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EUROPEAN ENERGY SECURITY: U.S. INTERESTS AND COERCIVE RUSSIAN DIPLOMACY

HEARING

BEFORE THE

SUBCOMMITTEE ON EUROPE AND REGIONAL SECURITY COOPERATION

OF THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

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FIRST SESSION

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EUROPEAN ENERGY SECURITY: U.S. INTERESTS AND COERCIVE RUSSIAN DIPLOMACY

TUESDAY, DECEMBER 12, 2017

U.S. SENATE,
SUBCOMMITTEE ON EUROPE AND
REGIONAL SECURITY COOPERATION
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:02 a.m. in Room SD–419, Dirksen Senate Office Building, Hon. Ron Johnson, chairman of the subcommittee, presiding.

Present: Senators Johnson [presiding], Barrasso, Murphy, Markey, Menendez, and Shaheen.

Also Present: Senator Young.

OPENING STATEMENT OF HON. RON JOHNSON, U.S. SENATOR FROM WISCONSIN

Senator JOHNSON. Good morning.

This hearing of the—I am going to say the full committee's and subcommittee's name here—the Senate Foreign Relations Subcommittee on Europe and Regional Security Cooperation is called to order.

I want to thank our witnesses for appearing today, for their thoughtful testimony.

I will ask that my written statement be just entered into the record because it pretty well repeats the testimony. So no sense going into that.

And I will certainly turn it over to Senator Murphy for his opening statement.

But let me just make a couple comments to begin. I made my first trip as a United States Senator to Europe in February-March of 2011. I visited Georgia, Ukraine, and the Baltic States. Georgia had already been invaded. Ukraine's primary problem was corruption within their wheat markets. This is before the invasion of Crimea and eastern Ukraine.

What was quite notable was just the pressure that Russia was putting on those fledgling democracies. We called them the ring of democracies around Russia. And for what reason? Apparently just to destabilize, but we certainly determined the effectiveness of their propaganda, of their disinformation campaigns. Later we are going to find out the hybrid warfare that they instituted in Crimea and then burgeoning into the invasion of eastern Ukraine.

So the title of this hearing, "European Energy Security: U.S. Interests and Coercive Russian Diplomacy," would just be another method that Russia is utilizing to destabilize.

Our goal as the United States is to stabilize, provide security. And in subsequent trips over to Europe, it is pretty easy to make the point to our European allies and people that are struggling to shed the legacy of Russian corruption, of Soviet Union corruption. Their future lies with the West certainly economically. There is no economic future looking to the East or Russia.

And so what we need to do is we need to do everything we can to help stabilize the situation. The purpose of this hearing is—again, the subsequent visits to these nations—and this is actually quite confusing, all the different pipelines, which ones we should support, which ones should we not support, what type of infrastructure needs to be built. That is really kind of the purpose of this hearing is trying to lay out the facts, how important energy security is. You know, America—we have done a pretty good job of becoming energy independent. We need to do everything we can to encourage Europe to take a look at this holistically, strategically, and make sure, again, not to deny the use of Russian oil and gas but to make sure that they cannot utilize that in their coercive diplomacy.

So, again, I want to thank the witnesses for your testimony. We are going to look forward to it.

With that, I will turn it over to Senator Murphy.

[Senator Johnson's prepared statement follows:]

PREPARED STATEMENT OF SENATOR RON JOHNSON OF WISCONSIN

Good morning and welcome. The Senate Foreign Relations Subcommittee on Europe and Regional Security Cooperation is meeting today to examine European energy security. We will hear from two Administration officials on U.S. interests and policy options on this issue.

In a recent speech at the Wilson Center that Assistant Secretary Mitchell and I attended, Secretary Tillerson put it succinctly when he said, "Russia is playing politics with energy supplies." For years, the United States has urged Europe to diversify its energy portfolio, increase domestic production, integrate critical infrastructure, and coordinate on energy policy. The U.S. has done so, not just because energy independence strengthens our allies, but because Russia views its vast stores of oil and natural gas as arrows in its geopolitical arsenal. Unfortunately, Europe's fractured approach to energy security combined with certain countries' willful blindness towards the problem have left Europe vulnerable to the political coercion that often accompanies Russian hydrocarbons.

The European Union is currently the world's largest energy importer. More than half of its energy needs come from external sources, with the daily bill totaling more than €1 billion. Russia is the EU's dominant supplier, accounting for 33 percent of natural gas imports and 36 percent of oil imports. EU dependence on Russian imports varies widely across its individual members. Eleven member states depend on Russia for at least three quarters of their gas imports. Nine, however, do not import any Russian gas. This disparity is a major factor in the EU's inability to implement an integrated energy policy. Russia, moreover, has further solidified its influence by amassing significant holdings in Europe's energy infrastructure, including pipelines, distribution, and storage facilities.

Despite some progress since the 2014 Ukraine crisis, most analysts agree that EU dependence on Russian gas will increase in the near term. Over the same period, aggressive emission reduction goals are expected to increase the EU's reliance on natural gas in its overall energy mix. The question for this committee today is what, if anything, can the United States do about it. U.S. policy has historically focused on supporting the development of viable alternatives. For a host of reasons, these alternatives have remained elusive. Instability in North Africa and the Middle East have stifled increased exports from those regions, despite ample supply. The South-

ern Gas Corridor project has been resurrected, but even if completed, initial output will not significantly alter Russia's market share. Liquefied natural gas holds significant promise, but it is yet unclear whether Europe will embrace it as a major alternative. Tellingly, the most significant project in the works is Nord Stream 2, which will double the capacity of Russian gas exports to Germany via the Baltic Sea, severely curbing the political leverage of transit states such as Poland, Ukraine, and Slovakia.

The growing energy independence of the United States, fueled by the shale boom of the last decade, stands in stark contrast to the predicament of our European allies. As the U.S. becomes increasingly insulated from the geopolitics of the global energy market, it is vital that we do not lose sight of the importance of European energy independence for our security. Russian has the means and has demonstrated the will to coerce political change in states that rely upon its energy exports. This is a potent tool with which Russia can further its policy of instability and division within NATO and Europe. Our hearing today will examine how U.S. policy can best ensure this does not happen.

STATEMENT OF HON. CHRIS MURPHY, U.S. SENATOR FROM CONNECTICUT

Senator MURPHY. Thank you very much, Mr. Chairman. Thank you for convening this hearing.

Thank you to both of our witnesses. I look forward to your testimony.

This morning there was a deadly explosion at a gas plant in Austria. It sent a shock wave through European energy markets. Already prices for delivery are soaring, one dead, several injured. This is a reminder frankly of the fragility of European energy security, but it is not a wakeup call because we have had plenty of those before.

Almost a decade ago in January of 2009, the lights went out in Europe. A dispute between Russia and Ukraine led the Russian Government to cut off gas supplies to Europe in the middle of the winter, leaving most of southeast Europe and several other countries without power. The standoff continued for 2 weeks.

And so this crisis now a decade ago—it exposed the region's overwhelming reliance on Russian gas. And it did motivate the European Union to adopt the Third Energy Package later that year. Since then, it has been a chore to keep all of the European Union together in that initiative, though there have been some, I think, very encouraging developments, the development of new interconnector pipelines so that gas can more easily move within Europe, improved regulatory frameworks so that Russia cannot bully smaller countries. There are some very positive things happening.

But we saw a budget submitted to the Congress earlier this year which proposed a $50 billion increase in defense and a 40 percent reduction to the State Department, the State Department which oversees work with Europe to try to reduce dependency on Russian oil. We are simply fooling ourselves as a Congress and as a country if we think we can protect this nation and our treaty allies with a 40 percent reduction to the Department that works primarily in the area of energy security. We have to fundamentally rethink the way in which we allocate resources to protect this country. The military is important, and I am darned proud of the helicopters and the submarines and the jet engines that we make in Connecticut. But when it comes to European security, we have to recognize that the way in which we spend money today simply is not working.

And so to that end, I am currently working on legislation that would establish an investment fund that pools resources to diversify energy sources and energy transport capabilities of Central and Eastern European countries. We are spending $4 billion on a European Reassurance Initiative that is almost all military spending. That is important. But if we are spending no money trying to actually move their gas and oil dependence away from Russia, then we are simply not meeting the security needs of our treaty allies.

So thank you, Mr. Chairman, for convening this. I look forward to the witnesses.

Senator JOHNSON. Thank you, Senator Murphy.

Our first witness is Dr. Wess Mitchell. Dr. Mitchell is the Assistant Secretary of State for European and Eurasian Affairs.

Prior to his appointment, Dr. Mitchell co-founded and spent 12 years building the Center for European Policy Analysis. He is the author of numerous articles, reports, and books on transatlantic relationships and geopolitics. Dr. Mitchell received his Ph.D. in political science from Freie University in Berlin, Germany.

Dr. Mitchell?

STATEMENT OF HON. A. WESS MITCHELL, ASSISTANT SECRETARY, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, UNITED STATES DEPARTMENT OF STATE, WASHINGTON, DC

Dr. MITCHELL. Thank you, Chairman Johnson and Ranking Member Murphy, for inviting me to testify before this subcommittee on European energy security. I appreciate the Senate's leadership on this subject and in particular the active role that both of you have played in keeping congressional attention focused on this and other important dimensions of transatlantic security.

We live in a time of profound change: Change in international economics, change in technology, change in the scale and nature of threats facing the West. These changes make it more important than ever that the United States be strategic in its approach to Europe and that we cultivate strong alliances as an advantage in geopolitical competition. No other power in history, past or present, has had the wealth of allies that the United States has today. President Trump and Secretary Tillerson have made a priority of strengthening our alliances. That commitment has been underscored in multiple cabinet-level visits to Europe, affirmations of article 5 of NATO, seven trips to Europe by Secretary Tillerson, $1.4 billion in new funding requests for the European Defense Initiative, intensified U.S. diplomatic engagement in the crises on Europe's southern and eastern frontiers, and as we will discuss today, increased attention to the U.S. role in the diversification of European energy.

The energy security of our allies is a fundamental U.S. national interest. When allies' access to reliable and diversified energy is secure, they are less susceptible to pressure from outside powers. In recent years, we have been reminded of just how vulnerable many of our allies in Europe are in this regard. Russia has repeatedly demonstrated its willingness to wield its vast natural resources as a geopolitical weapon against our allies. One study found 55 instances of Russia using supply cutoffs for political purposes over a

14-year period. Another identified 41 examples in 1 year alone of Moscow linking political demands to energy deliveries.

Today, EU member states collectively remain the largest net energy importer in the world, and the Russian Federation remains by far their biggest single supplier.

It is neither possible nor desirable to exclude Russian gas from the European market. The problem is that Russian leaders tend to view energy exports not as a matter of supply and demand, but as the extension of politics by other means. Moscow is working to construct two new pipelines, Nord Stream 2 and a multi-line Turk Stream which, if completed, would bypass Ukraine as a transit country, heighten the vulnerability of Poland and the Balkans, and deepen European dependence on the Russian gas monopoly.

Russia's goal is to divide the West and drive America apart from our allies. Its efforts are smart and coordinated. The manipulative use of energy is part of a toolkit that includes cyber attacks and disinformation, as well as military buildups, exercises, threats, and as we have seen in Ukraine and Georgia, the actual use of military force.

To counter these methods, the United States pursues a European energy security strategy built on three planks: diversification of fuel types, of countries of origin, and of delivery routes. We are working to spur the development of infrastructure for diversity of supply through import terminals like Croatia's Krk Island liquefied natural gas floating storage and regasification project. We encourage allies to invest in intra-European pipelines, and we are revising the rules governing the export of liquefied natural gas and U.S.-produced crude oil, which will unlock the wealth of American energy to the strategic benefit of allies and provide a boon to the U.S. economy.

The advent of cheap and abundant LNG is turning natural gas into a globally traded commodity, connecting otherwise isolated regional markets to the Atlantic basin. For allies reliant on a single source of energy, the mere availability of LNG provides leverage when negotiating contracts with Russia. To cite one notable example, in the period since Lithuania began importing LNG, the price it pays for gas has fallen 20 percent.

An important component in U.S. strategy is to encourage closer political and economic cooperation at the regional level among the allies most vulnerable to supply manipulation in Central and Eastern Europe. Lack of seriousness about the need to increase north-south infrastructure between the Baltic and Black Seas has contributed to Europe's vulnerability. We have prioritized U.S. engagement in groupings such as the Three Seas Initiative, Visegrad Group, Bucharest Nine, and Nordic-Baltic group as platforms for bolstering the region's resilience against energy coercion.

In all of our efforts, we seek to ensure open, competitive, and sustainable energy markets. We advocate for fair and transparent competition to give U.S. companies a level playing field. We encourage the EU to abide by its own commitments to diversification under instruments like the Third Energy Package. Some of the largest EU member states ignore these instruments in pursuit of commercially advantageous deals with Gazprom that undercut fellow member states to the East.

Russian influence makes easier headway in countries that are weak internally. To reduce those vulnerabilities, we work to strengthen the components of stability in the countries of the western Balkans.

