

**Speech by Ambassador Daniel Speckhard
at the 2nd South East Europe Energy Dialogue
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Efharisto. Thank you very much for that warm introduction and I want to wish you and all the others in this room who have a special name, a happy name day, hronia polla and I hope you won't spoil your name day with a long speech. And I want you to know that I told Kosta we should skip my speech go out to this beautiful patio and just have drinks by the beautiful seaside but he said "No, you are here to work".

So it is his fault. But it is actually a pleasure for me to be in Thessaloniki, a great city, a very appropriate city to be talking about energy issues. I also would like to say how pleased I am to be sitting here today at this table with the Charge d' Affairs of the Russian Embassy Mr. Savva Because I think that one of the points I would like you to take away from this is not that the United States has policy or political issues in terms of foreign policy but this is about economics and a discussion, an open, honest, frank debate on the issues related to energy supply and security and the world today. And it is not a political one it is an economic one. And it is a good thing all of these experts are in the room to have this discussion and it makes me humble to be in the room with you today because I know many of you are actually much more expert in these areas. I look forward to learning from you as well.

I want to talk about three things today. One is

- what the United States is doing about energy and climate change at home and in the international arena;
- second, our views on how Greece and Europe can benefit from developing the "Southern Corridor" for supplying Caspian energy to Europe;
- and finally, some exciting new developments in the realm of bilateral cooperation between Greece and the United States in renewable energy.

Let me start at home. In the United States, we believe that energy security is inextricably linked with economic prosperity and national security. Americans want their government to do something about energy and climate change, and, as I will explain in a few minutes, we are doing a lot at both the federal and state levels. In the international context, energy is the lifeblood of economies around the world; global economic growth depends on adequate, reliable and affordable supplies of energy.

Indeed, every key U.S. foreign policy objective, including support for democracy, trade, sustainable economic development, environmental protection, and poverty reduction relies on the provision of safe, reliable, affordable energy supplies. President Bush summed this up succinctly when he said 'Extending hope and opportunity depends on a stable supply of energy "and I am certain given the recent run-up in energy costs here in Greece, which the press has shown impacts the less-advantaged members of society most, that this social costs of high energy prices have been brought into sharp focus for all of us.

The global nature of energy markets means that supplying affordable, clean and reliable energy services is the responsibility that we all share and must continue to address as a global community.

If any country, particularly the world's major economies, misuses or mismanages its energy resources, without considering the global implications of its actions, this will have a far-reaching negative impact. And as traditional energy resources become less available and more difficult to develop, energy security will become even more critical component of economic security and national security.

Let me talk about the Global Picture. A few key trends are of particular concern. Most of the energy that drives the world economy today is derived from fossil fuels, in particular

petroleum. Exportable oil resources moreover come from a relatively small number of producers.

The world's dependence on a few countries is neither a stable state of affairs nor is it sustainable over the long term. Record high oil prices indicate limited spare oil production capacity in the world market and it's due to a lack of investment in new supply and high levels of demand growth in many parts of the world, including Southeast Europe.

Hydrocarbon resources are often located in places that are hard to reach and geologically difficult to develop, politically unstable, or unfriendly to new foreign investment factors could also contribute to that problem. That does not mean that we should give up working in these regions, quite the opposite. It just means that we will all have to work harder to make these supplies accessible. The end result – access to new sources and types of energy -- is worth it.

Secretary of Energy in the United States Samuel Bodman has noted, "Energy diversity is good for both consuming and producing nations. It inherently improves energy security by reducing dependence on any one type of energy. It reduces pressure on traditional energy markets, and it's good for the environment, by increasing the sustainability of the world's natural resources and reducing emissions."

Since I mentioned the Environment, let me stress the Secretary's last point: energy diversity is also good for the environment. Yes, the environment. The fact is the United States is doing quite a lot on the environment and climate change. This is, sadly, one of the least understood policy areas of my Government, so I'd like to discuss it in a bit more detail.

