

ENERGY ABUNDANCE, SECURITY & DIPLOMACY: THE US APPROACH

US foreign policy has long recognized the centrality of energy to international economic development, peace, and security. President Trump's National Security Strategy builds on this tradition while focusing on three areas: export promotion, energy access, and energy security. In each of these areas, America seeks to broaden the economic and social benefits of free, fair, and transparent energy markets and to oppose those who would use market power to advance malign political objectives.

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The Trump administration's National Security Strategy published in December of 2017, articulates three goals for America's international energy policy: export promotion, energy access, and energy security. These goals recognize that energy stands at the nexus of national security and foreign policy because free markets drive economic growth, and diversity in energy sources and routes can prevent countries from using their energy resources for malign political purposes.



America's focus on energy in foreign policy is not new. The State Department has recognized energy as critical to US foreign policy for well over a century. However, the prominence of energy in US diplomacy has grown over the last several decades. The State Department established the Bureau of Energy Resources in 2011 to advance this effort. In May 2018, the Senate confirmed the bureau's first Assistant Secretary, demonstrating the bipartisan recognition in Congress and throughout the government of the critical role energy diplomacy plays in US foreign policy.

Export Promotion

PROMOTE EXPORTS: *The United States will promote exports of our energy resources, technologies, and services, which helps our allies and partners diversify their energy sources and brings economic gains back home. We will expand our export capacity through the continued support of private sector development of coastal terminals, allowing increased market access and a greater competitive edge for US industries.*

US diplomats have traditionally promoted US exports. In the 1800s, the State Department worked to secure markets abroad for US oil and kerosene, some of the United States' largest exports at the time. In today's era of energy abundance, the United States holds a central position in the global energy system as a leading producer, consumer, innovator, and, once again, exporter of the full suite of energy technologies, services, and fuels. The United States will continue to promote the export of its energy resources, technologies, and services to allies and partners. We are

committed to expanding our capacity to export oil and gas while continuing to lead the world in developing and deploying innovative and efficient energy technologies and renewable energy equipment and services.

US energy exports strengthen the energy security of our allies and partners and promote environmentally and financially sustainable growth. The United States will continue to be a reliable producer, supplier, and partner. We will not “shut off the gas” when others need it the most. Our goal is to keep markets open, transparent, and free of manipulation and political coercion.

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US energy exports help contribute liquidity to global energy markets while providing greater choice to purchasers worldwide. Crude oil exports from Houston-Galveston represent 70 percent of US crude exports, and in August, exports from these facilities surpassed imports for the first time ever. As with oil exports, increased US LNG exports foster competition, which means a better deal for all of the world’s energy consumers. Market conditions determine the ultimate destinations of US LNG cargoes. Although Latin America has been the traditional market for US natural gas exports, in the last two years, roughly half of the 300 LNG tankers that departed US shores landed in Asia to meet its growing demand. There is more US LNG on the horizon. By 2020, the United States will be approaching nearly 85 billion cubic meters (bcm) a year in LNG export capacity, up from 21.7 bcm in 2017.

Energy Security

ENSURE ENERGY SECURITY: *The United States will work with allies and partners to protect global energy infrastructure from cyber and physical threats. The United States will support the diversification of energy sources, supplies, and routes at home and abroad. We will modernize our strategic petroleum stocks and encourage other countries to develop their own—consistent with their national energy security needs.*

The United States has long supported the energy security of our allies and partners, including through multinational energy cooperation. Secretary of State Kissinger

confronted the geopolitical issue of energy security during the oil embargo of the 1970s by convening our European and Japanese allies to form the International Energy Agency in 1974. The IEA is a linchpin of global US energy and economic security due to its ability to mobilize coordinated releases of strategic oil reserves held by the US and major allies. Turkey, one of the founding members of the IEA, has played a key role in that institution since its inception. IEA members are required to hold oil reserves equal to 90 days of their oil consumption, giving the IEA the flexibility to respond to crises. Coordinated IEA emergency responses were deployed to great effect during the Gulf War, compensated for Libyan oil cutoffs in 2011, and provided Americans ready access to global oil supplies when our Gulf of Mexico oil industry was idled by Hurricanes Rita and Katrina.

We see four key aspects to energy security: diversification of energy supplies by country of origin, path of delivery, and fuel types (including renewables); market liberalization and energy policy; cyber and physical security of critical energy infrastructure; and countering malign actors.

Diversification

Europe offers a case study on the importance of supply diversification. Russia has and can continue to use its position as Europe's primary supplier of natural gas to exert political influence on vulnerable countries by cutting off gas supplies. Investments in new energy infrastructure – in gas interconnectors, reverse flow technologies, LNG terminals, Floating Storage and Regasification Units (FSRUs), renewable sources such as wind and solar, battery storage technology, and via efficiency improvements – have enhanced the resilience of Europe's energy markets, but much work remains to be done. For example, Lithuania's deployment of an FSRU enabled the first supplies of non-Russian natural gas to flow to the Baltic States, thus ending the Baltic region's status as an energy island and compelling Russia to play by market rules. By contrast, many countries in Southeastern Europe remain entirely or almost entirely reliant on imports of Russia gas to meet their energy needs.