This administration recognizes energy security as a fundamental component of U.S. national security objectives in Europe. We will continue to work closely with our allies and partners there to move the European continent toward a more diversified, efficient, and secure energy landscape. This is one of my foremost concerns as Assistant Secretary for European and Eurasian Affairs, and I remain committed to working with this subcommittee and Congress to achieve these objectives.

Senator Johnson, distinguished members of the subcommittee, I thank you for the opportunity to appear before this body. I appreciate your leadership on this critical issue and look forward to your questions.

[Dr. Mitchell's prepared statement follows:]

PREPARED STATEMENT OF A. WESS MITCHELL

Chairman Johnson and Ranking Member Murphy, thank you for inviting me to testify before this Subcommittee on European energy security. This is a matter of great strategic importance not just for our allies, but for the United States, and therefore a major concern for the Bureau of European and Eurasian Affairs. I appreciate the Senate's leadership on this subject and in particular the active role that you have played, Mr. Chairman, in keeping Congressional attention focused on this and other dimensions of transatlantic security.

We live in a time of profound change. Change in international economics, change in technology, and change in the scale and nature of threats facing the West. These changes make it more important than ever that the United States be strategic in its approach to Europe and that we consciously cultivate strong alliances as an advantage in geopolitical competition. No other power in history, past or present, has had the wealth of allies that the United States has today. President Trump and Secretary Tillerson have made a priority of strengthening alliances. That commitment has been underscored in multiple Cabinet-level visits to Europe, including seven trips by Secretary Tillerson; $1.4 billion in new funding requests for the European Defense Initiative; intensified U.S. diplomatic engagement in the crises on Europe's southern and eastern frontiers; and, as we will discuss today, increased attention to the U.S. role in the diversification of European energy.

The energy security of our allies is a fundamental U.S. national interest. When allies' access to reliable and diversified energy is secure, they are less susceptible to pressure from outside powers. In recent years, we have been reminded of just how vulnerable many of our allies in Europe are in this regard. Russia has repeatedly demonstrated its willingness to wield its vast natural resources as a geopolitical weapon against our allies. A Swedish study found 55 instances of Russia using supply cutoffs for political purposes over a 14-year period. The Estonian government identified 41 examples in one year alone of Moscow linking political demands to energy deliveries. In 2006, 2009, and 2014, Russian cutoffs to Ukraine disrupted gas flows to countries as far west as France and forced businesses and schools across southeastern Europe, in the dead of winter, to close for lack of heat amid freezing temperatures.

Despite years of efforts at diversification, today, EU member states collectively remain the largest net energy importer in the world and the Russian Federation remains by far their single biggest supplier, comprising more than a third of total EU oil and natural gas imports. For 11 EU member states, Russia supplies more than 75 percent of annual gas imports. For several countries, including Bulgaria, Finland, and Macedonia, the figure is closer to 100 percent.

It is neither possible nor desirable to exclude Russian gas from the European market. The problem is that Russian leaders view energy exports not as a matter of supply and demand but as the extension of politics by other means. Moscow is working to construct two new pipelines, Nord Stream 2 and a multi-line Turk Stream, which if completed, would bypass Ukraine as a transit country, heighten

the vulnerability of Poland and the Balkans, and deepen European dependence on the Russian gas monopoly.

Russia's goal is to divide the West and drive America apart from our allies. Its efforts are smart and coordinated. The manipulative use of energy is part of a toolkit that includes cyber-attacks and disinformation, as well as military buildups, exercises, threats and-as we have seen in Ukraine and Georgia, invasions.

To counter these methods, the United States pursues a European energy security strategy built on three planks: diversification of fuel types, diversification of countries of origin, and diversification of delivery routes. We are working to spur the development of infrastructure for diversity of supply through import terminals like Croatia's Krk Island liquefied natural gas (LNG) floating storage and regasification project. We encourage allies to invest in intraEuropean pipelines like the Gas Interconnector Greece-Bulgaria, Gas Interconnector BulgariaSerbia, and Gas Interconnector Poland-Lithuania. And, we are revising the rules governing the export of liquefied natural gas and U.S.-produced crude oil, which will unlock the wealth of American energy to the strategic benefit of allies and provide a boon to the U.S. economy.

The advent of cheap and abundant LNG is turning natural gas into a globally traded commodity, connecting otherwise isolated regional markets, including the Atlantic Basin. For allies reliant on a single source of energy, even the hypothetical availability of LNG provides leverage when negotiating contracts with Russia. To cite one notable example, in the period since Lithuania began importing LNG, the price it pays for gas has fallen 20 percent.

An important component in U.S. strategy is to encourage closer political and economic cooperation at the regional level, among the allies most vulnerable to supply manipulation in Central and Eastern Europe. Lack of seriousness about the need to increase North-South infrastructure in the space between the Baltic and Black Seas has been a contributing factor to Europe's geopolitical vulnerability in the East. We have prioritized U.S. engagement in regional groupings such as the Three Seas Initiative, Visegrad Group, Bucharest Nine, and Nordic-Baltic group as platforms for bolstering the region's resilience against energy coercion.

In all of our efforts, we seek to ensure open, competitive, and sustainable energy markets. We advocate for fair and transparent competition to give U.S. companies a level playing field. We continue to encourage the European Union to abide by its own commitments to diversification under instruments like the Third Energy Package. Some of the largest EU member states ignore these instruments in pursuit of commercially advantageous deals with Gazprom-deals that undercut fellow member states to the East. We support the work of the European Commission and Baltic States to integrate the Baltic power network into the European electricity grid. And we applaud the European Commission's investigation of abuses of Russian market dominance, which compelled Gazprom to remove contractual requirements restricting the destination and resale of gas. As a result, Ukraine, which previously imported all of its natural gas directly from Russia, was able last month to celebrate two consecutive years of receiving all gas from European partners through reverse flows.

Russian influence makes easier headway in countries that are weak internally. To reduce those vulnerabilities, the United States works to strengthen the components for domestic stability and constitutional order in the countries of the Western Balkans. As seen in Moscow's effort to destabilize Montenegro during its 2016 parliamentary elections, this region is the target of focused Russian attempts at strategic penetration. For this reason, as Secretary Tillerson has made clear, the United States must prioritize this and other regions of Europe under Russian duress.

This administration recognizes energy security as a fundamental component of U.S. national security objectives in Europe. We will continue to work closely with our allies and partners there to move the European continent toward a more diversified, efficient, and secure energy landscape. This is one of my foremost concerns as Assistant Secretary for European and Eurasian Affairs, and I remain committed to working with this Subcommittee and Congress in a bipartisan manner to achieve these objectives.

Senator Johnson, distinguished members of the Subcommittee, I thank you for the opportunity to appear before this body. I appreciate your leadership on this critical issue and look forward to your questions.

Senator JOHNSON. Thank you, Secretary Mitchell.

Our next witness is Mr. John McCarrick. Mr. McCarrick is the Deputy Assistant Secretary in the Bureau of Energy Resources at the State Department. He previously advised institutional inves-

tors on policy and political risk in energy and related sectors. Mr. McCarrick also practiced corporate law at Hogan and Hartson and was an investment banker at Merrill Lynch. He is a graduate of Georgetown University and Georgetown University Law Center.

Secretary McCarrick?

STATEMENT OF JOHN E. McCARRICK, DEPUTY ASSISTANT SECRETARY, BUREAU OF ENERGY RESOURCES, UNITED STATES DEPARTMENT OF STATE, WASHINGTON, DC

Mr. MCCARRICK. I would like to thank Chairman Johnson, Ranking Member Murphy, and the members of this subcommittee for the opportunity to appear today to discuss European energy security, an issue of vital importance to the United States.

A discussion of the role the Russian Federation plays in Europe's overall energy security is both fitting and timely.

I will focus on a few themes, including the dangers of energy overdependence and the critical importance of energy diversification in bolstering energy security. I will highlight the contribution that liquefied natural gas, or LNG, can make to Europe's energy diversification efforts and also the need for Europe to continue to improve its energy infrastructure and to implement measures to promote a more integrated and flexible energy market.

Energy security is a top policy priority for our European partners because many of them are highly dependent on a single supplier, the Russian Federation, for gas imports. Although some of the most vulnerable countries in Europe are making rapid progress to reduce their dependence, 11 continue to rely on Russian gas for 75 percent or more of their annual needs and several others for 50 percent or more.

The dangers of excessive dependence on a single supplier were highlighted, as Senator Murphy noted, in 2006, 2009, and 2014 when Russia cut off gas supplies to and through the Ukraine, hurting both the Ukraine and other Russian countries. Such actions are a reminder of Russia's persistent use of energy as a weapon.

The United States does not seek to eliminate Russian gas from the market. Our priority is helping Europe minimize dependence upon a single supplier. The United States supports a pro-Europe energy security policy based on diversification of fuel types, supply sources, and delivery routes. These actions are all needed to foster a more open and competitive European energy market, one in which all companies play by free market rules.

Indeed, the United States advocates for infrastructure projects, projects identified by the European Union as projects of common interest, that enhance diversification.

We have long advocated for projects like the Southern Gas Corridor that will help Southern and Central Europe diversify its natural supply with 10 billion cubic meters per year of gas from Azerbaijan and the Caspian Sea region as soon as 2020. This will be among the first entirely new sources of gas for Europe in many years.

In similar fashion, together with the European Union, we promote the merits of projects like Baltic Pipe, which would bring new supplies of natural gas from Norway via Denmark to Poland and on to countries of Central and Eastern Europe.

Importation of LNG, including from the United States when market conditions dictate, can also play an important role in diversification of Europe's gas supply. However, to secure the maximum benefit that LNG offers in promoting diversification, the proper infrastructure is essential. Europe must have both sufficient regasification capacity and the pipeline interconnectors to deliver the gas to the broadest range of customers.

We applaud the steps taken by Poland to construct a regasification terminal at Swinoujscie and by Lithuania to build a floating storage and regasification unit, or FSRU, in the port of Klaipeda. The impact of introducing LNG import infrastructure can be transformative. As Assistant Secretary Mitchell noted, after they opened this terminal, they were able to negotiate a 20 percent reduction in price and also reduce their reliance on Russian gas from 100 percent in 2015 to 45 percent in 2016.

While these are positive steps, much work remains if LNG is to contribute more options to Europe's energy security. The United States supports the establishment of an FSRU at Krk Island, Croatia and has committed technical assistance and diplomatic engagement to the realization of the project. In addition, the United States has endorsed key pipeline interconnectors to reach consumers in southern Central Europe, a region that is among the most dependent on Russian gas supplies.

We continue to oppose projects that foster dependence on Russia, including Nord Stream 2 and a multi-line Turkish Stream. Russia's aim is political in nature and these projects would allow Russia to make good on its threat to eliminate Ukraine as a gas transit state. This not only would deprive Ukraine of over $2 billion in annual transit revenues, but of a vital, physical, and symbolic link to the West. Construction of Nord Stream 2 would also concentrate 75 to 80 percent of Russian gas imports to the EU through a single route, thereby creating a potential choke point that would significantly increase Europe's vulnerability to supply disruption, whether intentional or accidental.

We welcome the skepticism and vocal opposition within Europe to these unwise projects.

We note, too, that a number of European allies have expressed national security and energy security concerns over Nord Stream 2.

As I close, I want to emphasize that our goal in implementing sanctions, both those imposed by executive order and those provided for in law, have been to impose costs on Russia, the target of these sanctions, for its malign behavior. Neither the U.S. business community nor firms of our partners and allies are the targets of sanctions. We are committed to the coordination with partners and allies called for in Countering America's Adversaries Through Sanctions Act of 2017 and have consulted on multiple occasions with European, G7, and other allies. We are committed to the full implementation of this new sanctions law.

Again, I would like to thank the subcommittee for the opportunity to appear today, and I welcome your questions.

[Mr. McCarrick's prepared statement follows:]

PREPARED STATEMENT OF JOHN E. MCCARRICK

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A discussion of the role the Russian Federation plays in Europe's overall energy security is both fitting and timely.

I will focus on several themes, including the dangers of energy over-dependence and the critical importance of energy diversification in bolstering energy security. I will highlight the contribution that liquefied natural gas (LNG) can make to Europe's energy diversification efforts and also the need for Europe to continue to improve its energy infrastructure and to implement measures to promote a more integrated and flexible energy market.

Europe's energy security is central to the national security of our NATO allies and EU partners, and it undergirds what is currently the world's single largest trade and investment relationship.

The United States strongly supports enhancing European energy security. An energy secure Europe serves as a strong partner for the United States in meeting global challenges, and the Administration is working closely with our European allies and partners to aid them in achieving their own goals to enhance their energy security.

Energy security is a top policy priority for our European partners because many of them are highly dependent on a single supplier—the Russian Federation—for gas imports. Although some of the most vulnerable countries in Europe are making rapid progress to reduce their dependence, eleven continue to rely on Russian gas for 75 percent or more of their annual needs, and several others for 50 percent or more.

