the only privately owned company in the Nabucco consortium.[4]

Gazprom is making sure it has maximum flexibility in extracting the best deal for itself by having several options to get to its key markets. For example, even with strong Austrian partnership, Gazprom will likely construct a South Stream spur to Slovenia, and thus negate the possibility of Austrian leverage over the gas route. If problems were to emerge in Austrian-Russian relations, Gazprom could then reroute exports to northern Italy via Slovenia.

No Western company has the kind of partnership with its state as Gazprom has with the Kremlin. No Western country or company would build pipelines with such political calculations. None would undertake commercially unviable projects. We are dealing with a situation where normal competitive market principles simply do not work. It is imperative the Europeans recognize it and start taking steps accordingly; we are invariably dealing with a state-sponsored organization that has turned gas pipelines into a geopolitical tool.

RACE IS ON: SEQUENCING MATTERS

For Russia, the main purpose of the South Stream gas pipeline project is to prevent Nabucco and TGI lines from transporting Caspian gas independent from Russian control to European markets. How? Via two interdependent moves: First, by locking up the markets and keeping out potential competition—which, as I explained earlier, is not capable of competing when Gazprom sets the rules. And second, by assuring long-term and large-volume gas commitment from Turkmenistan, as well as Azerbaijan and Kazakhstan to its pipelines, thereby preventing direct Caspian-Europe connection.

Therefore, sequencing is vital. The fortunes of the two pipelines are inversely related; if South Stream is built first, it will pull Turkmen and Azerbaijani gas to its direction, leaving little reason for Nabucco to be built for Caspian gas.

From an economic perspective, it is utterly impossible to build a pipeline such as Nabucco—which will cost upward of $12.3 billion—unless investors are confident that the market on the consumer side will be sufficiently large. The important difference between Nabucco and South Stream is in ownership; Nabucco will be privately financed and therefore needs to be commercially viable, whereas South Stream is backed by state-owned Gazprom, which is perfectly willing to finance projects that do not make commercial sense so long as they support the strategic

[4] The pipeline consortium is equally owned (16.67 percent each) by Austria's OMV, Hungary's MOL, Turkey's Botas, Bulgaria's Bulgargaz and Romania's Transgaz and Germany's RWE.

goals of Moscow. Unlike Western companies, Gazprom is also willing to use pipelines at minimum capacity—it loses money in the short term, but in the long term, thanks to having killed all competition, it will end up with a web of pipelines in its control. I will discuss potential implications of this shortly.

Nabucco faces a number of financing hurdles even without South Stream's competition. Investors are uncertain of Azerbaijan's ability to supply Nabucco and even more uncertain that a trans-Caspian pipeline will be constructed to bring in the Turkmen gas that many view as necessary for Nabucco to succeed. Still, the largest obstacle for Nabucco is South Stream; the potential of South Stream filling a portion of Europe's expected short- to mid-term demand will likely be enough to scare investors away from Nabucco.

So it is interesting that all the countries potentially joining South Stream speak with one voice, insisting that that Nabucco and the Russian pipeline are "complimentary not contradictory." This brings to mind the gas race to the Turkish market in the late 1990s.

Turkey, Turkmenistan, and the United States were eager to construct a trans-Caspian pipeline that would carry gas from Central Asia via the Caucasus to Turkey. Russia did not want to see its monopoly in Central Asia eroded by the construction of additional export routes and proposed a pipeline from Novorossiysk beneath the Black Sea to Turkey. Supporters of the Russian pipeline, which is now called Blue Stream, insisted that current and future Turkish gas demand was large enough to support both projects; that the two lines were, in fact, "complimentary." Those who thought otherwise were reluctant to challenge Russia and went along—mainly because they did not think it would actually be built. They referred to this project as "Blue Dream" because of its lack of market viability and the use of never-before-used technology to construct a pipeline deep underwater. These assertions were quickly proven false. As soon as Ankara signed an agreement to build Blue Stream, interest in the trans-Caspian project dried up. Blue Stream not only prevented Turkey from having direct access to Turkmen gas, but increased its dependence on Russian gas to over two-thirds of its demand. Since its beginning, Blue Stream has operated at less than half of its 16 bcm capacity and provided the most expensive gas to Turkish consumers. Blue Stream is the product of the Gazprom-Eni strategic partnership that is now promoting South Stream.

OTHER RISKS OF SOUTH STREAM

Gazprom may not have enough gas to fill Nord Stream, South Stream, and its two preexisting pipeline networks through Ukraine and Belarus. The International Energy Agency has already warned that Gazprom may be unable to meet its supply contracts by 2010. Yet from Gazprom's perspective, this surplus capacity will have no negative effects. If both Nord Stream and South Stream are constructed in the proposed timeframe, Nabucco will likely disappear. Russia's dominant market position will be enhanced. Thus, European consumers will be left competing against each other for scarce Russian resources, driving up prices and granting Russia ever-greater leverage. Energy prices would escalate and Moscow would be able to extract political concessions from consumer countries in exchange for greater gas supplies. This leverage is typically not exercised through dramatic supply cutoffs, but instead through subtle and protracted pressure.[5]

If South Stream (and its sister Nord Stream) is constructed, Gazprom will actually enjoy a surplus of export capacity while Europe will face a deficit of supply options. This is potentially very troubling. Having a strong monopoly on transit routes into Europe, even if underutilized, still gives Russia significant influence vis-a-vis its ability to grant other producers access to these routes. Moscow may be anticipating the formation of a cartel-type organization for natural gas—with Russia assuming the leadership role—that will coordinate European supply. Reportedly, there is a plan in the works to create an international platform for members to determine a common gas pricing formula and to discuss new gas pipeline routes and swap arrangements. They would then be able to divide up markets and gain monopoly control over prices.

