



As prepared for delivery

**Ambassador Richard Morningstar
Special Envoy for Eurasian Energy
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I am honored to return to Baku as the Special Envoy for Eurasian Energy as I remember fondly my visits here ten years ago when I was the President's Special Advisor for Caspian Basin Energy Diplomacy. I had the privilege of working with President Heydar Aliyev on the "first phase" of Eurasian energy diplomacy, which culminated with the great achievement of the opening of the Baku-Tbilisi-Ceyhan oil pipeline and the South Caucasus Gas Pipeline. Azerbaijan during the 1990s showed tremendous forward-thinking strategic vision in opening up its hydrocarbon resources to western investment by signing the "Contract of the Century" and later in building the BTC and BTE to transport its production to markets. Azerbaijan has shown that it is a strong strategic partner of the United States and that it is not just a major international oil and gas producer, but also a reliable transit country.

I have met President Aliyev twice in the past two months and I am gratified that he continues to pursue the important strategic vision of increasing Azerbaijan's linkages with the West. When we met in Prague, he had just participated in the European Union's "Eastern Partnership" Summit and signed a Joint Declaration with the EU on developing the Southern Corridor to connect Caspian energy and transportation infrastructure with Europe. It is also abundantly clear that Azerbaijan and the United States will remain in close partnership with one another. President Aliyev has been a leader in this region on energy issues, not just by participating in the Prague Summit and at earlier summits in Krakow, Vilnius, and Kyiv, but also by hosting a Summit here in Baku last November. The Baku Energy Summit Declaration contains many important provisions regarding the diversification of energy sources and routes, based on the principle of a "market economy, transparency, freedom of competitiveness, and mutual benefits."

I'm pleased to have been invited to address the members of the American Chamber of Commerce in Baku. My focus today, of course, will be on energy issues, but let me say from the outset how important foreign investment in all sectors of the economy is to economic development here and to continuing prosperity back in the United States. Openness to foreign investment and a welcoming investment climate, including transparency and respect for the rule of law, are hallmarks of a modern society. I know that one of the most important missions of U.S. Embassies is to promote the interests of American firms and when the U.S. government can be of assistance, we are ready to help. You should also not hesitate—and I am sure you won't—to tell us when we should stay out of the way. I can also tell you that President Obama and Secretary Clinton take a personal interest in the energy issues that we will discuss today and I will brief the Secretary about the results of this trip to Ashgabat, Baku, and Ankara when I return.

International engagement on energy issues is not only critical to U.S. energy security, but to every nation's energy security. The U.S. holds the view that energy security is not a zero-sum game. Indeed, no nation's energy security can be had at the expense of any other nations' — we're all in this together. Given current global financial and economic conditions, it is more important than ever to have a reliable international energy supply. Greater energy interconnectivity, competitiveness, and transparency will increase energy security and propel economic development and prosperity.

When Secretary Clinton asked me to return to government service, I requested that we take a fresh look at our Eurasian energy policy. The United States seeks to achieve many goals simultaneously in this region: this is a much more complicated portfolio than when I held a similar position ten years ago. Our strategy seeks to benefit countries throughout Eurasia, whether they are supplier, transit, or consumer countries. Such a strategy requires pursuing a balanced, multi-dimensional approach.

Free market forces and the private sector should be the primary means through which oil and gas are produced, transported and purchased. Transparency and respect for the rule of law are essential principles that must be demonstrated. Governments can and

should play a necessary role to facilitate achieving our goals in the region. I want to make clear my position on the Southern Corridor, particularly on the Nabucco Pipeline and the Turkey-Greece-Italy Interconnector. How these projects are sequenced is a commercial issue. Both are extremely important from a diversification and strategic standpoint. They can help open up further upstream development, not just in Azerbaijan, but also in Turkmenistan and Iraq. But we also need to recognize that they are only one part of the puzzle and are not a cure-all for European energy security issues. Moreover, as far as Southern Corridor projects go, the United States supports any commercially-viable means of delivering oil and gas from the Caspian region to European and global markets—with one caveat: we believe that now is not the time to make deals with Iran to include its gas in any project while it remains in violation of its international commitments and a threat to international peace and stability. We hope Iranian behavior will change so that we can someday welcome Iranian gas into these projects, but now is not that time.

In the meantime, we hope Azerbaijan and its neighbors will maximize their production of oil and gas, including developing new sources, and we stand ready to help this production reach markets. By developing their hydrocarbon resources and delivering them via diversified routes to markets, Caucasus and Central Asian countries can increase their economic development while bolstering their standing as independent, sovereign nations. We are encouraging President Aliyev to continue his strategic thinking about Azerbaijan's potential as both a supplier and transit country for oil and gas to reach Europe. Pipelines are ties that bind, and selling Azerbaijani gas to Europe via the Southern Corridor would form a strong bond between this country and the West. Likewise, we encourage Azerbaijan to continue reaching out to Turkmenistan to assist in developing its significant gas reserves and delivering the gas to European customers. Azerbaijan is and will continue to be an important transit country for oil from Kazakhstan and we hope it will continue to provide reliable and transparent terms for transporting oil as production in the north Caspian region increases by up to two million barrels of oil per day in the next five years, necessitating large increases in export capacity. Most of this is dependent on Azerbaijan and Turkey reaching an agreement on reliable and predictable

pricing and volume terms for transit of Azerbaijani gas through Turkey and we will discuss this issue here and in Ankara on my next stop.

Let me close with a few words about our vision of the potential market for most of the Caspian region's gas. The United States supports European internal market reforms that will lead to a single market for energy, unbundling the distribution and supply functions of energy firms, and interconnectivity of European gas and electricity networks. Last month at the Prague summit, the Joint Declaration signed by Azerbaijan, the European Commission, and others declared that interconnections are a "basic prerequisite" for developing the Southern Corridor. The U.S. believes interconnectivity maximizes the potential of Southern Corridor projects, such as Nabucco and the Turkey-Greece-Italy Interconnector; likewise, when these projects add diverse sources and routes to an interconnected market, they act as protection against supply disruptions. A single, interconnected market means that all of Europe can benefit from Southern Corridor projects, regardless of whether they terminate in Austria, Italy, or Germany. Interconnections mean that no country need fear that a pipeline could bypass it and leave it more vulnerable to supply disruptions.

The Baku Energy Summit declaration called for "strengthening and expanding the mutually beneficial cooperation among energy producer, transit, and consumer countries" and "continuing the policy of diversification of routes of oil and gas from the Caspian basin to world and European markets." The United States is fully in agreement. We want to lower supplier countries' dependence on a single export route to better ensure market pricing and economic stability. We want transit countries to have a stable income from reliable and predictable transport fees at market prices. And we want consumers to have a stable and flexible supply of energy at competitive prices.

Thank you very much for your attention and I look forward to your questions.