The dangers of excessive dependence on a single supplier were highlighted in 2006, 2009, and 2014 when Russia cut off gas supplies to and through Ukraine, hurting both Ukraine and other European countries. Such actions are a reminder of Russia's persistent use of energy as a weapon. In light of these actions, the United States has worked with allies and partners to address single supplier dependence. Understandably, many European countries view overreliance on Russia as a vulnerability—a national security threat—and we are working to support their efforts to diversify their energy supply and improve energy infrastructure, including cybersecurity.

The United States does not seek to eliminate Russian gas from the market. Russian gas can and should remain part of a diversified energy mix for Europe. Our priority is helping Europe minimize dependence upon a single supplier. The United States supports a pro-Europe energy security policy based on diversification of fuel types, supply sources, and delivery routes. These actions are all needed to foster a more open and competitive European energy market—one in which all companies play by free market rules.

Indeed the United States advocates in favor of infrastructure projects—projects identified by the European Union as "Projects of Common Interest"—that enhance diversification.

We have long advocated for projects like the Southern Gas Corridor that will help Southern and Central Europe diversify its natural gas supply with 10 billion cubic meters per year of gas from Azerbaijan and the Caspian Sea region as soon as 2020. This will be among the first entirely new sources of gas for Europe in many years.

In similar fashion, together with the European Union, we promote the merits of projects like Baltic Pipe, which would bring new supplies of natural gas from Norway via Denmark to Poland and on to other countries of Central and Eastern Europe.

Importation of liquefied natural gas (LNG), including from the United States when market conditions dictate, can also play an important role in diversification of Europe's gas supply; however, to secure the maximum benefit that LNG offers in promoting diversification, the proper infrastructure is essential. Europe must have both sufficient regasification capacity and the pipeline interconnectors to deliver the gas to the broadest range of consumers.

We applaud the steps taken by Poland to construct a regasification terminal at Swinoujscie (sveen-oh-OOSH-chay) and by Lithuania to build a floating storage and regasification unit (FSRU) in the port of Klaipeda (KLAY-peh-duh). The impact of introducing LNG import infrastructure can be transformative. Lithuania's 2015 deployment of the Klaipeda

FSRU provided real competition for Russian gas pipelines. After inaugurating its LNG terminal, Lithuania was able to negotiate a 20 percent reduction in the price it pays for Russian gas. More importantly, the ability to import LNG from alter-

native sources led to a reduction in Gazprom's share of Lithuania's gas market from 100 percent in 2015 to 45 percent in 2016.

While these are positive steps, much work remains if LNG is to contribute more options to Europe's energy supply. The United States supports the establishment of an FSRU at Krk Island, Croatia, and has committed technical assistance and diplomatic engagement to the realization of this project. In addition, the United States has endorsed key pipeline interconnectors like the Interconnector Greece-Bulgaria and the Interconnector Bulgaria-Serbia. These interconnectors will enable non-Russian gas—including LNG imported through Greece and gas imported via the Southern Gas Corridor—to reach consumers in South Central Europe—a region that is among the most dependent on Russian gas supplies.

We continue to oppose projects that foster dependence on Russia, including Nord Stream 2 and a multi-line Turkish Stream. Russia's aim is political in nature, as they want to develop these projects to gain the technical capacity to make good on its threat to eliminate Ukraine as a gas transit state. This not only would deprive Ukraine of over $2 billion in annual transit revenues, but of a vital, physical and symbolic link to the West. Construction of Nord Stream 2 would concentrate 75 to 80 percent of Russian gas imports to the EU through a single route, thereby creating a potential choke point that would significantly increase Europe's vulnerability to supply disruption, whether intentional or accidental.

We welcome the skepticism and the vocal opposition within Europe to these unwise projects. We applaud the efforts of European partners who are scrutinizing all aspects of these projects—assessing the legal, environmental, and security implications—and seeking full application of EU regulations on energy market liberalization.

We note, too, that a number of European allies have expressed national security and energy security concerns over Nord Stream 2—reasonable concerns, in our view, in light of Russia's increasingly aggressive military posture in the Baltic Sea region and history of using its energy resources for political purposes.

As I close, permit me to offer a few words on sanctions and energy security. Our goal in implementing sanctions, both those imposed by Executive Order and those provided for in law, has been to impose costs on Russia, the target of these sanctions, for its malign behavior. Neither the U.S. business community, nor the firms of our partners and allies are the targets of our sanctions. We are committed to the coordination with partners and allies called for in the Countering America's Adversaries Through Sanctions Act of 2017, and have consulted on multiple occasions with European, G7 and other allies. We are committed to the full implementation of this new sanctions law.

Again, I would like to thank the subcommittee for the opportunity to appear today, and I look forward to your questions.

Senator JOHNSON. Again, thank you, Secretary McCarrick.

Let me just start out by asking—both Senator Murphy and you mentioned the fact that we first saw Russia utilize oil as a diplomatic weapon in 2006 and again in 2009 and 2014. What has been the delay? I mean, what is the stumbling block in terms of responding to it in a more robust fashion in terms of creation of more infrastructure, more pipeline to deny them that and reduce that vulnerability?

Mr. MCCARRICK. There have been projects since then that have increased the transit of gas. There has also been—working closely with the State Department, we were able to negotiate a change in the way the Ukraine buys gas. They have not bought any gas directly from Russia in the last 2 years. So there have been transit agreements that have allowed for them not to purchase gas directly from the Russians.

Senator JOHNSON. Do you know the level of investment that has been made to, again, diversify the pipelines, that type of thing since 2006, 2009?

Mr. MCCARRICK. I do not have the exact numbers in front of me, but we can get those to you.

[The information referred to above follows:]

MR. MCCARRICK'S RESPONSE TO SENATOR JOHNSON

Mr. MCCARRICK. Governments and the private sector have made significant investments to diversify Europe's energy sector and enhance its energy security since 2006. The European Commission's Connecting Europe Fund made a commitment of €5.35 billion to the energy sector for the period 2014-2020, of which €1.6 billion has already been committed to 74 of the European Union's "Projects of Common Interest" (PCI). In addition, EU cohesion funds, in particular the European Regional Development Fund (ERDF), also provide support to smart energy storage and transmission systems. Currently six Member States have planned about €2 billion in investments for the 2014-2020 period, with one fourth of these funds directly for PCI projects. Poland's Swinoujscie LNG terminal represented an investment of roughly $840 million, including EU financing. The floating storage and regasification unit at the port of Klaipeda, self-funded by Lithuania, cost roughly €128 million to construct.

The Southern Gas Corridor represents an investment of approximately $40-45 billion. This has largely been financed by the private sector with support from the European Union and multilateral development banks.

Senator JOHNSON. Do you have any idea of how much it would take to really completely diversify it?

Mr. MCCARRICK. Well, diversification is difficult in the sense that there are not as many—the countries in Europe do not have the natural resources that we do in the United States. And so diversification for them really is a question of using LNG, for one, that would come from us and other sources. But candidly the diversification that I talked about in terms of building the pipe that would run into Poland is one way of diversification, and the Southern Gas Corridor is another way of diversification.

Senator JOHNSON. Again, I am just trying to get some sort of sense. You got to build infrastructure, pipelines, terminals, that type of thing. I mean, is it a $50 billion investment? Is it a $100 billion investment? Secretary Mitchell, do you have any feel for that?

Dr. MITCHELL. Let me say that in the case of Ukraine specifically since the start of the conflict in 2014, the United States has provided around $60 million in energy security assistance, and that is by far the largest concentration of U.S. aid anywhere in Europe on energy.

On pipelines specifically, there are a number of very important interconnector projects which the United States has promoted. We do that through a combination of diplomacy and in some cases technical and financial assistance. So diplomacy is particularly critical because in many cases these interconnectors are consistent with existing EU policy under the Third Energy Package, but the EU implements unevenly. So for the United States to weigh in often helps make a difference.

In cases like Krk Island, as you saw President Trump commit $1 million on the financial and technical side, the U.S. help is particularly useful in creating legal frameworks working with local allies and partners through things like tariff agreements, tariff rates. I think it is on the technical side that the United States has made the biggest difference in some of these interconnecting pipelines and much less on the financial side in terms of direct U.S. taxpayer resources going towards the pipelines themselves.

Senator JOHNSON. And again, I was not really, at this point, talking about U.S. involvement. I am just talking about overall investment. In my briefing pack, I was actually surprised—the size of this. It said about €1 billion per day is what they import. So it is

€365 billion into an economy—what—$15 trillion to $20 trillion large. So size-wise, I was actually surprised. I would have thought energy would have been more than that.

So in light of about a €365 billion per year import fee for gas, I am just trying to figure out how much would be the required investment to diversify the transit of that so we do not allow Russia to have that type of power.

Dr. MITCHELL. I do not have that figure offhand. I have seen figures, though, that give a sense of the scale on the European side through a combination of government and private financing, the scale of investment in some of these pipelines. I would be happy to do a research and return and come up with some aggregate numbers for you.

Senator JOHNSON. Okay. Yes, because I just think that is a key feature.

[The information referred to above follows:]

DR. MITCHELL'S RESPONSE TO SENATOR JOHNSON

Dr. MITCHELL. In 2014, the EU estimated it spent over €365 billion annually importing energy. In 2016, Russia accounted for 31.7 percent of oil imports and 39.5 percent of gas imports to the EU, measured as a percentage of total value of each commodity.[1] The best way to reduce Russian energy import dependency is for the EU to invest in domestic energy production, such as renewables, civil nuclear power plants, high-efficiency coal power plants; continue exploration for new oil and gas fields; and invest in infrastructure to import energy from alternative sources. An excellent example of the latter is the Southern Gas Corridor, which is being constructed at a cost of about $40 billion to deliver 10 billion cubic meters annually of gas from Azerbaijan. The EU's own assessment[2] is that its energy infrastructure is aging and, in its current state, not suited to match future demand for energy, to ensure security of supply, or to support large-scale deployment of energy from renewable sources. Upgrading existing and developing new energy transmission infrastructures of importance, for example, would require investments of about €140 billion for electricity and at least €70 billion for gas.

Senator JOHNSON. Who does invest in these pipelines? Is it the countries themselves? Is it private capital? Is it the Gazproms of the world? I know they do, but I mean, where is the incentive to actually invest in pipelines?

Dr. MITCHELL. It is primarily on the private side. So the overwhelming bulk of investment in interconnectors and pipelines comes from the private sector, and you very often have commercially viable gas or oil fields, the development of which and delivery of those resources to Europe represents a commercial opportunity. And that is usually what spurs investment. Diplomacy and government action, particularly on the U.S. side, usually constitutes a way of encouraging what is already a set of preexisting market incentives.

Senator JOHNSON. Okay. I will turn it over to Senator Murphy.

Senator MURPHY. Thank you very much.

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[1] Eurostat provisional report: *EU Imports of Energy Products—Recent Developments* http://ec.europa.eu/eurostat/statistics-explained/index.php/
EU_imports_of_energy_products_recent_developments (downloaded January 26, 2018)

[2] Commission staff working paper, *Executive Summary of Impact Assessment* accompanying the document regulation of the European Parliament and of the Council on guidelines for the implementation of European energy infrastructure priorities, repealing Decision No 1364/2006/EC {COM(2011) 658} and communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *Energy Infrastructure Priorities for 2020 and Beyond—A Blueprint for an Integrated European Energy Network* {COM(2010) 677}

I am very glad that both of you are where you are. Big fans of both of your work.

But, Secretary Mitchell, you sort of just made my point for me. You mentioned that we are spending $60 million on energy security in Ukraine, and that is by and far the most that we are spending in any country. The administration has requested $4.8 billion in European Reassurance Initiative funding for the coming year. I tried to do the quick math, but suffice it to say we fundamentally misunderstand the threat to Ukraine. Russia does not want to militarily own Ukraine. It wants to economically and politically break Ukraine, and it wants to use energy as a means of doing that. So by spending $60 million on energy security and requesting $4.8 billion for military security, I just think we are totally misaligned with the actual threats. That is commentary not a question.

Let me stay with Ukraine, though, Secretary Mitchell. I have got a letter here that I will submit for the record, without objection, from the CEO of Naftogaz. And he and others have been raising alarm bells here in Congress about some real backsliding happening in Ukraine with respect to energy reform and broader anticorruption reform, which is very important to ultimately making sense of Ukraine's gas market.

[The information referred to above had not been received when this hearing went to press.]

Senator MURPHY. And one of the things they are concerned about is that in the Obama administration there were very often very high level communications from the President or Vice President to President Poroshenko and others in the Ukrainian Government about the need to move forward with reform. And today, the Ukrainian Government is blocking two major anticorruption efforts, backtracking on their promise to implement energy reforms and then, second, by going after the anticorruption bureau and the Rada's anticorruption committee.

So, Secretary Mitchell, have you raised these concerns directly with President Poroshenko? Do you know if the Vice President or the President have raised these concerns regarding backsliding on energy reform and anticorruption reform with President Poroshenko?

Dr. MITCHELL. Thank you for that question, Senator Murphy. And I really appreciate your interest in this subject and particularly on Ukraine.

I was just in Kyiv and was also with Secretary Tillerson on his recent trip to Europe where we met with some Ukrainian interlocutors.