The United States has promoted energy diversification in Europe for decades. America's strong support of European energy diversification predates our recent exports of natural gas. For instance, we have and continue to strongly support the 40 billion dollar Southern Gas Corridor, a monumental project to bring gas from the Caspian Sea to European energy markets, despite the lack of direct US investment in the project. The importance of the Southern Gas Corridor depends in part on each country's perspective. For Azerbaijan and other potential suppliers – including Turkmenistan, Iraq, and countries in the Eastern Mediterranean – the Corridor means access to Europe's vast energy market and thus an opportunity to generate

stable export revenues over the long-term. For consumers in Turkey and in Europe, the Corridor means enhanced long-term energy security and greater competition because the project can reduce those markets' reliance on a single source of gas. The Southern Gas Corridor is also significant as a model. The successful start of the Southern Gas Corridor demonstrates what can be accomplished when energy producers and energy consumers share a common purpose and are united in its pursuit. We can enhance energy and economic security, generate jobs and long-term revenues, and build trusting partnerships across political lines. The Southern Gas Corridor thus serves as an example to the world of how critical energy resources can be responsibly and efficiently developed, and brought to world markets.

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Compare this with the Russian approach to natural gas pipeline projects, including Nord Stream 2 – which would run from Russia to Germany via the Baltic Sea – and a second line of TurkStream – which would run from Russia to Europe via the Black Sea and Turkey. These projects would maintain or possibly expand Russia's already dominant share in Europe's gas markets, which Russia could then use to its political advantage. Unlike in the United States, Russia's chief gas supplier to Europe, Gazprom, is an extension of the Russian state. The Russian government has repeatedly used Gazprom to achieve geopolitical goals. In 2006, 2009, and 2014 Gazprom cut off gas deliveries to Ukraine and countries that rely on gas transited via Ukraine; other times, it cut off gas deliveries exclusively to Ukraine. Gazprom's leadership hopes to entirely bypass Ukraine as a gas transit state by the end of 2019. This would deprive the country of an important deterrent against further Russian aggression and critical gas transit revenues.

Given its track record of using energy as a political weapon, we believe Europe should and must diversify its energy supplies so that it can effectively respond to a possible disruption in gas deliveries from Russia. Doing so would mean that Europe could continue to import gas from Russia without running the same grave political risks that it does today. In short, adequate diversification could help take geopolitics out of Europe's energy supplies.

Several projects could help Europe move in the right direction. Pipeline interconnectors between Greece and Bulgaria, Bulgaria and Serbia, and an FSRU off

Croatia's coast could bring genuine diversification of gas supplies to countries in Southeastern Europe. Development of Romania's offshore gas resources could likewise change the facts on the ground, bringing greater competition to European energy markets. Completion of the Trans Adriatic Pipeline, the final leg in the Southern Gas Corridor, is also vital since without access to Europe's energy markets the potential of that project cannot be realized. Turkey, which receives over half its gas imports from Russia, stands out as a regional leader in terms of building the capacity to respond to a possible disruption in gas deliveries. In addition to expanding its two LNG terminals and Silivri underground gas storage facility, it has leased two FSRUs and is considering a third. Turkey is also in the process of constructing a new underground gas storage facility at Tuz Gölü, which should significantly enhance its ability to meet growing peak winter demand.

Market Liberalization

The United States supports, often with technical assistance programs, efforts by our allies and partners to create an enabling legal and regulatory framework that facilitates investment in energy infrastructure and liberalizes markets. Market liberalization and infrastructure diversification often must be undertaken in tandem. Without third-party access provisions, monopoly pipeline operators can crowd out their commercial rivals and stifle competition. The successful European effort to unbundle pipeline operator ownership from upstream producers and downstream gas trading entities demonstrates how policy choices can open markets and improve optionality. Successive US administrations have strongly supported the core tenets of the European Energy Union and the EU's Third Energy Package as a means of achieving an open, competitive, and liberalized gas and electricity market in Europe.

Cyber and Physical Security

Even the most well-diversified critical energy infrastructure, operating under the most open and liberalized market rules, is vulnerable to cyber and physical attacks, whether from state-sponsored or non-state actor threats. Coordination between and among governments and the private sector to share best practices, lessons learned, and technical expertise is a crucial way of maintaining these critical systems. It is a matter of national security to make sure that no actor can threaten the operation of energy systems.

Malign Actors

Russia has shown through its aggressive actions that it rejects the post-Cold War order. Its aggression in Ukraine, earlier in Georgia, and most recently its use of a military-grade chemical weapon in the United Kingdom are the most obvious

demonstrations that Moscow is willing to undermine norms within the existing international system.