South Stream also poses a very real threat to Ukraine, as it would give Moscow the option to decouple the country from its gas supply exports to the EU. This would leave Ukraine exceedingly vulnerable to Russian political pressure. Ukraine's position as the transit route for around 80 percent of Russia's gas exports to Europe currently gives it a degree of leverage over Moscow. Were these supplies rerouted via South Stream, Ukraine would lose this leverage. It is no secret that Moscow

[5] However, supply cutoffs have been employed by Russia against smaller Eastern European countries like Latvia (2003) and Lithuania (2006).

does not want to see Ukraine align itself with the West, and has strongly opposed the country's efforts to do so. Ukraine is in a precarious position between East and West. There are many in its government that wish to abandon Ukraine's current political orientation and turn toward Russia—and to its corresponding political and social values. Whether or not Ukraine continues its progress toward Western values has much to do with its energy security, with South Stream as the cornerstone of the issue.

WHAT SHOULD THE U.S. DO?

The most important next step is to make credible, unequivocal, and bipartisan commitment to the Caspian-Europe energy corridor. First, the President needs to reinforce this vision by traveling to the region, namely Azerbaijan, Kazakhstan, and Turkmenistan. Second, the Secretary of State needs to be directly engaged. Third, a bipartisan congressional delegation needs to show its commitment as well. A Senate delegation led by Senator Lugar, who is highly regarded in the Caspian region, would have the best chance to make a positive impact.

If the U.S. wants non-Russian pipelines such as Nabucco and TGI to become pipelines for Caspian gas transport to Europe, then Washington needs to provide political support to encourage exploration and development. It is important to recognize that U.S. vision for these two pipelines, especially Nabucco, is not the same as that of Brussels—hence the lack of political backing from the EU. In September 2007 the European Commission appointed former Dutch Foreign Minister Jozias Van Aartsen as "EU Coordinator for the Caspian Sea-Middle East-European Union Gas Route," including Nabucco, which it considers a "priority project." Yet Van Aartsen has not yet visited Azerbaijan or Turkmenistan. As of May, he began serving as mayor of The Hague and spends only minimal time on this project. The EU cannot be taken seriously in its commitment to Nabucco (at least not in obtaining Caspian gas for it) if they leave the coordination of this project to an occasional presence because the whole Kremlin machinery is working to undermine it.

Now is not the time for hesitation but for immediate action. Russia and Russian-influenced groups argue there is not enough gas in Azerbaijan, Kazakhstan, or Turkmenistan to make Nabucco viable. This is the same argument used to sow doubt in the investors' and countries' commitment to BTC: There was not enough oil in Azerbaijan, it was not commercial, and it was merely an American political project.

Of course, if there were indeed no large gas volumes in these countries, Medvedev would not have chosen Kazakhstan as his first foreign visit and would not be courting his counterparts in Azerbaijan and Turkmenistan, which he plans to visit in early July. In addition to maintaining its monopoly over Kazakh and Turkmen gas export, he hopes to also begin exporting Azeri gas as well.

All three nations are able to provide more than enough gas for Nabucco and several other projects—provided action is taken now. Each nation has shown they want to send large volumes of energy resources westward, but they are increasingly under Russian pressure. They managed to resist thus far, but now they need to see political will from the West. If the U.S. would not risk the ire of Russia, how can they be expected to do so?

Azerbaijan has already shown its strategic vision by promising gas to Nabucco. In November 2007, the Azerbaijani Government and the Western producers operating in its Shah Deniz offshore gas fields announced that there were significantly more reserves than initially thought—more than enough to supply the first phase of the Nabucco project. More recently, at the Caspian Oil and Gas—2008 [conference] in early June, Azerbaijan's Minister of Industry and Energy Natiq Aliyev announced that the reserves exceed 1.2 trillion cubic meters, and production could soon reach 30 bcm. Some of this gas will be consumed in Azerbaijan, Georgia, and Turkey; about 15 bcm could be sent to EU markets. For that, the stage-2 of the Shah Deniz field development needs to be expedited. And that will only take place if the political risk is mitigated—which only U.S. action can do. There are other very promising fields in Azerbaijan, development of which will also depend on the success with Nabucco development and the pace of reduction of transportation risks to EU markets.

Turkmenistan is believed to possess some of the largest gas fields in the world. In 1999 it committed 30 bcm gas westward—16 bcm for Turkey and 14 for Europe. Now that current estimates range from 22 to 30 trillion cubic metres, that amount can easily be increased. In fact, gas from Turkmenistan will flow West directly only if the amount is large enough—otherwise Western producers may not invest the billions necessary. Instead, Russian and Chinese companies will continue to increase their stakes and send gas their way.

It has been U.S. policy since late 1990s not to engage Turkmenistan until its human rights record improves. For many years the mantra was to wait out the authoritarian President Saparmurat Niyazov and then start working on the gas project. During this time, Niyazov wanted to move away from the grip of the Kremlin (and its foreign policy instrument Gazprom), but was unable to do so given the West's reluctance to work with him. Yet he was nonetheless able to take advantage of Vice President Dick Cheney's trip to Kazakhstan in May 2006, during which Cheney advocated a trans-Caspian gas pipeline which would allow the two countries to receive a much higher price for their gas compared to what Gazprom was paying them. Armed with the prospect of diversification, Niyazov was able to negotiate on more favorable terms, and agreed only to a 3-year deal, rather than a much longer term commitment that would harm the prospects of a trans-Caspian gas pipeline.

After Niyazov died in December 2006, U.S. policy shifted to wait and see if the new President would be more democratic. This policy not only cost the U.S. valuable time and access to gas fields as the Russians moved in, but is also totally inconsistent with how Washington works with other countries with less than stellar democratic credentials on issues of mutual interest, such as Russia, Saudi Arabia, and China. Moreover, not engaging actually made democratic evolution less possible as increased engagement with Russia and China has provided Turkmenistan (and other Central Asian countries) with an alternative model: Economic liberality coupled with political repression.