Let me just say this. This is an enormous priority for the Secretary. He has stated that repeatedly. I also have to contextualize this by applauding the Ukrainian Rada and Government and people for the tremendous strides that they have made in reform in the period since 2014. I do not think any of us could ever have imagined in our wildest dreams the kind of progress that they have made in such a short period of time.

Secretary Tillerson has established as a very high priority ensuring that the Ukrainians—encouraging the Ukrainians stay on the track to reform not only in some of the easier areas we have seen

progress in but the harder structural areas of reform. This is especially true in two areas, the establishment of an anticorruption court and addressing energy sector reform particularly with regard to gas tariffs, both of which are necessary for Ukraine to comply with the conditions for the next IMF tranche.

I have raised these subject repeatedly and am in constant contact with Poroshenko, Groysman, Foreign Minister Klimkin, Poruvey, and others as is the Secretary. We also are coordinating very closely with the IMF to make sure that our messaging is in sync.

Let me say that I think it is worth pointing out the positive steps that have been taken very recently on pension reform. It was positive to see Naftogaz form a supervisory board with independent experts in the majority. That still has to be signed and so we continue to make the case to Ukrainian interlocutors that it is not done yet.

It was also positive to see a Ukrainian commitment to addressing gas tariffs.

I would say specifically on Naftogaz, I cannot say enough just how important continued reform in this area is for the wellbeing of Ukraine going forward in both the geopolitical and economic sense. And I think the CEO of Naftogaz, Andre Kobolyev, who I met with in Kyiv, has really done an outstanding job not only in keeping the company committed to this pace but really raising concerns about the need to keep the overall reform pace. It is a priority for the Secretary and it is a priority for me as well.

Senator MURPHY. And, again, I do not underestimate the effect that you and the Secretary could have. I would hope that you would encourage the White House to directly engage because the Ukrainians for the last 8 years were used to engagement directly from the White House. And so I think that is a continued necessity.

Let me turn—Secretary Mitchell, maybe on the second round I will try to ask you a question—to Mr. McCarrick on Nord Stream 2. Russia just recently announced through their state media that they have signed all the contracts for material, equipment, and services. And yet, there still seems to be some uncertainty as to whether the European Union or individual countries have the ability or the inclination to stop the pipeline from going forward.

Can you just talk about what the administration's engagement has been on Nord Stream 2 and whether the European Union or individual countries like Denmark have the ability to stop Nord Stream 2 before it becomes operational?

Dr. MITCHELL. Thank you so much for raising that. That is a critical, longstanding concern for the United States and it continues to be a focus of our diplomacy.

Let me be clear that our position has not changed. The Secretary, I think, was very forthright in saying this is an unwise project, as is multi-line Turk Stream. Nord Stream 2 would circumvent Ukraine, potentially leading to something like $2 billion a year in revenue loss from transit fees, bypasses U.S. allies in Poland and the Baltic States.

Also, I just have to point out on Nord Stream 2, this is a project that would concentrate 75 percent of the Russian gas to Europe into one pipeline. So it is not in Europe's interest. It is not in our

interest. It is also a political rather than a commercial undertaking, and I think it is important to be crystal clear about that.

In the context of CAATSA, let me say it is premature to make a determination about Nord Stream 2 absent contractual information which would be consistent with our guidance. We are monitoring it closely. I continue to raise this with German interlocutors, EU interlocutors, as does the Secretary as recently as last week on the trip. What we are doing in a broader sense on Nord Stream 2, in addition to speaking up—particularly with the Germans as they form a new government, I think it is important for them to hear from us—we are encouraging EU action. There is an existing framework in place for the EU to take more aggressive action on Nord Stream 2 and similar projects if it wished to do so politically, Third Energy Package. And in addition to those existing tools, a revision was proposed in October for the EU gas directive that would even more directly and aggressively address the issue of Nord Stream 2. We also encourage member state action.

So to your question specifically, the Secretary was personally involved in encouraging the Danes earlier this year to take a really close look at legislation that they were considering. The Poles and others in Europe who are likeminded on this issue—we coordinate with them to keep our messaging in sync and keep raising the issue.

Specifically on your question of what the Danes can do, my understanding is that because Nord Stream 2 would go through Danish waters, this is a potentially significant political and legal stumbling block that could really slow progress on the pipeline. It is a positive development that we applaud, and we have really coordinated closely with the Danes. The credit goes to Denmark for moving in this direction, but I think it is consistent with European energy security. I just wish we could get Germans and other large EU member states to see it the same way.

Senator MURPHY. I know my time is up, but just to square the circle, it is important to note what you said. You said that this is a political initiative, meaning that most energy economists will tell you that this does not make sense as a financial endeavor moving this gas through a northern route pipeline, which means that it only happens with massive subsidy from the Russian Government, meaning they are putting substantial resources into this political initiative, again another advertisement for the United States and our allies in Europe to be thinking about ways in which we subsidize energy independence because we are simply not engaged at the same level as the Russians if they are spending huge amounts of money on compromising European energy security, and we are not spending substantial amounts of money to build European energy security.

Thank you, Mr. Chairman.

Senator JOHNSON. Thank you, Senator Murphy.

I did leave 1 minute on my time. I want to use it as long as we are talking about this topic.

You mentioned going through Danish waters is a stumbling block. Are there any other situations like that where it could be blocked as well other than Germany just simply not accepting it?

Dr. MITCHELL. Well, I think that is an excellent question. With regard to Nord Stream 2 specifically, in addition to the Danes, there are other countries that this project—whose territorial waters this project would traverse—that I think are considering, for example, the environmental effects, looking closely perhaps if not at similar legislation, looking at the broader question of where they will stand on this as it goes forward.

Our approach has been to speak up, particularly with those countries that are likeminded in not wanting to see this go forward to the detriment of European energy security.

We also at the EU level continue to encourage again—and I cannot say this strongly enough—the EU to use the tools that it has. And I think there is a fairly broad political consensus in the EU as a set of institutions to move against Nord Stream 2, to use existing tools, to develop new ones. The problem in this and so many other areas of EU energy policy is uneven execution largely because of political resistance from large member states like Germany. We will see what happens as the Germans pull their new government together, but to be clear, I think the country that could do the most to stop this project is Germany.

Senator JOHNSON. Thank you.

Senator Shaheen?

Senator SHAHEEN. Well, thank you.

Is there any reason to think that a new governing coalition in Germany might change the country's position on this pipeline?

Dr. MITCHELL. Well, it remains to be seen. Obviously, there has been a lot of recoagulation of the political variables in Germany in the last month or so. But I think it is clear that the Germans also have a stated commitment to multilateralism and to the European Project that is equally important for both of the major parties that are now talking about forming a coalition.

I think U.S. diplomacy helps. I think it helps when the Germans hear the concerns of fellow EU and NATO member states. It is something we would not like to see them ignore. And I think we have to use this political opening before the gelatin mold has really set with that government to impress upon them the sense of responsibility that Germany should have for European energy security.

Senator SHAHEEN. Well, I was there in October with a group from the Senate, and I was encouraged to hear—at that time they were thinking about a different coalition—that they might reject the pipeline. So I do think there are some scenarios that might allow that to happen.

Can you tell me whether the United States is going to continue—or maybe it already has decided to continue—the high level discussions on energy issues that were established with the U.S.-EU Energy Council back in 2009? Is this something that the Trump administration wants to continue, and have you had any meetings in this last year?

Dr. MITCHELL. Thank you for that question.

We remain active with the U.S.-EU Energy Council. My understanding is that we are working on dates for a meeting in the spring.

Senator SHAHEEN. So there has not been a meeting so far this year?

Dr. MITCHELL. Not that I am aware of. There has been lower level coordination, but the——

Senator SHAHEEN. No. Mr. McCarrick, has there been a meeting this year?

Mr. MCCARRICK. No. As the Secretary was saying, there has been lower level coordination. We are looking at hopefully a Q1 meeting.

Senator SHAHEEN. And do we have an agenda yet for that meeting, and are there items that you are particularly concerned that we need to address as part of any discussions?

Mr. MCCARRICK. I think it would build on the energy security themes that we are talking about. These discussions have always been—although I was not there, I have been told that discussions are very, very fruitful in terms of getting people together and fortifying our allies to stay the course. So we are very, very focused on trying to set that up for the first quarter of next year.

Senator SHAHEEN. Great.

Dr. Mitchell, you talked about the formation of the new supervisory board for Naftogaz in Ukraine. It was my understanding that the recent members of the board had resigned because of political meddling. Are you referring to that board, to a new board? Can you tell me what the status is currently?

Dr. MITCHELL. Thanks for the question.

Yes, that is correct. There was a mass resignation. I am referring to the more recent reformulation under U.S. and IMF pressure. The Ukrainians moved to set up a new supervisory board that has a majority of independent experts. I want to be clear that while that is very positive, we have yet to see the Ukrainians sign and commit to this. So we continue to keep up the pressure, raise this in our meetings with Ukrainians.

I think more broadly, if I could comment on the reform landscape more broadly, we are very concerned about steps backward, and this is something that Senator Murphy raised as well, particularly the reluctance to create an independent anticorruption court and in recent weeks, attempts to politicize and move against the leadership of NABU, the anticorruption agency.

Mr. MCCARRICK. Just to clarify real quick, the board is like a slate, and all we are waiting for is for somebody to sign it. And once that is enacted, the board can move hopefully swiftly to enact some of the reforms needed such as unbundling. It is a very big issue. So we need to see continued progress, appointing the board and making it official would be a very good step.

Senator SHAHEEN. So what do we think accounts for the backsliding that we are seeing?

Dr. MITCHELL. Well, I would say bearing in mind the scale of progress that the Ukrainians have made, if you look at post-communist societies, that transition is one that is very difficult even in the best of circumstances. I think the Ukrainians have enacted an extraordinarily upwardly ambitious reform agenda under conditions of geopolitical duress with a war on. I think that is a big part of it. I think also politically——

Senator SHAHEEN. But just to put a finer point on that, so are you talking about public pressure that is objecting to some of the reforms that have been put in place?

Dr. MITCHELL. I would say there are two things. First, it is geopolitical and military. There is a war on, and I think that has a tendency to create a pressurized environment politically.

I think, secondly, at the political level, there is always a temptation for national leadership to prioritize reelection over the hard decisions that are needed for reform.

Senator SHAHEEN. No, that never happens in democracies. [Laughter.]

Dr. MITCHELL. In this case, I think particularly as Ukraine moves beyond the low-hanging fruits of reform and more towards the deeper structural, these are difficult and painful reforms even in the best of circumstances. I think the fact that the Ukrainians have kept up that pace is something we should continue to recognize as long as in our messaging we are keeping up the drumbeat of support for continued reform.

Senator SHAHEEN. So do we think Naftogaz is in danger of losing support from the IMF and the EU if they do not put these anticorruption measures in place, if they do not get the slate of members signed?

Dr. MITCHELL. Well, if the Ukrainians are not able to make decisive progress on both the anticorruption court and on the issue of gas tariffs, I think they very much jeopardize IMF funding. And this is a point that we have made repeatedly. The Ukrainians have proven very responsive to our concerns when we have raised them. So we will see what they do.

Senator SHAHEEN. You both mentioned the Krk Island-LNG terminal in Croatia. I have heard recently that there are some real obstacles to getting that moving forward. I do not know. Mr. McCarrick, I guess I should ask you. Do we know what the status of that is and what the challenges are and whether we think there are any huge obstacles to actually getting it put in place?

Mr. MCCARRICK. We have been continuing to provide them with technical support. The message that I have received is that we need to provide some more political support. As with a lot of these issues——

Senator SHAHEEN. What do you mean by political support?

Mr. MCCARRICK. More active engagement by the State Department with Croatia to continue to move it along is the best way I can put that.

Senator SHAHEEN. I am very concerned—and I know some other members of this committee are as well—about increased Russian influence in the Balkans and the potential for some of the countries there to withstand the pressure that they are going to be getting. And obviously, energy security is a critical piece of that. So what more should we be doing? Is the State Department looking at ramping up that kind of political support for this project, or are there things that this committee can do to make it clear that we think it is very important and we want to be as supportive as possible?

Mr. MCCARRICK. I have had members of my team over there, and they have been reporting back that we need to send some more

senior folks over there. And so we are planning that travel for Q1 of next year.

Dr. MITCHELL. And if I could just add to that, Senator, we did have a team there in November, and we continue to urge at all levels, I mean, all the way up to the president, the criticality of Krk Island. Unlike in the Baltic, where you have now two, one Polish, one Lithuanian, this is really our only bet at present in the Adriatic.

What is needed specifically—I mean, our focus is on technical and financial support kind of on one level and then the diplomatic and political. I think the technical and financial is primarily about getting the legal framework, and especially the export tariff regime is absolutely critical because without that, with tariffs being as high as they are, the ability to take LNG and get it into the rest of the region is impeded.

On the political level, I think it is about continually raising this with the Croats and their neighbors, which kind of also trickles back down and speaks to the issue of tariffs I think is really the most critical.

Senator SHAHEEN. Thank you.

Thank you, Mr. Chairman.

Senator JOHNSON. Senator Young?