Russia's efforts have extended beyond traditional military campaigns to encompass a suite of hybrid tools that are used to gain influence and undermine stability. This includes Russian use of commercial and business entities, often through energy development and deals, to coerce other nations. Projects such as Nord Stream 2, and the additional line of TurkStream that would serve European markets, are Russian vehicles of malign influence and disinformation. Strengthening regulatory oversight and public anti-corruption institutions can help build domestic resilience to Russian malign influence activities.

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Iran uses the proceeds of its oil exports to fund destabilizing activities throughout the Middle East via support for terrorist organizations, rogue militias, and other dangerous non-state actors. Iran's oil revenues fund war, terror, and violence that continue to kill and displace countless civilians. In the oil sector alone, Iranian-supported proxies have launched dozens of ballistic missiles at targets including oil refineries and related infrastructure, and directly attacked oil tankers transiting the Bab al-Mandeb just this year.

Iran and its Revolutionary Guards have for decades threatened to use military force to close the Straits of Hormuz through which roughly a third of all seaborne oil trade passes. Such threats to close one of the world's most vital shipping lanes should not be tolerated by any country, even if so many have now grown used to Iran's reckless rhetoric.

Energy Access

ATTAIN UNIVERSAL ENERGY ACCESS: *The United States will seek to ensure universal access to affordable, reliable energy, including highly efficient fossil fuels, nuclear, and renewables, to help reduce poverty, foster economic growth, and promote prosperity.*

Today, 1.1 billion people lack access to electricity. Access to energy is a key foundation for economic and political stability, and energy poverty exacerbates development and security challenges across the globe. The United States has an “all of the above” energy strategy in which individual cities and states satisfy their energy needs through the mixture of hydrocarbon, renewable, nuclear, and future energy technologies that best suit their particular circumstances. We recognize that diverse communities and differing geographies and climates will require different solutions. There is no one-size-fits-all answer. Similarly, we support countries taking the energy development path based on their self-determined needs.

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Along with energy access, good governance is also in our national security interest, particularly when working with less developed, resource-rich nations. This is especially true for the United States and China. As the two largest energy-consuming countries in the world, we must produce, distribute, and use energy responsibly. All consuming countries must act transparently and according to international best practices.

In July 2018, Secretary Pompeo announced Asia EDGE (Enhancing Development through Growth and Energy) as the energy component of the United States’ Indo-Pacific Strategy. Asia EDGE is the US government framework for synchronizing all of our Indo-Pacific energy security efforts across the Interagency, including technical assistance, diplomatic engagement, and cooperation with like-minded partners and allies. It will promote resilient, diversified energy markets, transparent trade and investment practices, and open and competitive markets. While the Secretary dedicated an immediate 50 billion dollars to Asia EDGE activities in 2018, these funds are just the beginning. With Asia EDGE, we will continue our work with Indo-Pacific partners, and industry to import, produce, move, store, and deploy energy resources. We will promote the ability of firms from all nations to compete on equal footing through transparent commercial tendering and bidding processes. We will advocate for all countries to be free to develop their own energy resources free from outside pressure and interference.

Energy as a Catalyst for Cooperation

Global markets and energy resource supply chains are fundamentally linked, and cooperation is essential to achieve a sustainable energy future. This is especially notable for a field that is itself driven by transformative developments in science and technology. In this sense, energy has a special role to play in foreign policy, because energy is a sector where countries can work together to develop practical, technical solutions to political problems.

Natural gas has the potential to transform both developed and developing economies worldwide. Energy, and in particular recent discoveries of natural gas, can catalyze collaboration in otherwise challenging environments. For example, in the Eastern Mediterranean, offshore discoveries in Egypt and Israel have redefined regional relationships as governments seek to work together. We hope that recent discoveries off Cyprus can be equally transformative. The successful exploration, production, and export of natural gas in the Eastern Mediterranean will require political cooperation and economic integration.

Unfortunately, the South China Sea is one region where maritime and territorial disputes have inhibited offshore exploration and development of hydrocarbon resources. Based on US Geological Survey data, the South China Sea contains over 2.6 trillion dollars in unexploited oil and gas reserves. The United States firmly supports the right of every country to commercially develop offshore hydrocarbon resources in accordance with international law and stands firmly opposed to any other nation's use of coercive tools to prevent the exploitation of natural resources.

Conclusion

Energy plays a vital role in American foreign policy. The United States has long recognized the centrality of energy to international economic development, peace, and security. President Trump's National Security Strategy builds on this tradition while focusing on three areas: export promotion, energy access, and energy security. In each of these areas, America seeks to broaden the economic and social benefits of free, fair, and transparent energy markets and to oppose those who would use market power to advance malign political objectives. We see energy diplomacy as a means of arriving at win-win solutions that advance global peace, prosperity, and development. The United States will continue to strongly support free, fair, and transparent energy markets and oppose those who seek to turn them into instruments of malign influence and tools of political and economic coercion.