Once gas deals are reached and infrastructure is established, it is difficult to change course. Gazprom has already reached some long-term and large-volume deals. This is time to pull the Turkmen closer—just as the Russians and Chinese are doing. Washington needs to send a clear message that the U.S.—regardless of who is the next President—is committed to large quantities of gas reaching European markets via the proposed corridor. That means no longer sending confusing messages, such as being content with Turkmen gas going to China.

Azerbaijan and Turkmenistan had frozen relations for many years; now the two Presidents recognize the importance of their partnership in realizing the Europe-Caspian vision. Despite the goodwill, there are issues that will prove difficult for them to resolve on their own; the U.S. needs to be willing and able to serve as an honest broker and offer assistance if and when needed. Kazakhstan also has significant gas that can be exported, but it will not be able to do so unless there is sufficient progress with the other two.

In addition to these three nations, the U.S. also needs to work closer with Turkey, which is critically important for the Europe-Caspian corridor vision. There was excellent cooperation in the realization of the BTC and BTE pipelines, the first phase of this corridor. In fact, the two sides could have used each other's talking points. Relations suffered due to the Iraq war, but are once again on an upswing. Turkish Foreign Minister Ali Babacan was in Washington last week, and energy was an important item on the agenda. Yet Ankara has not seen a clear and determined U.S. commitment to Nabucco; this has resulted in unnecessary stalling in reaching the necessary agreements. What is needed at this point is the reestablishment of a consultative mechanism between diplomats on both sides. The Turkish Foreign Ministry views pipeline projects from a strategic perspective, which is precisely what is needed—and which is why U.S. Caspian envoys have been based at the State Department.

Such a mechanism needs to be formed and begin working immediately. But that alone is not sufficient. Turkey needs to remain committed to the Southern corridor vision; if it instead thinks of itself just as a transit country for gas to Europe, then there is no reason for it to say no to Russian or Iranian gas transiting its territory either—especially since many EU countries propose this.

The U.S. needs to recognize Turkey's fast-growing energy demand and the difficulty for its leadership to say no to Iranian gas or to Blue Stream II. Rejecting Blue Stream II so far has only led to it being bypassed. The best way for the U.S. to help those in Ankara who share the same vision for Nabucco and the gas race is to hold a trilateral working group of the U.S., Turkey, and Iraq to ensure timely Iraqi gas production and commitment to this pipeline as well as to Turkey's domestic market.

Iraqi gas is important to maintain and build increased momentum for Nabucco. The first phase of Nabucco is designed to run from Ankara to Baumgarten. The first phase is expected to become operational in 2013, with an initial capacity of up to 8 bcm a year. The second phase would be completed a year later to increase capacity to 31 bcm. Turkmen gas will be ready for the second phase; investors will want to see not only an Azerbaijani commitment but also an Iraqi commitment in order to be confident that supply will be there when the pipeline is ready. In April, the EU announced that starting 2009 it would begin receiving Iraqi gas—mainly from the

Akkas field in the Anbar province. Fully recognizing the importance of this gas, Gazprom has recently intensified its actions to sign a deal of its own.

United States-Turkey-Iraqi cooperation on gas is also critically important for broader regional stability and cooperation. The EU has suggested that Akkas gas could reach Turkey via the Arab Gas Pipeline through Syria. But Turkey wants a direct route, and believes keeping Syria out of this project would also be in line with U.S. policy. It is not clear what U.S. policy is on Syrian transit; it would be important to clarify this in order not to send confusing signals to Ankara.

Another important country for the corridor is Ukraine. Its future is closely linked to integration with European markets for both oil and gas. The answer to corruption in Ukraine energy sector is not to leave them out but to use mechanisms to bring it under manageable control: Transit pipe can be separated; borders can be metered; full transparency can be achieved—even when an American company is involved.

One project that is gaining increasing momentum, and would benefit from U.S. support, is White Stream. White Stream would bring Caspian gas to Georgian Black Sea coast. From there, gas would flow via a pipeline with an initial yearly capacity of 8 bcm along the seabed to Romania (either though Ukraine or directly) where it would then connect with existing infrastructure. It may also connect with the Ukrainian transit system leading to Poland and Slovakia. Alternatively, gas could be liquefied and transported via LNG tanker across the Black Sea. Further studies are required to determine which method—pipeline or LNG—is more feasible. The U.S. Trade and Development Agency (TDA) has already commissioned a study to assess the commercial viability of this option, while European Commission is co-funding the feasibility study of deep water pipeline version of White Stream through Trans European Network scheme.

White Stream is useful not only because it represents a means for Europe to diversify its energy supply, but also by encouraging further upstream investment in the Caspian. As the Caspian region with its vast recourses should become an important source of diversification for Europe's increasing supply needs (much in excess Nabucco can handle), establishment of another transportation route in the same corridor with Nabucco would contribute significantly toward needed reduction of the transportation risks. And this in turn would encourage large scale exploration production investments in Caspian gas, thereby stimulating progress on Nabucco and the trans-Caspian gas pipeline.

Finally, Washington needs to hold a strategic discussion with the EU on the long-term implications on Russian gas politics. But in the short term, it needs to impress upon key European allies that the Caspian indeed is a realistic option—provided that they do not lose focus.

The CHAIRMAN. Thank you very much.

Mr. Kupchinsky.

STATEMENT OF ROMAN KUPCHINSKY, PARTNER, AZEAST GROUP, MAHWAH, NJ

Mr. KUPCHINSKY. Mr. Chairman, today I'd like to address the question of criminality and the lack of transparency in the Russian energy sector.