But before I give you the details, let me be clear on some basic principles:

- The United States agrees that human activity contributes to global warming;
- We support the recent sobering report of the UN's Intergovernmental Panel on Climate Change. In fact, the U.S. provided most of the financial support for the IPCC and U.S. scientists played a leading role in the analysis;
- We are not only committed to reducing greenhouse gas emissions as a general policy matter, we have a new, ambitious set of targets that require us to do so;
- As a nation, we have made large capital investments in reducing greenhouse gas emissions; and
- These investments are producing results that stand up favorably against the results of any other country.

This is an important point to make - Just because we didn't ratify the Kyoto Protocol doesn't mean that any of these statements are less true, nor does the signing of Kyoto by others in and of itself mean they are performing better, or in some cases even coming close to meeting their requirements. And the point I am making here is that the Kyoto term has become so synonymous with whether you are for or not adequately for the environment that people lose the sight of the details and the facts underneath, where all of us as countries need to be focusing our attention.

Now, I know there is a deeply held view among many in Europe that the U.S. Government doesn't care about climate change, that we are doing nothing to reduce greenhouse gas emissions; and that Europe is doing a better job of tackling the issues than the United States. This proposition is simply wrong.

Yes, until recently, the United States was the world's largest emitter of CO2. Everybody here knows that. But this fact says no more about the United States, than the fact that Germany leads Europe in emissions says about Germany.

The United States has high greenhouse gas emissions primarily because it is the largest economy in the world. With 5% of the world's population, we produce 25% of global wealth. Our emissions are related to the size of our economy.

It is more important to note, however, that the growth in U.S. emissions has slowed considerably since the 1990's. And between 2000 and 2005, the latest period for which we have comparable UN data, the U.S. and the EU-25 experienced roughly the same rates of growth in emissions -- about 1.5 or 1.6 percent. To put this in perspective, however, let me note that during that same period the U.S. economy and population both grew at approximately twice the rate of the EU. So we are going up twice the rate but our emissions are basically the same, as in European Union in growth.

In 2006, U.S. emissions actually declined, and we will continue to work seriously to reduce our "carbon intensity" going forward. In fact, the mandated targets set out in the 2007 U.S. energy law- this is a new law that was just passed last fall and I would encourage you to read it if you are interested in this area- that new law will be on a par with the emissions to be cut under the Kyoto Protocol.

So, how did the U.S. decrease its emissions? Primarily through the intelligent application of market-based, high-technology solutions to power generation and increasing fleet efficiency in transportation. While I could provide many examples, let me give you one that we all know can work in Greece – wind power.

In the United States, the wind power has increased generating capacity by 20% in 2006 alone. In 2007, wind energy contributed more than 30 percent of the new U.S. generation capacity, making it the second largest source of new power generation in my country - surpassed only by natural gas.

Wind's exponential growth reflects the nation's increasing demand for clean, safe, domestic energy, and continues to attract both private and public sources of capital.

The U.S. wind industry installed 2,454 megawatts of new generating capacity in 2006, an investment of approximately \$4 billion. In 2007, the U.S. wind industry invested an additional \$9 billion. Wind energy facilities currently installed in the U.S. will produce an estimated 31 billion kilowatt-hours annually, or enough electricity to serve 2.9 million American homes. This 100% clean source of electricity will displace approximately 23 million tons of carbon dioxide – the leading greenhouse gas – each year, which would otherwise be emitted by coal, natural gas, oil and other traditional energy sources.

I want to emphasize that my government has taken an active role in this process, at both the federal and state levels. The U.S. Congress recently extended the federal production tax credit (PTC) through December to further expand the number of wind farms throughout the U.S. A recent report by the Department of Energy outlines steps to take which would allow us to produce 20% of all U.S. electricity via wind energy by 2030. If we are able to achieve these goals, we would avoid the accumulation of 7.6 gigatons of CO₂. These are challenging goals, but through continued commitment, they can be within reach.

Federal regulations have also ensured that renewable electricity generators can sell their power output to the grid at market-based prices. States such as Texas and California are also very active in pressing environmentally-sound solutions.