Senator YOUNG. I want to thank the chairman for holding this hearing and welcoming me, someone who is not a member of this subcommittee, so that I can ask some questions of our esteemed witnesses here.

Secretary Mitchell, in your testimony you say that energy security of our allies is a fundamental U.S. national interest. You also say the administration is pursuing a European energy security strategy.

So I understand that the administration is soon going to be producing their national security strategy and making that public.

Given the importance of energy to our international security and our domestic prosperity, will energy security feature prominently in this new national security strategy?

Dr. MITCHELL. Thank you for that question, Senator Young. And it is good to see you again.

It does figure prominently, and the national security strategy that has been put forward emphasizes a three-part approach to energy as it relates to U.S. foreign policy, those three tenets being open markets, to promote exports, and the energy security of U.S. allies. The third of those planks is the umbrella for the diversification of fuel types, countries of origin, and routes that are the emphasis of my remarks today.

Senator YOUNG. Okay. Very good.

I noted recently in the news that Russian ministers were visiting with the Saudis to discuss oil markets and coordinate some of their efforts, the Russian production efforts, with OPEC. That has been tried before, and we will see whether or not anyone blinks as market forces continue to influence their decision-making.

But that reminds us that what we are dealing with here, as we think about European energy security, is oftentimes—I mean, there are global forces that dictate these prices in addition to the regional forces.

So is the administration developing a national energy security strategy to cover all regions, not just Europe, with this in mind?

Dr. MITCHELL. Thank you for the question.

And let me start by saying that as we know, we are talking about, with oil and gas, fungible commodities. The Russian Federation I think in its foreign policy and use of energy as a political weapon has suffered disproportionately from the low price environment. And so I would expect to see continued attempts at coordination with other suppliers. I think the Russian role as a not stabilizing presence in many parts of the Middle East can also be understood partly through that geopolitical lens and vis-a-vis Iran.

I think with regard to the strategy that you are asking about, the national security strategy that has been drafted does emphasize energy security. There is a European component of that, but the three broad tenets of open markets, promoting exports, and ensuring the energy security of allies relates to the world as a whole and not just to Europe.

Mr. MCCARRICK. Secretary Mitchell—if I might, Senator Young.

Senator YOUNG. Please.

Mr. MCCARRICK. We have been working—the State Department, the White House through the interagency has been working on a macro international energy strategy that will be applicable both in terms of regions and in terms of supply. So that will be coming out shortly.

Senator YOUNG. Okay. Well, I will look forward to that being published. Do you anticipate in the next few weeks or couple of months?

Mr. MCCARRICK. It is in the interagency.

Senator YOUNG. Okay. I will try and figure out what that means later on.

Let me move on to something else. Russia has demonstrated the will and capacity, as you have indicated in your prepared testimony, to use energy as a tool of coercion and intimidation against our allies and partners. You cite, one of you, a Swedish study that found 55 instances in which Russia cut off energy for political purposes in only 14 years. Yet, you also note that 11 EU member states continue to rely on Russia for more than 75 percent of annual gas imports.

On November 1st, I convened a subcommittee hearing on energy and international development. Among other witnesses was a fellow Hoosier, Paul Mitchell, of Indiana's Energy Systems Network. And he testified at that hearing that innovation exists in our private sector which can help create business opportunities for Americans and also further our national security interests. So there is a lot of innovation in this energy space.

And so I guess my question to you is how can we better utilize American energy resources and private sector innovation to help our allies and partners reduce or even eliminate their vulnerability to Moscow's coercive use of energy.

Mr. MCCARRICK. I think that is a great question, and I think the way we do that is, first of all, domestically. Obviously, the fracking boom has been very good for our country and increases the possibility of us exporting LNG.

The technology aspect is fascinating to me because I just got back from a conference in Portugal, and the companies and the innovations in LNG right now are moving at a breakneck, speed and they are reducing the costs of both gasification, transportation, regasification. It is to the point where American LNG is going to be evermore competitive going forward.

As for how we help our allies, I think one of the things we can do is increase supply, and we are looking at various projects around the world, the Western Hemisphere, as to how we can export our technologies and help other countries develop their natural resources, which again would add supply to the market and reduce the influence of actors like OPEC or Russia.

Senator YOUNG. In light of what an economist would call a positive externality, in light of the benefits to the public that are not captured in the price of our energy markets, are there things that our government should be doing at the federal level or perhaps things we should stop doing to facilitate yet more innovation in this space to yet further increase the energy security of our partners and allies in Europe and beyond perhaps?

Dr. MITCHELL. If I could, Senator, I think that is a very important question. And we have, in the case of Europe with Russia next door, a player, Moscow, that is very well-versed in the use of energy as a weapon, which is politics. And I think the best answer to that and what the U.S. has traditionally promoted and continues to promote is the market, the market as the best option for diversifying European energy. And consistent with that, the national security strategy, in emphasizing as the second tenet, promoting exports I think is really important, LNG, being perhaps foremost, but I would add renewables. The State Department is coordinating with Commerce to look at how we can support this plank of the strategy in a more fulsome way in the days ahead. Innovation in the private sector—I think encouraging that here domestically.

But also on the European side, to your question specifically, I think when you look at things like regasification and renewables in terms of how do we help at the government level, I am not a great believer that government can, at the end of the day, provide a solution better than markets. But I think where we can help is where our businesses face barriers operating in Europe, and that can come in the form of e-regulations, national regulations, but also in Central and Eastern Europe some of the rule of law issues that can impede a level playing field.

So we have to advocate in our diplomacy for a level playing field. We have to speak up on regulations that disproportionately penalize our companies. And I think we have to encourage allies, including some of our closest allies, who have ongoing business disputes that may be partly political in nature to quickly and amicably resolve those cases so that there is not a chilling effect on U.S. investment more broadly.

Senator YOUNG. I see that my time has run over. I just would conclude, thanking both of you for your testimony and invite Mr. McCarrick to Indiana to visit with Energy Systems Network because they have specialized for a number of years now in working on these public-private partnerships tying innovation to different

governmental and nongovernmental entities to solve challenging global problems like this. Is this an invitation you can accept?

Mr. MCCARRICK. I look forward to hearing more about it. My very first internship was in the private sector initiatives office for President Reagan. So I am very well aware of, since college, public-private partnerships working well.

Senator YOUNG. I am grateful for your consideration.

Senator JOHNSON. That sounds like a definite maybe.

Senator YOUNG. Yes, that is right. [Laughter.]

Senator JOHNSON. Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman.

Thank you both for your testimony.

I want to follow up on Senator Young's last line of questioning. And, Secretary McCarrick, energy is a global market. Is that fair to say?

Mr. MCCARRICK. Mostly yes.

Senator MENENDEZ. So unlike the Russians where they may very well direct energy to a location for the purposes of their politics beyond what is the best economic factor that they could achieve, to the extent that we are producing more energy, we are producing it in the context of exporting it in a global market. We do not direct our energy. Is that fair to say?

Mr. MCCARRICK. Correct.

Senator MENENDEZ. So when we talk about creating more energy for exportation, it seems to me that the realities of affecting places like Ukraine, where we would have an interest to offset the challenges of Russia and what they seek to do to bring Ukraine to its knees, at the end of the day, we need a more directed effort. I sometimes wonder whether or not—I know that ardent believers of the marketplace believe that everything can be resolved through it.

But it seems to me that if you are going to say that we are going to create more energy beyond for domestic consumption for exportation, that then, yes, you will add to the global supply, but whoever is the biggest buyer in the global supply will take that supply. So if Japan needs more LNG, maybe they will be the higher bidder. It will not go to Ukraine. It will not go to other places we care about.

So do we ever think about if we are going to use energy as a way to not only create opportunities for jobs here at home—do we ever think about using energy in a way that also matches our national interests and national security interests?

Mr. MCCARRICK. Well, I think we have in many ways.

Senator MENENDEZ. Outside of putting it in the greater marketplace.

Mr. MCCARRICK. No, understood. I guess what I look at is the efforts the U.S. Government has had in terms of convincing European countries to open gas terminals and keeping their options open and making sure that the options are there for them to receive LNG from us.

And we have also contributed efforts to increase the interconnectivity of Europe through pipelines and also through trying to supply them with gas from other sources such as the Southern Gas Corridor.

Senator MENENDEZ. Let me ask you this. As you are, I am sure, both no doubt keenly aware, some of our most stalwart European partners have expressed concerns about the law that Congress passed earlier this year, leveraging sanctions against Russia for its ongoing occupation of Ukraine, for its interference in our elections, for its continuing human rights abuses, among other things. These included sectoral sanctions against Russia energy development projects.

Now, I am sure you are also both aware that the United States and its allies have not always started seeing eye to eye on the question of sanctions. But when the United States has led efforts to financially isolate and target destabilizing actors, ultimately our allies, in pursuit of shared security concerns, have joined our efforts, and that makes them more stronger and effective.

What steps has the administration taken to specifically implement provisions in the Countering America's Adversaries Through Sanctions Act that has notably targeted Russian energy sectors?

Dr. MITCHELL. If I may, Senator. Thank you for that question. It is a very important issue and one that I have focused a lot of attention to, as has the Secretary.

With regard to CAATSA specifically, we are implementing. We have issued public guidance on sections 221, 225, and 232.

I think it was appropriate and worthwhile that the legislation, particularly on 232 in energy, directed the State Department to consult extensively with allies. I think that was wise in light of the archipelago of sanctions that we have in various efforts, not only vis-a-vis Russia, but also Iran, where we are working with European allies to ensure the effectiveness of those sanctions. We took that very seriously and spent a lot of time talking to and listening to our allies and to their concerns.

We are currently reviewing some transactions, and I do not want to comment on those publicly. I can say that we take it very seriously. We have sent some initial reports to Congress. I know we are working on a Ukraine-related report that is coming up for January.

I would simply say that sanctions are a tool, and to be effective, they have to be used wisely. It is important that they not hurt our allies more than they do our rivals or competitors, and also that as has happened in the past with other families of sanctions, the guidance, how this is executed, evolves with the realities.

Senator MENENDEZ. I get all of that. I get all of that. I have been the architect of the greatest number of sanctions in the Congress over the course of 25 years. So I get that.

My question is—and the consultations or something that we build into the law, absolutely necessary. But are we going to be hearing within the near future about some specific actions taken against the Russian energy sector as contemplated in the law? Just give me a yes or no and give me a time frame. I am not even asking you which ones.

Dr. MITCHELL. We are reviewing transactions now.

Senator MENENDEZ. That does not mean anything to me.

So at some point, part of the oversight of Congress is going to be what are you doing to actually pursue sanctions in this regard. The administration seems to have a reticence as it relates to sanc-

tions on Russia. So there is no use of Congress passing legislation to enable the administration to get Russia to move in a different direction if there is a reticence in doing so. So I am looking forward to seeing when you actually do something.

Let me ask you this. There have been some interesting discoveries and limited development of energy resources in the eastern Mediterranean, Cyprus, Israel, among others, who have been reliable U.S. allies and partners. What prospects do you assess for further development of energy resources in the eastern Mediterranean, and how can that change the dynamic for Europe, for example, if we can find the ways in which both the development of those energy sources and its transmission or its pipelines can be achieved? Do you see that as an opportunity?

Dr. MITCHELL. Thank you for the question.

Yes, I do see that as an opportunity. We followed it closely. It is potentially promising and could be part of that broader mix of sources for Europe. The political dynamic, in the case of Cyprus specifically, I think deserves most of our attention on that issue. We recognize the right to develop the resources. We also continue to hold the position that any resources that are developed should be shared equitably in the case of Cyprus between the two communities. And we continue to encourage both sides——

Senator MENENDEZ. Between the two communities, meaning the occupied part of Cyprus?

Dr. MITCHELL. Well, we continue to encourage the development of a bizonal, bicommunal federation.

Senator MENENDEZ. I know. This is the only country in the European Union that is part of the European Union that has a sovereign identity which we somehow would suggest that their energy development can be dictated by countries outside of its sovereign identity. Forget about Cyprus for the moment. That is a slippery slope. If you are going to let Turkey determine what, in fact, Cyprus can or cannot do in the development of its resources in that whole part of the eastern Mediterranean—not that Turkey has proven itself lately to be a particularly great ally of the United States. So I hope that that is not the State Department's philosophy as it relates to how that development takes place.

Dr. MITCHELL. Well, thank you for your concern, and I share the concern. I understand the point that you are making.

I would just say that any sustainable, long-term development of those resources will require a political component. And again, we continue to say that any resources that are developed should be shared equitably, and we encourage both sides to reduce tensions and define a common future.

Senator MENENDEZ. I am all for resolving tensions and defining a common future, but I am also not for having a country who is part of the European Union and has all of the other relationships and has been a relatively good ally of the United States, particularly in critical moments, to be forced to determine that their sovereignty is somehow beholden to some other country. We would not accept that. I do not know any other country that would.

So, anyhow, I look forward to working with you on those issues.

Senator JOHNSON. Senator Barrasso?

Senator BARRASSO. Thank you, Mr. Chairman.

This is on Nord Stream 2, the pipeline, and whoever feels best qualified to answer.

