

The Transatlantic Energy Challenge--Security, Prosperity, Climate

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Principal Deputy Assistant Secretary Kurt Volker: Thank you very much John. There is a small but significant step before I show up at NATO and that is a Senate confirmation vote. I do not want to take anything for granted but I am delighted to have been nominated for that position. And I would gladly join you in seeking to reinstate a Hungarian culinary presence in Washington. I think that is something that is definitely lacking and I can think of what I would like to see on the menu at least and we can consult about that later.



Thank you Zeyno and John and the Hudson Institute for inviting me to be here; it's a real pleasure. I agree with Dr. Kupiecki that our topic today is very broad and encompassing—what I would call a mega-topic because it touches so many different areas.

I think it touches transatlantic issues such as how the U.S. and Europe work together. It touches energy issues in terms of how we power the well-being of our societies. Jobs, growth, education, and health all depend on burning energy to ensure healthy societies. It touches the greenhouse gas emissions and the climate change issues because by burning these fossil fuels we produce those things. It touches development issues, because what we really want to see in terms of global human development is the growth of the developing world—something the U.S. puts a lot of effort at. By doing so, we are creating an increasing demand and competition for energy resources. And a tight market is a supplier's market. The suppliers have a lot of relative power in that kind of environment in which we are seeking to promote that kind of global growth and that very same global growth is again the largest source of growth in greenhouse gas emissions in the world. Developed country emissions are relatively stable with low levels of growth. Last year the U.S. experienced a small increase in our levels of carbon dioxide emissions; we will see if that holds for another year or not. But the developing world's emissions are growing very quickly.

It is a whole nexus of issues that relate to one another. It also has to do with pernicious effects, I just sort of gave you the economic and the mathematic relationships but there are also some pernicious effects to this. There are relatively few countries in the world that can supply fossil fuels in great quantity. Those who have the supplies get the money we pay for those fossil fuels and use it for whatever they want. Sometimes we do not agree with those uses; sometimes we find that we are funding problems that we would rather not have. For example, Iran is a major producer of fossil fuels and energy. In our hemisphere, we send a lot of money to Venezuela, which has been supporting some anti-democratic movements. In Europe, Russia is the single largest supplier of energy fossil fuels and we see the effects of a large, state-owned, centralized monopolistic player in European markets and the effect that has politically and strategically in Europe. So we need to be seeing this as a whole.

There is another dimension when I come back to the climate side. Security on the energy side deals with what happens when there is an interruption of a supply that affects the security of our nations—and a monopolistic supplier has the power to cause such an interruption. Security on the climate side deals with a whole other set of issues. If the transatlantic community is arguing over climate change issues, we are creating a division within that community. This is counter-productive. We need exactly what Robert said: a sense of solidarity in dealing with these mega-challenges. That is some of the analysis that we have of this huge challenge and problem that is out there.

I will do a little self-advertising and say that in October 18th of last year I was in Philadelphia and gave some remarks at the World Affairs Council, so if you want to get something in writing where I talk about this, go to Europe.state.gov and look up World Affairs Council Speech from October 18th. I think you will find some of these things spelled out in there as one of two major challenges that we face in the world.

So how do we deal with this mega-challenge? The first thing is political will and resolve. We have to recognize this as a big deal and do something about it. I think that all of us have had a little complacency in thinking that there's a lot of time, that it is not as challenging as it is, or to think that we could deal with these things piecemeal. I think we do need a genuine strategic view of what the energy security climate geopolitics really is.

Second, when you look at this problem we have to diversify sources of energy so that we are not dependent solely upon fossil fuels. More coal, more wind, more sun, more everything. We have to diversify sources in terms of who the supplier is so we do not end up in monopolistic environments. We have to diversify routes of delivery of fuels so that we are not dependent on the geopolitical implications of it being one thing or another. Diversification is a critical point. On this too, we come back to Robert's point about solidarity. Different states perceive the need for diversification in different ways. France generates 80 percent of its electricity from nuclear power. It perceives the issue of a large Russian gas monopoly differently than a country like Georgia or Latvia, which is 100 percent dependent on the Russian gas monopoly. The idea of solidarity within the EU, solidarity within the transatlantic community, is important for effectively addressing this kind of issue.

The European Commission has put forth some very interesting proposals along these lines saying that member states must act as one and that there ought to be a European energy market as opposed to individual national markets only. The EU ought to impose restrictions on the bundling of energy companies and energy supply so that it breaks up monopolistic tendencies in the marketplace. The idea of vertical integration where the same entity controls both the supply and the distribution. It is a principle that is applied in other parts of the economy and the Commission proposed that we ought to be applying this in the European economy more broadly. I think it is the direction that thinking has to go to build this sense of a common impact of what's happening on this issue and a sense of solidarity in dealing with it.