As a former editor of Radio Free Europe's publication, "Organized Crime and Corruption," I came across numerous opaque schemes in the Russian energy business, schemes which lowered Russia's business reputation to the point where many Western companies are now loathe to trust the Russian partners, and deal with them only out of necessity.

A great deal of evidence suggests that Russian organized crime has been involved in the Russian energy business with the full knowledge and quiet approval of the Russian leadership, both past and present. Gazprom, though Russia's state-owned gas monopoly, has—with the active support of the Kremlin, has set up 50 or so middlemen companies located throughout Europe. Among them are the Centrex group of companies, the Gazprom Germania network, none of which—none of these companies add any value to the price of Russian gas being sold on European markets, yet they earn

enormous amounts of money, money which seems to disappear, simply vanish through shell companies in Cyprus and in Lichtenstein.

Last year, the CEO of Germany's largest gas company, E.ON Ruhrgas, Burghard Bergmann, was the only Westerner on the board of Gazprom, told the chairman of the board, told—who is now president—Dmitry Medvedev, that Gazprom Germania and a Swiss-based middleman, RosUkrEnergo, should be disbanded, that they served no purpose, as far as he can see. Bergmann also wrote, complained that Russian state-backed gas schemes of Hungary were opaque and tarnished Russia's reputation. The Gazprom board ignored all his requests. Part of the reason for that being that Russia does not have a Foreign Corrupt Practices Act. The Kremlin and Russian law enforcement agencies tend to close their eyes on how Russian energy companies—be it the private company Lukoil or the state-owned oil company Rosneft, or Gazprom—how they conduct business both inside and outside of Russia.

One gas trading company, a new company, called RosUkrEnergo, based in Switzerland, is 50 percent owned by Gazprom and 50 percent by two Ukrainian—private Ukrainian businessmen who hid their identities for years and who are alleged to be linked to Russian organized crime. This is a classic study of how the Kremlin and Gazprom could conspire to protect what many believe to be a criminal enterprise.

Russian President—former Russian President Vladimir Putin, was directly involved in creating this company, along with former Ukrainian President Leonid Kuchma, in July 2004. And Putin has publicly defended this company on a number of occasions by saying, "Believe me, we don't know the identities of the Ukrainian owners of RosUkrEnergo." Now, President Putin's statement raises an important question. Is it common practice for Gazprom, the world's largest gas company, to sign multibillion-dollar contracts with individuals whose names they do not know, as what their president says? How can Gazprom conduct due diligence, not knowing who their partners are?

To make matters worse, Gazprom denied—strongly denied allegations in the world press that their partners in RosUkrEnergo, whose names they claim not to have known, were in league with Russian organized crime figures. Later, when the public evidence became overwhelming, Gazprom and Putin accused the Ukrainian Government of forcing the Russian side to accept this Swiss-registered company into the agreements signed in Ukraine in January 2006.

Now, I don't know, I've never seen any other examples of Ukrainians forcing Russia to do anything, so this is a—this is a first time in history, according to what they are saying.

In order to maintain this middleman company in the gas contract with Ukraine, Gazprom shut off gas deliveries to Ukraine and to Europe until their terms were met. The then-Ukrainian Prime Minister Yuriy Yekhanurov stated that one of Gazprom's main demands during those negotiations in the winter of 2006, in January, was that this company, this murky Swiss-based company, that it be included in the contract. They went out of their way to stop the gas just so this company would be included in this thing. Why?

Some American experts downplay the lack of transparency and the dubious methods used by Russian state-owned companies, saying, "Well, look, companies in the U.S. and Europe also do crooked things." They point to the Enron affair and the recent accusations of wide-scale bribery by the German company, Siemens. Their argument is that American Russophobes are holding Russia to a higher standard.

The difference, however, is that in the United States and Germany—the United States and Germany arrest and prosecute criminal behavior, while in Russia the crooks not only go scot-free, they are awarded state medals for their actions, while individuals like Mikhail Khodorkovsky, who opted to run a clean shop and refused to bow to Putin, wound up in prison. And a few days ago, Robert Dudley, the CEO of BP–TNK, the joint British-Russian oil company, was questioned for—was questioned by the Russian police for 5 hours. This is part of a brazen attempt by Gazprom to take over the assets of BP–0TNK.

As you know, Gazprom is seeking to list on the New York Stock Exchange. This is something Congress should support, in principle. It makes economic sense to have the world's largest gas company listed on the New York Stock Exchange. However, it is not enough for the New York Stock Exchange to state that everything is on order with Gazprom without a thorough due-diligence investigation into its operations and its strong-arm tactics within Russia. I believe the Department of Justice should oversee this investigation in order to ensure its accuracy.

In the long run, Congress must take all appropriate measures it can to assure that the U.S. energy—United States-Russia energy relationship is free of uncertainty and questionable practices in order to protect the national security of the United States.

Thank you.

[The prepared statement of Mr. Kupchinsky follows:]

PREPARED STATEMENT OF ROMAN KUPCHINSKY, PARTNER, AZEAST GROUP, MAHWAH, NJ

Mr. Chairman, honorable members of the committee, I ask that my full written statement be included in the record.

Today I want to address the question of criminality and the lack of transparency in the Russian energy sector.

The reason for this is that in the near future the United States will become more dependent on LNG (Liquefied Natural Gas) imports from Russia. Last year Gazprom executives stated that they intend to supply up to 20 percent of the U.S. LNG market by 2015. And while this will help America meet its energy needs, the LNG business needs to be fully transparent and in compliance with American law.

Unfortunately, persistent opaqueness in the Russian oil and gas sectors along with a number of murky schemes created by Gazprom, the Russian state-owned gas monopoly, has lowered Russia's business reputation to the point where many Western companies are loath to trust their Russian partners, and are forced to deal with them mostly out of necessity.

There is a great deal of evidence which suggests that Russian organized crime has been involved in the Russian energy business—with the full knowledge and quiet approval of the Russian leadership—both past and present. I will describe some of these schemes in my testimony.