You know, Russia continues to undermine peace and security in Europe through a variety of mechanisms, including the use of energy as a weapon, as you just mentioned, Secretary Mitchell. Russia is Europe's main energy supplier. Russia also has significant ownership of Europe's energy infrastructure, including pipelines, distribution, storage facilities. The European Union members have identified the risks that have been associated with Europe's reliance on Russian energy and have been moving toward a more unified EU energy policy.

We in the United States have been working closely with our partners in Europe to promote energy security through energy diversification in the types of energy, the source of energy, and the routes of energy flow to Europe.

But despite the important work, I am still very much concerned about the recent actions in Europe demonstrate a lack of seriousness, in my opinion, in addressing Europe's reliance on Russia, and the prime example is the Nord Stream 2 pipeline. The proposed pipeline would run from Russia, under the Baltic Sea directly to Germany. Nord Stream 2 would follow the path of the original Nord Stream pathway and would double the capacity of Russia's gas exports to Germany. Russia, with assistance of five European energy companies, is working to make Europe more reliant on Russian gas by undermining the diversification of Europe's energy resources, supplies, and routes.

So several European countries have raised concerns, as have I, about Nord Stream 2. I think it is undercutting sanctions on Russia, increased Russia's political leverage over Eastern Europe. In addition, it is estimated that pipeline would cost Ukraine about $2 billion a year in natural gas transit fees.

In the legislation, Countering America's Adversaries Through Sanctions Act, the United States reaffirmed these concerns. The law states that it is the policy of the United States to continue to oppose the Nord Stream 2 pipeline, given its detrimental impacts on the European Union's energy security, on gas market development in Central and Eastern Europe, and on energy reforms in Ukraine.

The law also imposed sanctions on U.S. and foreign entities who invest or engage in trade that enhances Russia's ability to construct energy export pipelines.

So can you talk a little bit about the administration, what plans the administration may have to impose sanctions on individuals who are investing in Russia's energy export pipelines projects such as Nord Stream 2 and what efforts the administration is taking to demonstrate the United States continues to oppose Nord Stream 2?

Dr. MITCHELL. Thank you for the question, Senator Barrasso. And let me say that I share you concern about Nord Stream 2. And it has been a longstanding U.S. policy and interest to fight this project as something that is not in the interests of European energy security.

The CAATSA legislation—section 232 that bears upon this explicitly called on the State Department to coordinate closely with allies. And I would note that that set this section apart from 231

by my reading. The Congress went out of its way to direct us to keep in mind the concerns of allies. So I think our view has been to see that sanctions broadly as a set of tools, which we have in place vis-a-vis Russia and Iran and elsewhere, really require close coordination with allies. And what we did not want to do, in keeping what we understood to be the spirit of the legislation, we did not want to open up new gaps between ourselves and allies at a moment when we need to hold ranks on sanctions across the board.

Having said that, our position continues to be to raise repeatedly and very strongly with our European allies that Nord Stream 2 is, as Secretary Tillerson said 2 weeks ago, an unwise project. The same with Turk Stream. It circumvents Ukraine, all the reasons that you have given, the loss of revenue, the Baltic States, Poland, et cetera. Again, this is a political rather than a commercial project.

What we are doing on that specifically right now, we are speaking up. So myself and the Secretary on a regular basis raise this with German counterparts. We raise this at the EU level. Again, I think the formation of the new German Government gives us an opportunity to raise this in a way that calls on the Germans to show responsibility in a European context.

We are encouraging EU action both through the existing framework of the Third Energy Package but also the revision of the EU gas directive, which is directly aimed at Nord Stream 2, and encouraging member state action working with the Danes and others to look at how Nord Stream 2 would affect their interests and their territory.

We are also encouraging competing projects, Baltic Pipe, IPL, others.

I think broadly on CAATSA, because it is still very early, I think it is premature to make a determination about Nord Stream 2 absent contractual information because that is what the guidance that we have in place says. But I can simply say at this point that it is a concern. We raise it on a regular basis, and we are looking at it very closely.

Senator BARRASSO. You mentioned Ukraine because they are traditionally very dependent on Russian natural gas. Russia has continually used that dependence as a weapon to intimidate, to influence, to coerce. The Government of Ukraine has been trying to take some steps to reform its energy sector to improve energy security. But let us face it. Despite having incredible resources, the energy sector continues to face a lot of challenges and is really performing below potential in Ukraine.

Can you talk about efforts the State Department is currently taking to help Ukraine increase its energy security and its reliability and their efficiency? What can we do there?

Dr. MITCHELL. Yes, sir. Thank you for that question. That is a very important issue and a priority for us at the bureau.

Let me just say that the political and geopolitical future of Ukraine is intimately linked to how well we succeed in this task—we being the United States, Europe, and Ukraine. We are working now on a Ukraine energy security plan as called for under section 257 of CAATSA. That is underway now. A report is due to Con-

gress in January. We are jointly developing that strategy in coordination and consultation with the Ukrainian Government.

I do not want to prejudge what will be in that strategy, but let me just say that broadly our focus continues to be on two things with the Ukrainians on energy: one, to use our assistance programs to encourage reform of the Ukrainian energy sector, diversify sources, fight corruption, which is one of the biggest impediments to Ukraine unlocking its energy potential, and integrating with European markets; and then secondly, technical support to boost domestic production, which I think the Ukrainians have made tremendous headway on since 2014, and to increase energy efficiency.

We have been encouraged by some of the most recent reforms particularly the move towards a more independent Naftogaz supervisory board. We want to see that actually consummated and acted upon. And we continue to keep up the messaging on gas tariffs. That is an ongoing process. It is something that I raise on a regular basis, that the Secretary raises on a regular basis. And I think as you will see in our Ukrainian energy security plan that we present to Congress in January, it is something we take very seriously.

Senator BARRASSO. Mr. Chairman, do I have time for one more question?

Senator JOHNSON. Sure.

Senator BARRASSO. Okay, thanks.

I am going to talk about Spain a little bit. They have a potential to greatly reduce Europe's reliance on Russian gas. The LNG terminals and gas pipelines from Africa have a combined import capacity of about 80 billion cubic meters of gas per year for Spain. This represents three times Spain's annual consumption. So Spain is not importing the full capacity because of the inability to then transport it to other areas in Europe. There is currently insufficient pipeline capacity to transport that natural gas from Spain to Eastern and Southeastern Europe. Europe has been working on adding some interconnectors and reverse flow capabilities from its pipelines in order to transport natural gas to countries that are at risk of being cut off by Russia. Progress has been limited.

Could you talk a little bit about, since Spain has this greater import capacity than the volume of natural gas they consume, what efforts are being taken to allow this excess capacity to be used in other parts of Europe, particularly the more Russian-dependent countries?

Dr. MITCHELL. Absolutely, and I am glad that you raised that, Senator. It is not a subject that attracts attention very often but it absolutely critical. All you have to do is look at a map of LNG import terminals in Europe to see the overwhelming majority of Europe's LNG absorption capacity is Spanish. And the absence of sufficiently robust infrastructure from Spain into France really is a missing link in the overall puzzle.

I think part of this also reflects the broader problem that the United States has encouraged our allies for a long time to get at, which is, again looking at a map, the infrastructure is overwhelmingly east to west. There is very little north-south. There is very little intra-European. The United States continues to raise that broadly with our allies.

I think with regard to this issue specifically, we would like to see the EU list Spanish-French interconnectors as a Project of Common Interest. And that is where our diplomacy can help. It is something that I think in the past the United States has occasionally raised but not been assertive about, but it is something that we can continue to raise in the days ahead. And I appreciate you raising it. I think it is a considerable impediment to European energy security.

Senator BARRASSO. Thank you, Mr. Chairman.

Mr. MCCARRICK. Actually just to echo the Secretary's thoughts, I was just in Portugal 2 weeks ago—so include Portugal in that framework—and had long conversations with Ambassador Glass about combining what Portugal has and Spain has and connecting it with Europe because it is essential. There is a lot of capacity in those terminals that is not being used right now.

Senator BARRASSO. Thank you very much.

Thanks, Mr. Chairman.

Senator JOHNSON. Thank you, Senator Barrasso.

I really have just one further line of questioning, but it is going to go right back to what I was attempting to do in my first line of questioning.

Secretary McCarrick, you mentioned in your testimony that Lithuania, by building the terminal there, was able then to negotiate a 20 percent reduction in its price of natural gas from Russia. And I realize this is not a direct linear relationship here, but 20 percent of €365 billion would be about €73 billion of savings if you diversify and you can hold your suppliers accountable and get a better price.

So I am an accountant. I come from the private sector. It just seems obvious to me that what you want to do is increase the number of suppliers to provide you with that bargaining power. And that is what I find so puzzling about this entire conversation. It is just so obvious that Europe has to diversify its supply chain, which means it has to diversify its delivery systems.

What is the stumbling block? I am not a real good diplomat here. We speak in diplomatic terms, but I mean, I want to know what and/or who, what nation is the stumbling block to actually having this occur? Either one of you.

Mr. MCCARRICK. I think it is a combination of factors.

Senator JOHNSON. So start with the priority. What is the biggest stumbling block and then kind of go on down, list the facts.

Mr. MCCARRICK. Some of the legacy regulatory issues have impeded the growth of this. Some of it is political, I believe, in nature.

Senator JOHNSON. So you think that is the top one, legacy regulatory impediments.

Mr. MCCARRICK. Indeed.

Senator JOHNSON. Can you be specific on those?

Mr. MCCARRICK. I can provide you with examples later. I do not have them right in front of me right now.

[The information referred to above follows:]

MR. MCCARRICK'S RESPONSE TO SENATOR JOHNSON

U.S. exports of liquefied natural gas (LNG) were unnecessarily delayed over the past eight years due to legacy regulatory impediments established by the previous Administration. For example, the Federal Energy Regulatory Commission (FERC)

issued Draft National Environmental Policy Act (NEPA) guidance that created additional requirements for LNG export terminal projects. Moreover, not only has the FERC process seen delays, approvals from other federal agencies also experienced delays, even after passage of the Energy Policy Act of 2005 that was specifically intended to expedite the approval process and prevent any unnecessary delays. A 2012 study conducted by the Interstate Natural Gas Association of America (INGAA) Foundation shows that federal approvals for natural gas related infrastructure saw a nearly 400% increase in delays. And a 2013 Government Accountability Office (GAO) report found that the Department of Energy's review of export applications was not a standardized process, leading to uncertainty for industry.

Lastly, the final decisions for multiple LNG projects during the previous Administration, including terminals in Oregon and Texas, were delayed or denied. The delay or denial of these approvals hampered our ability to help our allies and partners diversify their energy sources and to promote and more free and fair global energy market.

Senator JOHNSON. Okay. We will keep going.

Mr. MCCARRICK. I would also say political issues. There are certain views from certain countries in Europe that gas is not as clean as we think it is, and so they are looking for different sources in terms of fueling.

Senator JOHNSON. Which would be what?

Mr. MCCARRICK. Well, wind and solar.

Senator JOHNSON. But defining that is enormously——

Mr. MCCARRICK. Again, the French are very anti-fracking, and so their nature is to say, well, we are not going to take gas from the U.S. because it is fracked gas.

Senator JOHNSON [continuing]. Is that also the impediment to pipelines through France from Spain? They are so dependent on nuclear power.

Mr. MCCARRICK. I have not looked into the issue, but I imagine, yes.

Dr. MITCHELL. If I could just add to that, Senator Johnson. I think you are raising in many ways the key issue. And if I had to rank the obstacles, I would just put a huge one at the very top, and it is overwhelmingly political. And I think it is the impediment that large Western European member states and particularly Germany.

Senator JOHNSON. There we go. Is that not the elephant in the room?

Dr. MITCHELL. Absolutely.

Senator JOHNSON. I think we should get that on the table so we understand that is where our diplomatic efforts have to reside and say, hey, if you want a safe and secure Europe, if we want to help out Ukraine, we need to get real here and we need to start investing more money. We have got to have the north-south corridors. We have got to be smart about this, and we have got to block Nord Stream 2 because that is going to be totally counter to what our efforts really need to be long-term.

Dr. MITCHELL. I agree with that, and I would say Germany is a very important ally to the United States. But on energy security, Germany gets it wrong, and it gets it wrong in a way that hurts other EU and NATO member states both financially and geopolitically.

I would say that in the case of Germany—and I could list a few other countries primarily in Western Europe—the countries that are most eager to phase out nuclear, to prohibit shale, that frown on coal, that fight projects like the Three Seas initiative, which is

all about north-south infrastructure, are the same countries that are promoting projects like Nord Stream 2.

Senator JOHNSON. Well, we are probably going to be taking a trip over to Europe. Maybe you could help arrange a meeting with those individuals in Germany where we can make that point.

Senator Murphy?

Senator MURPHY. Thank you very much, Mr. Chairman.

I wanted to just tie together in maybe one last question or two the discussions we have been having about whether or not traditional market approaches can work. One of the reasons that I am advocating for spending money on energy security and the way that we spend money on traditional defense security is that I am concerned that there is not a traditional market solution. And we have sort of teased at some of the reasons why I have that concern today, but I wanted to maybe wrap it all into one question.