In Texas, Governor Rick Perry recently announced a major public-private initiative that could increase wind-generated energy in Texas by approximately 7,000 megawatts. In response, eight companies have committed to invest more than \$10 billion in new wind projects. If Texas – home to America's traditional oil industry – can do so much to foster wind energy, I am sure Greece and its Balkan neighbors can do equally well.

Now, let me turn to the "Southern Corridor," which I said we were going to talk about as well. For over a decade, the United States has worked very closely with Greece, Azerbaijan, Georgia, Turkey and Italy to develop a southern corridor, which encompasses both TGI and Nabucco, to move oil and natural gas to European markets through commercially viable projects. The United States Government has not and will not subsidize these projects and we will not need to.

But we will do everything we can to work with companies and governments to realize their own objectives in search of diversifying supplies of oil and natural gas to Europe and global markets.

Why would we put our efforts into such a diplomatic strategy? Our belief is that, by doing this, we can achieve a number of mutually-reinforcing goals. In the Caucasus and Central Asia, the source of these new energy supplies, we can strengthen regional economic cooperation and growth, which will bolster the well-being of these states' citizens. Simultaneously, we will help Greece and our allies here in Europe strengthen your economy by enhancing the competitive nature of your energy markets.

And speaking of Gazprom, Russia has the largest supplies of natural gas in the world, and it will always have the largest supplies of natural gas in the world. It is important that all our allies have a positive, market-based, mutually beneficial relationship with Russia on natural gas. But of course to do that, it is critical that our allies put themselves in a strong negotiating position.

Clearly, diversity helps contribute to this position. As all of you know, Greece receives eighty percent of its natural gas from one company, not just one country. It does not matter what country that company is coming from: it could be American, it could be Bulgarian, or it could be French. It happens to be Russian. But when one company provides eighty percent or more of what may be a country's most important commodity, the receiving country is not in an optimal negotiating position for its consumers. Improving that negotiating position, in order to improve prices and security of supply, is what energy diversity is all about.

I ask you: If a company is a monopoly by law, like Gazprom, how should rational consumers behave? As you know, monopolies by definition around the world and at all times seek to decrease competition. A monopoly is in the market-dominant position and therefore does not want to see change. It wants to use its monopolistic leverage to maximize the price of the commodity it supplies. Diversity of supply is the antidote that allows Europe to strengthen its ability to keep gas prices under control through the market force of competition. As I said earlier, this is preeminently a social question, as high energy prices hit the less-advantaged members of society especially acutely.

The competition that diversity produces can and is coming from Azerbaijan. Since the momentous TGI opening ceremony at Kipi Bridge last winter, Greece is the first European Union member receiving gas directly from Azerbaijan. Greece and TGI have unlocked the door to a whole new supply source.

And what a supply source it is! We are convinced, through careful analysis and not just wishful thinking, that Azerbaijan alone – just the country of Azerbaijan – has enough gas to fill the Turkey-Greece-Italy pipeline and to fill the Nabucco pipeline.

The issue now is to sustain and increase the flow of Caspian resources to and through Greece. This requires complex diplomacy with Turkey, Georgia, and Azerbaijan. It requires conclusion of a whole new generation of supply contracts and transit agreements, which we are working on. The challenge is to harness all that gas available in Azerbaijan at the right time to meet the contractual needs of the investors. In short, the key is proper sequencing.

Some say that TGI, even TGI and Nabucco together, will do little to enhance European energy diversity. I could not disagree more. As we bring these two projects to fruition, we will see approximately forty-five billion cubic meters of natural gas coming into Europe. This is a significant amount, equaling almost twenty percent of Europe's current imports.

When that happens, market dynamics will take over and no single company will be able to distort the market and sustain higher prices than necessary. In other words, the addition of Caspian resources will significantly bolster market mechanisms. That is why the leaders of any country should want to work as rapidly as possible to accelerate gas production around the Caspian Sea and in Iraq, to make sure that their voters and their consumers are in the strongest negotiating position possible. That is exactly what we are doing with our Caspian friends and European allies, including Greece.