Prior to his election, Dmitry Medvedev, the new President of Russia, was the chairman of the Board of Gazprom, which supplies 25 percent of Europe's natural gas. Was Medvedev aware of Gazprom's alleged links to organized crime? Many observers believe that he was and chose to remain silent about it.

I also believe that it is inconceivable for him not to have known the facts.

The nexus of organized crime and government in Russia is not a new phenomenon, but today it has taken on an important geopolitical role.

Russian organized crime, with the tacit support of the Kremlin, is playing a significant role in expanding the Kremlin's economic hegemony throughout the former U.S.S.R. and the Warsaw Pact countries.

In Romania the aluminum business was taken over by Russian-owned companies using suspect means and there are serious questions about how that country's gold mining industry is being bought up by companies from Central Asia who are friendly to the Kremlin and who appear to have a working arrangement with some high level Romanian officials.

In the Baltic States, the Kremlin has deliberately done everything in its power to isolate and punish the Lithuanians, Latvians, and Estonians for standing up to Russia by spending billions of dollars in order to insure that energy supplies destined for Europe circumvent these countries via the Nordstream pipeline.

In Hungary, shady companies with suspected links to organized crime and to Gazprom seek to control large segments of the domestic gas distribution and power generation business.

Within the Kremlin there are competing clans who want to maintain the flow of cash through little-known middleman companies in the gas trade in order to finance various political projects (many of which spout stridently anti-American propaganda) as well as provide for their own personal needs.

Gazprom, with the silent support of the Kremlin has set up 50 or so middlemen companies, silently linked to Gazprom and scattered throughout Europe—such as the Centrex group of companies and the Gazprom Germania network—which do not add any value to the price of Russian gas being sold on European markets; yet they earn enormous sums of money which appears to simply vanish through shell companies in Cyprus and in Lichtenstein.

Last year, the CEO of Germany's largest gas company E–ON Ruhrgas, Burghard Bergmann, who is the only Westerner on the Board of Directors of Gazprom, told the chairman of the board, Dmitry Medvedev (now the President of Russia), that Gazprom Germania and a Swiss-based middleman, RosUkrEnergo, should be disbanded. Bergmann also complained that Russian state-backed gas schemes in Hungary were opaque and tarnished Russia's reputation.

The Gazprom board rejected Bergmann's request. Part of the reason could well be that Russia does not have a Foreign Corrupt Practices Act—the Kremlin and Russian law enforcement agencies tend to close their eyes on how Russian energy companies—be it the private oil company Lukoil or the state-owned oil company Rosneft or Gazprom—conduct business abroad.

These energy deals are closely linked to Russian foreign policy.

"Pipeline diplomacy" practiced by the Kremlin is dominated by a small group of individuals and what we are in fact witnessing is the large-scale privatization of foreign policy by the Russian elite.

Some American experts downplay the lack of transparency and the dubious methods used by Russian state-owned companies to conduct business by saying "Companies in the U.S. and Europe also do crooked things" and point to the Enron affair and recent accusations of wide scale bribery by the German company Siemens. The argument is that American "Russophobe's" are holding Russia to a higher standard.

The difference however, is that the U.S. and Germany arrests and prosecutes criminal behavior while in Russia the crooks not only go scot free—they are awarded state medals for their actions, while individuals like Mikhail Khordokovsky, who opted to run a clean shop and refused to bow to Putin's will, wind up prison.

One gas trading intermediary company, RosUkrEnergo, based in Zug, Switzerland, is owned 50 percent by Gazprom and 50 percent by two Ukrainian businessmen who hid their identities for years and who are alleged to be linked to Russian organized crime. This is a classic case study of how the Kremlin and Gazprom conspired to protect what was believed to be a criminal enterprise.

Russian President Vladimir Putin, was directly involved in creating this company along with former Ukrainian President Leonid Kuchma in July 2004, and has publically defended RosUkrEnergo on a number of occasions saying: "Believe me; we don't know the identities of the hidden Ukrainian owners [of RosUkrEnergo]."

Putin's statement raises an important issue. Is it common practice for Gazprom, the world's largest gas company, to sign multibillion dollar contracts with individuals whose names they do not know? How can this state-owned company possibly conduct due diligence?

To make matters worse, Gazprom vehemently denied allegations in the world press that its partners, whose names they claimed not to know, were in league with Russian organized crime figures. Later when the public evidence became over-

whelming, Gazprom and Putin accused the Ukrainian Government of "forcing" the Russian side to accept the Swiss-registered company into the Ukrainian-Russian gas contract signed in 2006.

Who can believe that Ukraine can force Russia to do whatever it wants.

To achieve their ends, Gazprom shut off gas supplies to Ukraine in January 2006—and to Europe—until their terms were met. The then-Ukrainian Prime Minister Yuriy Yekhanurov stated that one of Gazprom's main demands during the negotiations was that the Swiss-based RosUkrEnergo be included in the contract.

One of the managing directors of RosUkrEnergo was Konstantin Chuychenko; 3 weeks ago Russian President Dmitry Medvedev made him a key advisor in his new administration.

Can any of Gazprom's statements be taken at face value?

What next?

As you might know, Gazprom is seeking to list on the NYSE. This is something Congress should support in principle—it makes economic sense to have the world's largest gas company listed on the NYSE.

At the same time, it is imperative that we do not reward Gazprom management, which often acts as a tool for Russian foreign policy, for its opaque ways of conducting business.

It is not enough for the NYSE to state that everything is in order with Gazprom's bid to list without a thorough due-diligence investigation into its European operations and its strong-arm tactics within Russia. I believe the Department of Justice should oversee this due diligence investigation in order to insure its accuracy.