The first question is, to the extent, as Senator Menendez said, that we put LNG into a global market, will it go to Europe? We cannot as a policy matter tell that gas, that LNG, where to go. And you have raised a couple issues as to why it might not land there: one, tariff structures in Europe, and B, the fact that there are better prices in other parts of the world. So I would love you to tease that out a little bit more.

And second, the market is distorted, as we have mentioned, by the Russians who put massive subsidy into maintaining their energy dominance over Europe. So even if we were able to solve some of these tariff issues, let us say, why would we believe that the Russians would not respond by making a substantial new investment or subsidy in the product that they are sending to make sure that they maintain that relationship with European energy states?

Those seem to be two pretty significant issues, the fact that there are better markets for LNG, other places besides Europe right now, as we start to move stuff out of the United States, and that the Russians will always respond with subsidy unless we have the capacity to offer that same kind of subsidy. And when I say we, I mean the United States and Europe together.

Dr. MITCHELL. Thank you for that question, Senator. And I think you are raising an important issue.

On the subject of LNG specifically, you are right that because this is a fungible commodity and it is going to follow price, most of it goes to Asia. And just to give the stat on that, it is, I think, 10 percent, so .3 bcma out of a total of 3.2 bcma that the United States exports. Only that 10 percent goes to Europe.

What I would say, though, is that where LNG makes the biggest near-term impact—and long-term it is potentially revolutionary both for our economy and for Europe in a geopolitical sense. Where it makes the biggest near-term impact is it changes the calculus particularly for small eastern countries when they go to negotiate a deal with Gazprom. If they have options, it changes everything. It gives them leverage that they did not have before. Gazprom loves to lock little Eastern European countries into straitjackets of long-term contracts.

If you have almost any other option, however much on the horizon it is, if there is an LNG terminal that is being completed, it dramatically changes the dynamic at the negotiating table. Lith-

uania is exhibit A. We want to see an exhibit B, C, D, E, F across the region. And in that sense, the fact that it is going to Asia, while that may be the central fact from a commercial standpoint, geopolitically there is a ripple effect to that. And that is part of why we want to keep encouraging it.

I would say broadly that there is overwhelmingly a market solution for these things. I think the role of government I see as being primarily about removing barriers on our side and on the European side of the Atlantic. So on this side of the Atlantic, for example, we have not shown alacrity frankly until this administration in really working to remove some of the barriers in export licensing, for example, or overall willingness of the Federal Government to see LNG get onto the water. I think the previous administration, for a variety of reasons, was loathe to do that, and I think it has had a tremendously positive effect for this administration to accelerate those efforts.

On the European side, I think encouraging the development of infrastructure is key. That is something that is primarily about diplomacy. I think government does have a role to play there when we are talking to allies. But ultimately it is going to come down to whether companies decide on a commercial basis to invest in projects. So I would argue that there is a role for government. I think it is primarily about diplomacy, and it is about removing barriers.

Senator MURPHY. Mr. McCarrick?

Mr. MCCARRICK. The only thought I would add is, again, the technology aspects to this. The idea that there is no floor for Russian gas is probably a false narrative. The more competitive we can be in terms of LNG, the more we can drive down the markets and the more attractive we can make our product to the Europeans.

I guess maybe I am brimming with optimism on the technology side of it because I just came from this conference where everybody was talking about reducing cost and doing it with advanced technologies. And so I would like to think that we can be evermore competitive going forward and really be an alternative to Russian gas.

Senator MURPHY. We constantly, over the course of my time in the Senate, have underestimated the lengths that Russia will go in order to protect its interests in and around its periphery. I hope that we do not underestimate what they will do and the subsidy they will provide in order to continue their energy dominance. And I hope that a clear-eyed calculation about what Russia will do will inform our policy going forward.

Thank you very much.

Senator JOHNSON. Senator Shaheen?

Senator SHAHEEN. Thank you, Mr. Chairman.

One of the concerns that I have about this conversation is that we have spent now an hour and a half talking about energy issues in Europe and not once has anyone mentioned energy efficiency and the demand side of energy. One of the reasons Ukraine has had so many energy issues is because they were the least efficient country in Europe in terms of using energy.

So can one of you talk about what we are doing in any energy conversations to raise our interest in encouraging energy efficiency?

And again, that is a place where U.S. companies have been at the forefront of developing off-the-shelf technologies that address efficiency, whether it is in lighting, heating, whatever it is. And so I would hope that that is part of any conversation we are having with countries in Europe.

Dr. MITCHELL. Thank you for that question, Senator Shaheen. It is an absolutely crucial component, and it is one that in our diplomacy when dealing with European allies and partners on energy security, we do raise on a regular basis.

Let me start with Eastern Europe, which I think you are right to highlight. In the case of Ukraine, energy efficiency could make all the difference, and even at the small margins, the outcomes are potentially dramatic. I do not want to preview too much of the Ukraine energy security strategy that we are putting together as part of CAATSA that will come to Congress in January, but I will just say that increasing energy efficiency is part of that second plank of our current approach in Ukraine, and it is something that we raise on a regular basis.

The gains that the Ukrainians have made in the last few years on energy efficiency, both at the household level and in an aggregate sense, is really dramatic. And there are other cases in Central and Eastern Europe where encouraging that could do a lot of good.

One of the ways that we encourage it in Europe as a whole is, as you say, with regard to U.S. technologies and renewables and I think broadly across the board in energy efficiency, the United States is a leader in developing technologies in this regard. We promote greater energy efficiency in Europe on a regular basis in conversations.

But I think one of the ways that we can do this in the near term, there are a growing number of disputes in Europe that relate to U.S. companies. One very prominent case in Poland involves a U.S. company that operates in renewables that has a chilling effect on other U.S. companies who would look at Central and Eastern Europe. So I think we want to encourage our allies to make progress on cases that could have that chilling effect. There are barriers in many European countries that prevent U.S. technologies from operating on a level playing field, and so we want to make headway against those.

I think this is consistent with the NSC's energy pillars, the open markets promoting exports. I think also just helping to reduce dependence on fossil fuel has been and always will be part of that mix. In particular, I think the U.S. engaging with Europe through IRENA, the International Renewables Energy Agency—we are currently working—the Department of State is working with Commerce to explore ideas for how we can better promote U.S. options in Europe in the realm of energy efficiency and renewables. And that is an ongoing process that I think, in support of the White House's NSS, could do a lot of good.

Senator SHAHEEN. Well, I agree. And just to be clear, I am a big supporter of renewables, but I am really talking about the demand side, the efficiency side here, which is different than renewables. And I hope that that is part of every conversation that we are having.

Also, in our military, we have seen the benefits that the U.S. military has gained from adopting some of these technologies and strategies, and I would hope we are sharing those as well.

You mentioned CAATSA and the efforts under CAATSA. And Senator Menendez expressed his concern about how quickly we are implementing some of those provisions. As you are aware, I am sure, one of the provisions requires the administration to report to Congress by February on Russian oligarchs and their potential ties to the Kremlin's dealings. I hope we have your commitment today that we will see that report on time and with real substance.

Dr. MITCHELL. Yes, ma'am, you do.

Senator SHAHEEN. Thank you.

Can either one of you discuss whether the administration is considering using the secondary sanctions that are allowed to prevent the Kremlin from manipulating the energy sector?

Dr. MITCHELL. That is something that has been a subject of internal conversation. For reasons similar to those that I gave earlier, I am hesitant to speak too much publicly about where we are at on that.

Senator SHAHEEN. Okay. You do not need to say any more. But let me just say I hope that that is under consideration, active consideration, because if it is not, I can assure you that I will come back—and I would bet other members of this committee will come back—and put that as a requirement that should be considered as we are looking at ways that we can influence and respond to the Kremlin's corrupt behavior.

Mr. MCCARRICK. Can I make one point on sanctions real quick?

Senator SHAHEEN. Sure.

Mr. MCCARRICK. One of the things that Senator Menendez said was that if we are not sanctioning companies, we are not doing our job. But I think one of the things that we need to realize that sanctions have a chilling effect going forward. The companies are afraid to do business with Russia because they will be sanctioned going forward. So I think we need to focus that the sanctions are actually doing something that people are not seeing necessarily because the investment is not happening.

Senator SHAHEEN. I hope that is the case. I think any kind of data that can indicate that that is in fact what is happening would be helpful.

I just have a final question and that is around Turkey. As we have seen over the last year, President Erdogan and Turkey have moved closer to Russia and to Putin, and we have seen a lot of coverage of their S–400 missile defense system deal that Russia has provided to Turkey.

But one other area has been in the energy sector, and they are talking about a pipeline across Turkey where the energy is not really going to go to Turkey.

So do you have any theories about why Erdogan would be willing to cozy up to Putin to do this kind of a pipeline when Turkey does not seem to be getting any benefit?

Dr. MITCHELL. I do not have speculation to share with you on that matter specifically. I would be happy to look into it more closely and get back to you.

But I will say broadly on Turkey that one of our greatest concerns right now is the pattern of behavior that we have seen in recent days, particularly with regard to the treatment of our locally employed staff, the detained Americans. It is a strategic relationship that is vital so we continue to work closely with the Turks as allies. And we continue to raise concerns in many areas, including S–400, which the Secretary has raised, I have raised. This is part of our ongoing conversation with the Turks and will continue to be.

Senator SHAHEEN. Thank you.

Thank you, Mr. Chairman.

Senator JOHNSON. Thank you, Senator Shaheen.

One thing I do like to do is give the witnesses an opportunity just to either summarize your comments or maybe answer a question that was not asked. But I will start with you, Secretary McCarrick. Nothing?

Mr. MCCARRICK. Nothing.

Senator JOHNSON. Okay, that is fine.

Secretary Mitchell?

Dr. MITCHELL. I might just try to end on an optimistic note that I think we are all well aware—and certainly you in this subcommittee are because you follow these issues for so long—of the bleaker aspects of European energy security, the wintertime cutoffs, which continue to be an unfortunate reality. I would just say that, broadly, the picture is improving over time, in part because the United States continues to play a proactive role, but also because of the efforts of our European partners.

If you went back to 2014 and the start of the Ukraine war and then you kind of fast forwarded to now and you looked back and you tried to kind of have a panoramic view of the situation, I think first and foremost the advent of LNG as an option—Senator Murphy, I understand your view and your concerns, but I think it continues to make a critical difference. The end of destination clauses has made a huge difference in creating better pricing. I mean, the uneven pricing structures where you get a vast disparity, almost double the amount that people are paying for energy consumption in Eastern Europe versus Western Europe. I think Ukraine is less vulnerable than it was. And as more options come on line in LNG and in other fields around Europe and also as the European Union hopefully continues to take seriously its obligations on the Third Energy Package, I think the trajectory is broadly positive. It is something that we have to be diligent about encouraging.

Senator JOHNSON. Thank you, Secretary Mitchell.

First of all, I could not agree more. It is amazing if you are a monopolist and all of a sudden you even have potential competition, how you might start modifying your behavior, much less actual competition. So the example of Lithuania is pretty powerful. So, again, it is obvious the direction we need to take and we need to make sure we can get rid of some of those impediments, the stumbling blocks.

But, again, I want to thank the witnesses.

I really want to thank my Senate colleagues here. This was a well-attended hearing. It just shows you how important this issue is.

So, again, thank you for your service to the country.

With that, the hearing record will remain open until Thursday, December 14th at 6:00 p.m. for the submission of statements and questions for the record.

This hearing is adjourned.

[Whereupon, at 11:32 a.m., the hearing was adjourned.]

Additional Material Submitted for the Record

RESPONSE TO AN ADDITIONAL QUESTION FOR THE RECORD SUBMITTED TO DR. A. WESS MITCHELL BY SENATOR JAMES E. RISCH

The European Union's Third Energy Package was an effort to further open up the gas and electricity markets in the EU. However, Nord Stream 2—and more importantly the companies funding its construction—appear to be recreating an energy monopoly over gas supply in Europe.

Question 1. Can you please provide a list of the companies funding the construction of Nord Stream 2? How do you see this consortium affecting competition in the European gas market?

Answer. The five companies funding the construction of Nord Stream 2 are Uniper (German), OMV (Austrian), Shell (Dutch), Wintershall Holding (German), and ENGIE (French). Nord Stream 2, if built, could affect the economic viability of other potential pipeline and interconnector projects within Europe as they would become less competitive. Nord Stream 2 would also affect competition in the gas market because it would allow Russia to bypass Ukraine as a transit route and tighten its dominance as a source of gas in much of central Europe, strengthening Gazprom's ability to dictate pricing. The Nord Stream 2 pipeline project is currently not under the EU Third Energy Package, though a proposed revision by the European Commission to update its Gas Directive would apply the Third Energy Package to Nord Stream 2. Were the Third Energy Package applied to the project, the European gas market could still be distorted due to the scale of Nord Stream 2 (55 bcma). If Third Energy Package third party access rules were applied and no third party actors besides Gazprom booked capacity, the project could still move 27.5 bcma in volume.