I want to stress a point here, and I think it is similar to what Robert said earlier. I am not suggesting that Russia should not be an energy supplier or that Europe should not be getting energy from Russia. What we want is to see that energy supply take place in a market context where it can be balanced by competition and balanced by alternatives. It is the centralization of control and politicization of control that can be a risk and what a diversified market can help mitigate. I think that is the way to think of it, not as an anti-Russia approach but rather a pro-competition, pro-transparency, pro-diversity one that creates a healthy economic environment.

What other things can we do though? At the U.S.-EU Summit, which took place in Vienna in 2006, we agreed on a set of energy market principles: transparency, competition, openness. Those were things that were based on principles developed in the IEA, and there were things later expanded upon in the G-8 Summit that took place later that year. Working in the U.S.-EU framework, there are things we can do to emphasize achieving a healthy energy market. There are also things that can be done within NATO. The things that NATO is good at are the operational things, the concrete things, where there is a security element that NATO can tackle. For example, things like security of supply or security of maritime transportation make a lot of sense. When you think about the day-to-day running of energy markets, NATO does not have the tools. NATO is not the place where you're going to be talking about building a pipeline to have an alternative route or source of supply to another one. NATO is not going to be gathering together investors to determine what an alternative energy source might be. The day-to-day things that happen in the energy field are not going to be done through NATO. But the consequence is that if you nonetheless have a catastrophic interruption of energy supplies to a NATO member, then that is a security issue. That is a strategic issue that NATO needs to think about. While NATO may not have all the tools in its toolbox, others do have those tools. It is not an issue that NATO can afford to ignore. It needs to be an area of strategic consultations, with awareness as to what is happening in the rest of the world. As Robert suggested, there might need to be a little more flexibility in the way that NATO and other institutions consult one another. I think the organization has been stove-piped a lot over time, and I think it can have more flexibility in that the future.

Another thing that we can do is to actually produce results in the UN framework convention process. Earlier, the sixteen largest economies in the world plus the EU met to talk about how they, as the producers of over 80% of the world's emissions, can choose the way that their economies use energy and produce those emissions. If we can actually make progress in driving down the way we produce emissions, there will be an effect in driving down the way we consume fossil fuels. That is part of dealing with this energy challenge as well. When you think of these things in an integrated manner, not only are the challenges related in terms of security implications, many of the solutions are related as well. By investing in clean technology—something the U.S. and the EU have agreed to do together—by encouraging private sector investment in clean technology, and by contributing to a successful UN framework convention process—our goal is to agree on a post-2012 framework by 2009—we can actually have an impact on consuming energy.

I want to take a further moment just on this 2012 framework and what it means. We want to have a global goal for reducing emissions. We want the major countries involved to have national or regional plans that are concrete and based on a variety of tools that people can implement in their own economies to affect their own emissions. We want to see real metrics so we can measure things properly: how do we know how much green house gas is being emitted? We have a difficult time with that now. We want to focus on specific sectors that are responsible for a significant share of emissions. One of them is power generation from coal. Coal is about 50 percent of power generation today and is increasing all the time. If we can clean the way that we burn coal and sequester the carbon emissions that result, we can make a major impact on the environment. Use of coal in a clean way can also affect reliance upon other fossil fuels, such as oil or gas. We want to have a technology transfer fund to facilitate the transfer of cleaner energy technologies from our developed world economies into the developing world so that they can skip a generation of energy-producing technology. We need a further emphasis on deforestation because that accounts for about 20 percent of the emissions increases going on now. These are some of the issues we would focus on in a post-2012 framework. If we did a lot of those things successfully I think we would have a real impact on the demand for the oil and gas. That would help address some of the supply security issues that we are trying to solve.

Finally, I want to talk a little bit about the developing world again. One major U.S. objective is human development in the developing world: growth, jobs, education, and health care. We spend billions of dollars on development assistance, billions of dollars fighting malaria, billions of dollars in aid. Europe does the same thing. We want to see these countries develop and prosper. The way that they will develop and prosper in a sustainable way is through economic growth and that means being part of a global economy. Building their economies will produce greater emissions from these economies, substantially greater especially if you think about India, China, and Africa—unless they can change the way that their economies process energy. There has got to be a big effort to break the link between economic growth and increased emissions, to break the link between global wealth and global warming. So a huge amount of U.S. and European effort needs to be directed in order to bring new technologies into the marketplace to break this link. We will be facilitating the development of the developing world, which we all favor, but doing so in a way that does not produce the greenhouse gas emissions, reduces the competition for scarce fossil fuel supplies, and weans our own economies away from dependence upon the oil and gas that we now have.

I think that is really at the heart of what the major economies of the world must do, how we drive the UN framework process to ensure the development and deployment of technologies that will change the way we process energy in our economies.

That is a stab at how we can look at these issues in an integrated way: the challenges, the various tools that we need to address, and how some of these solutions can play back into each other. I look forward to the question and answer period. Thank you.

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