In the long run Congress must take all appropriate measures it can to assure the nation that the United States-Russia energy relationship is free of uncertainty and questionable practices in order to protect the energy security of the United States.

The CHAIRMAN. Thank you very much.

I've kept you a long time. I have several questions.

I apologize—Senator Lugar had to leave, because he and Senator Kennedy share an annual reception relating to a dialogue with Muslim leaders, and Senator Kennedy is obviously not able to be there, and Senator Lugar had to open this conference. So, I, on his behalf, apologize.

And, with your permission, he and others may have a few questions. I'll not burden you, as they say, a lot of homework here, but—let me ask a few relatively straightforward questions.

Ms. Baran, in layman's terms, so average Americans can understand it, talk to me about how much gas is needed to fill the Nabucco gas pipeline to make it economically feasible. In other words, is there enough gas available in the near term coming out of the Caspian Basin, to be able to make it economically feasible, or is it necessary to have Iranian or Iraqi or any other—or Russian—gas in order to make it economically feasible?

Ms. BARAN. OK, thank you very much for this question, because this is what is the big question, Is there enough gas to make Nabucco work? There is enough gas. Of course, it's not ready, waiting for the pipeline; it needs to be explored, and that gas needs to be committed.

Nabucco requires, in the first phase, about 8 bcm of gas, in layman's term, and that gas exists in Azerbaijan. The producers, the BP-Statoil consortium, the Azerbaijani government, and, I believe, the U.S. Government's own estimates indicated that Azerbaijan alone will be able to start Nabucco's first phase. So, it can start going——

The CHAIRMAN. And when you say "start its first phase," you mean the construction of the first phase or——

Ms. BARAN. It can fill——

The CHAIRMAN. Fill.

Ms. BARAN [continuing]. While the construction——

The CHAIRMAN. Gotcha.

Ms. BARAN [continuing]. Is going on this—yes, on the second part, as well. Because the timing is about 2010–2011, and by that time the gas will be ready.

The CHAIRMAN. What is the total cost, if you know, from the Caspian to Austria? I mean, that's the route of the pipeline, correct?

Ms. BARAN. Correct.

The CHAIRMAN. And, I mean, in terms of total construction cost, what is the estimated cost, and what are the sources of the capital to actually construct it?

Ms. BARAN. Well, the cost keeps increasing for all the pipelines, because of rising steel and oil prices. The pipeline is not going to be constructed from start to end; the main construction has to be from Turkey to certain parts, so there's not an ongoing—one single pipeline that's going to be constructed. And——

The CHAIRMAN. That's why I asked the question. Again——

Ms. BARAN. Yeah.

The CHAIRMAN [continuing]. For my colleagues, it's a useful thing to know, that—what would be the short-term, medium-term, and long-term impact of the beginning of, and to the end of, the construction of the pipeline—in order for them to understand the political ramifications that are at play here? You talked about Turkey. I was recently in Turkey. There is a great deal of pressure on Turkey, indirectly from its citizenry, saying, basically, "I don't care where the devil you get the gas from, get us some more gas." And therefore, it becomes difficult for any political leadership. And the political leadership now is having its own difficulties, not only with the Supreme Court there, but its difficulties in terms of the economy.

So, if you could—and I don't want to drag this out, and I apologize for being so, maybe, overly pragmatic about how to talk about this—but, talk to us about the phases of the construction and the beneficiaries in each of those phases if the Nabucco line is underway, being funded, consistent with the gas coming online in order to fill it.

Ms. BARAN. Well, first, it's important to mention that Nabucco was originally proposed by Austria to transport Iranian gas to Europe. When that option was no longer there, the U.S. was interested in finding alternative routes to get Caspian gas to European markets, Nabucco emerged as a very good pipeline project.

Turkey and many other European countries just want the gas, and it doesn't matter to them where it comes from. And that's how Russia is able to win this gas race, because whoever gets to the market first is going to keep everyone else out. Looking at Turkey, we've seen a similar development in the late 1990s. Again, there was huge interest, and President Clinton was personally involved, in getting gas from Turkmenistan and Azerbaijan to Turkey. Like Nabucco and like the Trans-Caspian Gas Pipeline that hopefully will be built now, it was going to be financed by the private sector, and it was considered to be commercially viable and making, potentially, a lot of profit. What happened was, when the Russians realized that this corridor could happen, and then it would interrupt their monopoly control—because what Russia has been doing is, when Russia supplies gas to Europe, it's not Russian gas, but it's

the gas it has been able to buy from Turkmenistan and Kazakhstan, and use cheaply internally, and then sell some of its own gas much more expensively. So, when Russia understood that if Turkmen gas has a way of reaching Turkey without its control, it was going to lose its monopoly, and along with it a lot of the money, and most important, influence. So, that's when the Russian leadership proposed the Blue Stream gas pipeline to send gas from Russia to Turkey directly.

At the time, Europeans and Americans did not want to pick a fight with the Russians, and most people did not want to understand that it's a race. Like with Nabucco, the rhetoric was, "The two of them are not competitive, they complement each other. There's so much gas demand in Turkey that you can do both at the same time." But that logic, of course, doesn't make sense for private investors, and we have seen that it didn't make sense because as soon as the agreements were reached on Blue Stream pipeline, which is the same partnership as South Stream, Gazprom-Eni, then——

The CHAIRMAN. Blue Stream cuts across——

Ms. BARAN. The Black Sea——

The CHAIRMAN [continuing]. The Black Sea——

Ms. BARAN [continuing]. Directly.

The CHAIRMAN [continuing]. In the——

Ms. BARAN. Going to the——

The CHAIRMAN [continuing]. In the most eastern quadrant of the—is that correct?

Ms. BARAN. Correct.

The CHAIRMAN. OK.