RESPONSES TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED TO DR. A. WESS MITCHELL BY SENATOR EDWARD J. MARKEY

Russia Filling a Diplomatic Vacuum in Middle East

President Trump's unwillingness to put forward ambassadorial nominees, to key countries such as Saudi Arabia and Egypt, has signaled a diplomatic retreat from the Middle East and allowed Russia's sphere of influence to grow. The visit in October by Saudi King Salman to Russia, during which Gazprom and Saudi Aramco signed a memorandum of understanding, and the December 11 talks between Russian President Vladimir Putin and Egypt's President Abdel Fattah al-Sisi on, during which both sides signed a $21 billion deal to start work on Egypt's Dabaa nuclear power plant are good examples.

Question 1. Assistant Secretary Mitchell, are you concerned by Russia's relationship with Saudi Arabia? What do the Saudis hope to get out of a closer relationship with Russia? What is behind Russia's attempts to broaden its role as an energy supplier in the Middle East and Asia?

Answer. Saudi Arabia is a strong partner of the United States, and the United States remains committed to the security and stability of the Gulf region. For decades, we have demonstrated this commitment through continued efforts to enhance our diplomatic relationships and build defense capacity across the region, particularly through promotion of security agreements, Foreign Military Sales, exercises, training, and exchanges.

Russia is pursuing a more active foreign policy in the Middle East, and remains an important player in Asia. Putin has prioritized outreach in the Middle East to key powers such as Saudi Arabia and Iran to pursue commercial gain and assert

Russia's "great-power" status. This often takes the form of playing a spoiler role, as Moscow is threatening to do in the Middle East, where it is complicating multilateral diplomatic initiatives aimed at conflict resolution.

On October 5, King Salman became the first Saudi monarch to visit Russia. President Vladimir Putin hailed the visit as a "landmark event." After the summit, Salman and Putin signed documents on energy, trade, and defense, and agreed to several billion dollars' worth of joint investment.

Russia seeks additional markets for its energy, not only for political leverage, but for economic benefit. In June 2015, then-Deputy Crown Prince Mohammed bin Salman attended the annual St. Petersburg Economic Forum—the first time the prince became publically involved in energy issues according to press reports at the time—where he met with Putin.

During the October 5 visit to Moscow by King Salman, Saudi Arabia's national oil company Aramco signed several energy-related memorandums of understanding (MOUs). The agreements were signed at the Saudi-Russia Investment Forum, jointly organized by the Saudi Arabian General Investment Authority (SAGIA), the Council of Saudi Chambers, and the Russian Direct Investment Fund (RDIF). One MOU, between Aramco and Russia's state-controlled gas company, Gazprom, calls for increased cooperation along the natural gas value chain, potentially including exploration, production, transmission, storage, or liquefied natural gas projects. Aramco also signed an MOU with Gazprom subsidiary Gazprom Neft, Russia's fourth largest oil producer, to cooperate on drilling and pumping technologies as well as research and development. Neither MOU is binding.

These recent developments between Saudi Arabia and Russia are notable and demonstrate that Putin's sway in the Middle East remains on the upswing. The United States must closely monitor this trend and be more diligent than ever about cultivating and maintaining allies in the Gulf region.

Question 2. What are the terms of the deal between Gazprom and Saudi Aramco, and the deal between Russia and Egypt?

Answer. On October 5, during a visit to Moscow by King Salman, Saudi Arabia's national oil company Aramco signed several energy-related memorandums of understanding (MOUs). The agreements were signed at the Saudi-Russia Investment Forum, jointly organized by the Saudi Arabian General Investment Authority (SAGIA), the Council of Saudi Chambers, and the Russian Direct Investment Fund (RDIF). One MOU, between Aramco and Russia's state-controlled gas company Gazprom, calls for exploring ways to cooperate along the natural gas value chain, potentially including exploration, production, transmission, storage, or liquefied natural gas projects. Aramco also signed an MOU with Gazprom subsidiary Gazprom Neft, Russia's fourth-largest oil producer, to cooperate on drilling and pumping technologies as well as research and development. Neither MOU is binding.

We understand on December 11, 2017, Director General of Russia's state-owned nuclear energy company Rosatom, Alexey Likhachev, and Egypt's Minister of Electricity and Renewable Energy, Mohamed Shaker, reportedly signed Notices to Proceed on contracts for the construction of the El Dabaa nuclear power plant during a visit to Egypt by President Putin.

According to the press reporting, Rosatom will build four VVER-1200 units of the El Dabaa plant in the Matrouh region on the Mediterranean coast, as well as supply nuclear fuel throughout the plant's entire operational lifetime, which could be more than 60 years. Rosatom will also conduct personnel training and will assist its Egyptian partners in the operation and maintenance of the El Dabaa plant for the first 10 years of its operation. Russia will reportedly finance approximately 85 percent of the project's total cost, through a 13-year, $25 billion loan at three percent interest.

Intermediate Nuclear Forces (INF)

> Russia has started trying to bend the rules of arms control agreements such as the Intermediate Nuclear Forces (INF) Treaty and Open Skies Treaty. Russia's trying to force the United States and other parties to these agreements to acquiesce to its wishes by allowing it to continue behaving in ways non-compliant with its obligations is an example of coercive diplomacy.

Question 3. How can the United States push back against Russia's non-compliance with these treaties and build consensus amongst other participants and with our European allies to do the same?

Answer. The administration takes its arms control obligations seriously and expects the same from Russia. This includes taking active measures to enforce compliance when other parties are in violation of their arms control obligations. The administration is pursuing diplomatic engagement with Russia to pressure it to return

to compliance with its Treaty obligations, closely coordinating and sharing information with regional allies and partners. In concert with these diplomatic efforts, the administration is also pursuing economic and military response measures to impose costs on Russia for its ongoing violations and to place the United States in a stronger position to defend itself and its allies and partners should Russia fail to return to compliance.

Ground-launched Cruise Missile (GLCM)

> The Wall Street Journal reported November 16 that the Trump administration has begun preliminary research on a new, road-mobile ground-launched cruise missile (GLCM) that if tested would violate the treaty. The report also indicated that the administration has informed Russia and NATO defense m[i]nisters of the decision.

Question 4. On what basis does the administration believe that developing and possibly deploying a new U.S. GLCM will convince Russia to return to compliance with the INF Treaty?

Answer. Since 2013, the United States has repeatedly sought to engage Russia to take meaningful steps to return to compliance; however, Russia has consistently declined to do so. The administration firmly believes the United States cannot stand still while the Russian Federation continues to violate the Treaty. While the United States will continue to pursue a diplomatic solution, we are also pursuing economic and military measures intended to pressure the Russian Federation to return to compliance. This includes a review of military options for conventional, ground-launched, intermediate-range missile systems, which would enable the United States to defend ourselves and our allies, should the Russian Federation not return to compliance. This step will not violate our INF Treaty obligations. We are also prepared to cease such research and development activities if the Russian Federation returns to full and verifiable compliance with its INF Treaty obligations.

Question 5. Doesn't this provide Putin a propaganda victory and a "legitimate" reason to blame the U.S. for the collapse of the INF Treaty and begin deploying large numbers of illegal missiles without any constraints?

Answer. The administration has been clear that the United States remains firmly committed to the INF Treaty, which has been a pillar of international security and stability since its inception. That commitment includes a strong willingness to enforce compliance when other parties violate their arms control obligations. Unfortunately, this pivotal agreement is under threat today. Despite repeated U.S. efforts to engage the Russian Federation on this issue, Russian officials have so far refused to discuss the violation in any meaningful way or refute the information provided by the United States. The administration is taking treaty compliant steps in order to preserve the Treaty and working closely with our allies and partners to make clear that it is up to Russia to take the next step to preserve the viability of the INF Treaty.

Question 6. How did our NATO allies react to the news that the United States plans to develop a new road-mobile GLCM that if deployed would necessarily be placed in Europe? To your knowledge, are there any NATO or East Asian allies that would allow the United States to base a new road-mobile ground-launched cruise missile on their territory? If the development of a new GLCM becomes a controversial issue within the alliance, wouldn't that play into Moscow's efforts to divide the alliance and take the spotlight off its violation?

Answer. The Trump administration has worked very closely with our NATO and East Asian allies regarding Russia's violation of the INF Treaty to ensure we remain united in our response. Our allies are acutely aware of the threat posed by Russian intermediate-range strike capabilities and support U.S. efforts to preserve the viability of the INF Treaty. On December 15, the North Atlantic Council released a statement identifying a Russian missile system that raises serious concerns and urging Russia to address these concerns in a substantial and transparent way.

RESPONSES TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED TO MR. JOHN MCCARRICK BY SENATOR EDWARD J. MARKEY

> While Russia has been a negotiating partner in the 6-party process, Russia has recently taken a more active role in the North Korea nuclear crisis. Foreign Minister Lavrov said December 8 that Moscow was prepared to try to mediate between Washington and Pyongyang.

This offer came on the heels of a report from Japan's Asia Press International news agency on December 6 that the price of diesel oil in North Korea was down 60 percent and the price of gasoline had dropped 25 percent from early November due to "massive amounts" of fuel flowing into North Korea from Russia.

Question 1. Has the Department of State been able to verify these reports that Russia has been supplying "massive amounts" of fuel to North Korea? How much fuel does Russia provide to North Korea?

Answer. We have reviewed the Japan Asia Press International news agency's story alleging Russia is behind the surge of fuel supplies to North Korea. We have not seen indications Russian fuel supplies have increased through the border provinces, as the article alleges. Historically, Russia has been one of North Korea's two sources of refined petroleum products, through the Independent Petroleum Corporation (IPC), which the Treasury Department designated as a sanctioned entity under Executive Order 13722 on June 1, 2017. Since the institution of U.N. Security Council resolution 2375's quota on North Korea's imports of refined petroleum products on October 1, 2017, Russia has not submitted formal notification to the U.N. of refined product exports to North Korea. Moreover, to our knowledge, Russia does not currently supply North Korea with any crude oil.

Question 2. As the international community places more pressure on China to cut off oil shipments to Pyongyang, could Russia fill the void and become the swing supplier to the regime? If China cuts off oil, will Russia step in?

Answer. Russia has historically supplied refined petroleum products and crude oil to the Democratic People's Republic of Korea (DPRK). As a large exporter of both crude oil and refined petroleum products, Russia possesses the capacity to meet the DPRK's relatively small fuel consumption needs. Russia's ability to rapidly substitute for any reduction in or halt to Chinese crude oil supply, however, would likely contravene U.N. Security Council resolutions. Russia is bound by UNSCR 2375 that obligates it to ship no more crude oil to DPRK than it did in the year prior to the September 11, 2017 passage of UNSCR 2375—therefore, it legally cannot surge to provide more oil to DPRK than it has in the past year. Russia would face significant logistical and infrastructure hurdles if it tried to do so, though it would possess capacity to compensate with refined petroleum products. Rigorous implementation of existing U.N. Security Council resolutions restricting fuel supplied to DPRK, as well as sustained diplomatic engagement, will be vital to enforce any further reductions to the DPRK's petroleum imports.

Question 3. Please give us a sense Russia's relationship with Pyongyang. What are Russia's strategic concerns regarding North Korea? Does Russia have unexplored levers of influence of the rogue regime?

Answer. In general, Moscow shares China's reluctance to substantially increase pressure on the DPRK due to concerns about destabilizing Kim Jong Un's regime. Russia remains one of North Korea's principal economic enablers which helps ensure the survival of the regime, although China remains North Korea's principle economic pipeline and accounts for over 90 percent of DPRK trade. Even though Russia-DPRK bilateral trade has averaged little more than $100 million annually for over 20 years, Russia is the second largest destination, after China, for North Koreans working abroad. Remittances sent home provide a significant source of revenue for the DPRK regime. Russia's long-term Northeast Asia engagement includes talk of linking the Trans-Siberian and Trans-Korean railroads and constructing a natural gas pipeline through the DPRK to the Republic of Korea (ROK) which could bring in billions of dollars in new revenue if completed. Russian willingness to sign economic deals with North Korea and invest in its economy is premised on this strategy.

On security matters, Russia, like China, is concerned about a long-term U.S. military presence in East Asia and continues to criticize the U.S. deployment of the Terminal High-Altitude Area Defense (THAAD) system to the ROK on the grounds that it would harm Russia's strategic deterrence. Russia has also joined China in calling for a "freeze for freeze" approach, in which North Korea would suspend nuclear and ballistic missile testing in return for a cessation of U.S.-ROK military exercises.

Along with U.S. allies and partners around the world, the United States hopes Russia will press the DPRK to realize that the only path to a secure, economically prosperous future is to abandon its unlawful weapons programs that endanger international peace and security. Russia has regularly criticized U.S. military exercises and sanctions and called for dialogue to resolve tensions with North Korea.

Our goal is to seek Russia's cooperation to ensure the full implementation of all U.N. sanctions pertaining to recent U.N. Security Council resolutions in response to DPRK provocations and to convince Russia to take positive measures to pressure

the DPRK, including deporting the DPRK laborers currently in Russia. As the Secretary said, we are continuing our dialogue with Russia with regard to North Korea. The Secretary has discussed directly with President Putin the need for Russia to join China and us in the pressure campaign on North Korea.

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