I think, in view of the foregoing, that you can predict some of our thoughts on South Stream. But let me be explicit. Greece has now signed an agreement to participate in South Stream, a pipeline designed to run along routes close to those planned for Nabucco and TGI. Let me quote the reaction of our Deputy Assistant Secretary, Mr. Matt Bryza, because very few media quoted his actual words, "reports saying that we are somehow annoyed are fantasy. They're manufactured reports. We're not annoyed at all. It is up to Greece to do whatever it wants with its energy supplies."

The fact is, as I've said before, we respect the Greek government's right to establish its own energy policy.

In our view, the primary purpose of the South Stream pipeline is to delay or prevent construction of the Nabucco pipeline, which Brussels and not Washington has declared a priority project of the European Union.

This is not an evil plot by Gazprom. This is not a conspiracy. This is straightforward rational self-interest on the part of Gazprom. Even if, as expected, South Stream is the most expensive gas pipeline ever built as a result of its deep-sea routing, if it can operate for several years without competition from Nabucco, it will expand the market power of Gazprom -- not only on the consuming end in Europe, but also on the producing end in Central Asia. But please note: while it's rational behavior, it is NOT market economics. It's monopoly economics. Consumers, on the other hand, optimize their interests when they purchase not only from one company but from a wide choice of providers.

Given a choice between a market-oriented, competitive pipeline, and a non-competitive pipeline, the United States will always prefer the competitive pipeline. That is what best unites the common interests of producers and consumers.

Before leaving the subject of South Stream, I want to raise one other question we have that goes to the heart of its purpose: the source of its supplies. According to press reports, South Stream is designed to carry some 30 bcm of gas to Europe. It remains unclear where this large supply of gas will come from. If South Stream represents just a re-routing of gas currently going through other pipelines, the question arises: why would Gazprom want to create such a rerouting? If, however, South Stream aims to bring new supplies of gas to Europe, where would these supplies come from? To our knowledge, the only realistic new sources of such gas are in the Caspian basin. Rerouting these new supplies into South Stream, as opposed to sending them through pipelines independent of the Gazprom network such as TGI and Nabucco, would just allow this monopoly to charge more for these supplies in Europe and pay less for them in the Caspian, further increasing its control over gas supplies to Europe.

By the way, let me answer those of you who have asked what the United States' natural gas supply situation looks like. Luckily, we're in pretty good shape. At this time, domestic production supplied by a number of independent U.S. gas firms equals 85% of our overall

natural gas supplies. Let me say that again -- we produce domestically 85% of our natural gas supplies, quite a different situation from the situation in Greece. Twelve percent of our supplies come from a number of independent producers in Canada, and three percent from liquid natural gas. And when I mention Canada, now I am saying from a number of independent producers, not just one. In order to further enhance our diversity of supplies, we are looking in particular to increase LNG imports, including from Gazprom, from whom we currently do not import.

Now let me talk about the Neighborhood I want to tell you about a recent development of which I am quite proud, cooperation between Greece and the United States in the field of renewable energy in the Balkan states.

Our primary assistance arm, the U.S. Agency for International Development, Bob Ihog, is here in the audience today representing them- is working closely with Hellenic Aid to develop an agreement to assess ways in which we can work together in the Balkans to increase energy efficiency and the use of renewable energy. This is one of the most successful expressions of the Economic and Commercial Cooperation Commission, which met last in March 2007 and will meet again this coming June.

If our hopes for this cooperation are borne out, we will proceed over the coming year from a general catalog of possible areas of cooperation to very specific projects. These projects could include activities such as working to improve the energy efficiency of different types of buildings and providing advice on building the capacity of governmental renewable energy bodies and other such projects.

I believe we took a major step forward in this cooperation on Monday evening, when Hellenic Aid's and USAID's renewable energy implementers signed a formal Memorandum of Understanding setting out the formal parameters of our cooperation. This is a wonderful effort, and one that is bringing our two countries together in a way that helps the entire neighborhood.

In closing, I would reiterate that the U.S. and Greece have strong, long-term, strategic interests in common when it comes to energy issues -- globally and in the neighborhood. And from climate change to gas pipelines to windmills, I'm confident that Americans and Greeks will keep working together. We always have, since the United States and modern Greece were born.

Thank you very much.

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