Ms. BARAN. Yeah. And so, as soon as the agreements were reached on Blue Stream, then the consortium, which included GE, Bechtel, and Shell, could no longer make a bankable case for the Trans-Caspian Gas Pipeline. Yes, the Turkish market will eventually be big enough to receive both of the supplies, but the timing and sequencing is the important issue here.

So, with Nabucco now, coming to your question, same dynamics are at play. The companies who would build Nabucco want to do it, believe it's commercially feasible because, as I said, since they don't operate as their country's foreign policy arm, they need to, and want to, make money, and they think that it will be commercially profitable for them to do Nabucco.

But, the same Central Asian gas might be going via the Gazprom system to European markets, then they will not have the confidence to put their money down.

The CHAIRMAN. Gotcha.

Ms. BARAN. The U.S. leadership was essential in the early 1990s to provide the necessary framework and the political stability in saying, basically, "If Russians were to try to intimidate you, we are with you"; the east-west energy corridor is not an anti-Russian project or vision; it is a way to enable those countries direct access to Europe for their own gas. What is ultimately at stake is what sovereign, independent countries should be able to do with their own energy reserves.

The CHAIRMAN. Leon, if you were heading up the same committee within the present administration, what would you be talk-

ing about doing now? Let's assume the same apparatus existed, and all of a sudden, in the last months of this administration, there was an epiphany that something should change, or in a McCain or an Obama administration, what would be the—and I'm being a bit pedantic here—what would be the initial suggestions you would make? I realize—I'm not asking you to lay out a 4-year plan, but what—how do you kick-start the reengagement, if you will—because we've been—you know, that—you know, the book about absent or present at the creation, we've been absent at the creation here, it seems to me. And so, what would be the initial things you'd do to sort of get this back, no pun intended, on-stream here?

Mr. FUERTH. I could picture what I could do in the opening period of the next administration. I can't imagine what would be doable——

The CHAIRMAN. Well, let's just skip to the next administration.

Mr. FUERTH. Right, let's go—let's go there.

The CHAIRMAN. Let's—it's——

Mr. FUERTH. One of the interesting things here is that I don't think this thing has to have a Democratic or a Republican label to be credible.

The CHAIRMAN. Neither do I. That's why I asked the question.

Mr. FUERTH. Right. What is—what it has to have is the imprimatur of the President of the United States, based on a clear understanding, emanating from there, about where the strategic direction and interests of the United States really are, and how, step by step, the United States is going to pursue them, a message that can be taken by our diplomats and envoys to wherever we need it to be taken.

The second thing that's important is that there has to be an organizational system to back that up, because there's no shortage of statements for the press or statements for the record. What we need is an organization in the United States Government which doesn't go to sleep in between summit meetings, but which, instead, exists to make sure that the connections that are required for success are identified, thought through, and the resources for these are found. So, that—you know, that, in 2 paragraphs, is what I'd be recommending.

The CHAIRMAN. Look, one of the things that was mentioned at the outset of both your testimonies was the differences between today and 1992 and 1994 and 1996. I would argue—and I don't think you disagree, but one of the gigantic differences is that the realization, not only on the part of government officials—Democrats, Republicans, House, Senate, administration people—not the President, but administration people—and, I might add, the average American—that energy has become an important strategic question. For example, about 10 months ago a poll came out. They asked the American people, What is more in the long-term interest, in terms of concern for the United States, the war in Iraq or the failure to have an energy policy and energy dependence? Seventy-two percent said energy. The American people are a heck of a lot smarter than both political parties are. I really, truly believe this is a place where the public is way ahead of the political leadership in both parties.

And so, I—this is a statement, but also a question, to see whether you agree with my statement. I really think there is a really palpable appreciation of the security dimension of our energy dependence and that of our allies, and a willingness for us to take—a desire to take a much more assertive position on energy issues as it relates to our national security interests. I don't mean war, I mean the kind of engagement you're talking about.

I'm of the view that whether or not John or Barrack are the next President, that on this issue there ought to be some consensus.

But, here's my problem, and I'll cease and let you go after this point. It seems to me, as long as we are—"bogged down" is the wrong word—as long as we fail to have a coherent strategy as to how to leave Iraq without leaving chaos behind, and as long as we have a—no strategy to engage Iran, that the ability to take advantage of the public consensus, as it relates to this and other issues, is pretty well checked. I kind of view—I kind of view Iraq as not—I think our grandchildren, when asked, "What is the most significant dilemma, internationally, America faced in the first decade of the 20th century?" they will not say Iraq, because, by that time, other of the greater issues will have emerged—generically, energy, Russia, China, India—you know. But, I kind of view Iraq as a big boulder sitting in the middle of the road, that it significantly diminishes our credibility to be able to generate consensus on issues from this to many others, and it erodes our flexibility financially in being able to deal with the tremendous economic imperatives we have here at home, spending $3 billion a week.

So, I'd like you to briefly comment on this: Is it your view that our lack of flexibility and initiative—and thereby, lack of success—are at all related to our lack of a policy on Iran and our lack of a strategy with regard to Iraq, in terms of being able to figure out how we get out eventually without leaving chaos behind? Would you be—and maybe it's—I'm way off, here—would you comment on those for me?

Mr. FUERTH. In which order would you like for——

The CHAIRMAN. Either way.

Mr. FUERTH [continuing]. Us to do that?

The CHAIRMAN. Doesn't matter.

Mr. FUERTH. To go back to the scenario that you presented, if you—if I were in that situation, I would at once acknowledge that these things have tremendously limited our scope for action in every way, politically and financially and so on. And then I'd pray for a brainstorm about how to do workarounds so that we could, nevertheless, make some progress, because time is passing.

The CHAIRMAN. Absolutely.

Mr. FUERTH. And with its passing, there are opportunities that are going by us that cannot be retrieved. That's——

The CHAIRMAN. Exactly.

Mr. FUERTH [continuing]. The thing that's so scary. And so, one of the things that I would say is that, while we struggle to figure a decent way to end the war in Iraq, and while we struggle to figure out a way to get the Iranians to talk sense with us, there are other things that would establish our bona fides again. For example, in energy policy. But, I'd also say that the game has gotten

much more complicated, because now energy policy is linked to environmental policy——

The CHAIRMAN. Yes.

Mr. FUERTH [continuing]. And now energy policy has all of a sudden become linked to the price of food and hunger in the world, so that, again, what was complicated enough in the 1990s has now expanded exponentially in terms of its difficulty.

But, the final thing that I would say is, just because it's complicated doesn't mean it can't be done.

Ms. BARAN. Briefly, if we think about Russia, I think Russia's position at the U.N. Security Council has been very important, in terms of not taking certain steps in that part of the world, because we needed Russia in Iraq, and now we need them on Iran. So, that has some limiting influence.

From the regional perspective, I travel to the region a lot, and, right after this hearing, I'm flying to Kazakhstan, and I know if I meet with the senior leadership, they will say, "Why isn't the U.S. paying more attention to us?" And the next question is going to be, "What's going to happen in Iraq?" There are different possibilities for Iraq's future. You, Senator Biden, have a vision. There are other visions out there. People in that part of the world need to know, and right now there is confusion.

And then, of course, the big elephant in the middle of the room is Iran. If there is going to be, as some speculate, some sort of a military confrontation, this would have huge consequences to everything going on in and across Europe and Eurasia, because Iran is right next to those countries. It's a stereotypical thing to say, but Iran really is not Iraq, and having a destabilized Iraq and Iran at the same time would make matters very, very complicated.

So, I am afraid, until there is a little bit more clarity about where the U.S. is headed, there is not going to be much more traction.

The CHAIRMAN. I thank you both.

Now, the question I have for you, sir, is going to sound like I'm being facetious, but I'm not. What is the difference between Gazprom having an organized criminal element to it and having Putin? You laid out—which I think is accurate—the degree of influence of organized crime within the largest state-owned gas facility in the world. And my question is, "Yeah. So, what?" What would be the difference if organized crime wasn't there, and the way in which Putin operates with regard to the use of that significant monopoly? I'm being deadly earnest. What would the geopolitical ramifications be if there was no organized crime, but Putin was running it in the way in which he has essentially run it?

Mr. KUPCHINSKY. I believe there would be no difference, to be very honest.

The CHAIRMAN. That's my point.

Mr. KUPCHINSKY. Well, what is illustrates, however, is that in the Kremlin, beginning in the mid-1990s, a nexus was formed between organized crime and the government. The government—the Russian Government—some would say the Russian Government, the ruling elite in the Kremlin, the handful of people who actually, not own Russia, but control its destiny, they came to an agreement with organized crime. They saw that—how to use it for their own

benefits, I believe. When I look at all these schemes that I talked about, this Gazprom-Germania scheme, which—the Germans don't understand why it's there. I mean, it—look, it serves no purpose, they can see no reason for it. And yet, that company has branched out into 30 other companies, and has a branch right now in Houston, Texas. Yeah.

So, I mean, it's—it's not for the good of the Russian people, these things. They're not being done for the Russian treasury or for the Russian people. It's what the Russians call—I mean, the—a lot of people in Russia that I know and I meet with feel the Gazprom leadership, in Russian the word is "vremenshchiki," people who want to grab everything at the moment when they can, "This is the time to steal it, let's steal it now. You know, forget about the grandchildren, the future, that's not important. This is when we can do it. We're in power. Let's take as much as we can." And that's—unfortunately, has shown itself to be true.

The CHAIRMAN. Well, I thank you. I thank you all.

With your permission, I have one more question for you—I'll submit it in writing, Leon, if I may; and a couple for you, unfortunately. I know I'm making work for you, but I'd appreciate it very much.

Your testimony has been very useful. I look, where I am, and I'll just be blunt about it—I think, quite frankly, the role of this committee has very little influence on the remainder of this administration, but hopefully it can begin to lay out a larger matrix for the next administration, whomever it is, to maybe view, through a different prism, a number of these real and glaring dilemmas.

You know, I—I'll conclude by saying that we are at an inflection point here where it's either going to go up, down, left or right, and the trajectory's going to be set for some time to come. That's an inflection point.

We're at that point. And it is not hyperbole to suggest that if we miss the opportunity to be able to influence, in this one narrow subject we're discussing today, the construction of these pipelines that do not allow for monopoly, it will be created; the other pipelines will be built, they will—it'll be there. It's not like you can undo it, it's not like you say, "Well, you know, now we have—it's clear that Russia is controlling, in a monopolistic way, the totality of what's coming out of, not only Russia, but the Caspian Sea, and, by the way, that's a bad thing for Europe, it has used"—I think there's a—there's a clear reason why Putin's gone to these countries: it is their foreign policy. It is their—it is their national strategic doctrine. I mean—and to say, "Well, you know, why don't we dismantle those other pipelines now and build new ones."

So, I just think there's such an urgency here. You've added to that, to help us add to that sense of urgency. I certainly do not have the answers, all the answers, but I do know one thing, it better be addressed up front very quickly by the next administration, and make some very hard, tough choices. As you point out, Leon, there's tradeoffs here, man. There's the environment, there's food—I mean, on a much broader scale, but regionally there's real tradeoffs.

Mr. FUERTH. Well, what's happening, Senator, is, now we are writing the history of the future, as you're pointing out.

The CHAIRMAN. Well, safe travels. And I hope, when you come back, you'll be willing—I mean this sincerely—to—if you have the time, to be willing to—either on the telephone or in person, to debrief our staff, it would be very useful for us.

And I thank you all. I thank you for your patience.

And we are adjourned.

[Whereupon, at 4:47 p.m., the hearing was adjourned.]

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