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# U.S. ENERGY DIPLOMACY

**BY TIM BOERSMA AND COREY JOHNSON**  
**FEBRUARY 2018**

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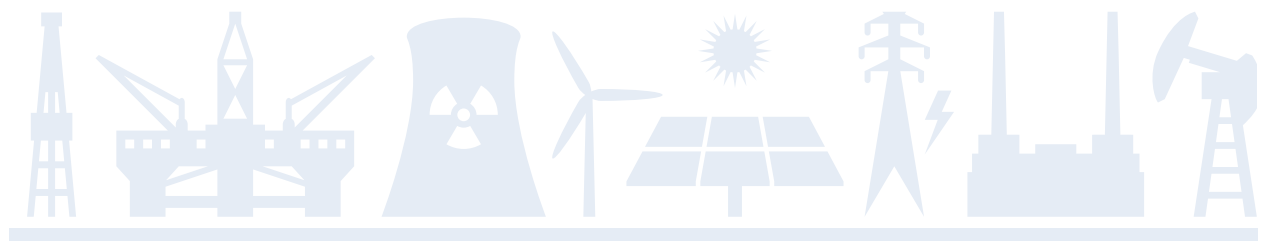
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# EXECUTIVE SUMMARY

The oil and gas boom has turned the US energy landscape upside down, with ripple effects around the world. This transformation has given rise to discussions of how Washington can leverage these newly found riches to its advantage internationally. The emerging literature in this field seems to agree that major benefits accrue to those nations that produce massive amounts of hydrocarbons but too often misses a clearly defined starting point for analysis, for instance regarding the division of labor between public and private actors.

The Obama administration was the first to have this “tool” in its diplomatic toolbox and made repetitive claims about how American resources were going to be used to help allies in, for instance, Europe. The transition to the Trump administration brought with it numerous policy changes, including on the diplomatic front, though the mantra to “unleash” US resources into the world has suggested continuity, rather than change, absent the tone of diplomacy.

This paper examines the history of US energy diplomacy and how it has been altered by the US oil and gas boom. It then explores the limitations of US energy diplomacy and provides a case study to illustrate areas where it has come up short and areas where it has found success. In short, the paper finds the following:

- While discussions around US energy diplomacy have oftentimes been framed around the benefits US energy exports can bring to allies and to pushing back against foes, there seems to be very little evidence that supports the notion that diplomats can exert this kind of influence.
- Diplomatic objectives are often overwhelmed by energy market realities. The US oil and gas sector consists of thousands of companies of vastly different sizes, making independent investment decisions based on commodity price expectations—not on diplomatic desires.
- Whether and when energy resources are sold is determined by a number of factors, including available infrastructure and existing regulatory framework, but the chief factor is price. If making a profit is the key objective of US companies, and their actions are independent, it can be no surprise that there are substantial limits to how the US diplomatic corps can steer the flow of commodity to achieve desired political goals.
- In specific cases where US diplomats have tried to persuade importing allies to diversify their fuel mix, such as natural gas in Europe, that mix has not materially changed. European efforts to increase optionality for various member states have generated meaningful results, even though it is more complicated to declare that an American diplomatic success.
- It is important to consider energy as just one topic in a broader diplomatic playbook, contrary to what a phrase like “energy diplomacy” may suggest.
- Our analysis suggests further study to better comprehend the merits of and limitations to US energy diplomacy is likely valuable but that achieving desired outcomes can be difficult and that its promise to the broader public therefore must be modest.



# INTRODUCTION

Over the preceding decade until November 2016, energy came to occupy a more central position in the United States' foreign policy apparatus, and the term "energy diplomacy" became frequently used in policy circles and the media. The reasons for this are numerous, but a 2014 headline from the New York Times captures the essence: "Oil's Comeback Gives U.S. Global Leverage."<sup>1</sup> Indeed, the unleashing of massive amounts of US unconventional oil and gas transformed the country from a political and economic superpower that was relatively energy poor in relation to its consumption habits into an energy superpower in its own right. The US energy narrative shifted quickly from talk of scarcity and ever-increasing import dependence to one of abundance, in which the nation became a major global exporter. For US diplomats, this occasioned the rethinking of what role energy could play in advancing strategic interests abroad. In October 2012, then secretary of state Hillary Clinton gave a major address at Georgetown University on energy diplomacy in the 21st century, proposing that energy could be used to help solve territorial and maritime disputes, promote competition in Europe, get the Republic of Iraq back on its feet, bring peace in the South Sudan and Sudan conflict, and tackle energy poverty and climate change.<sup>2</sup> Secretary Clinton's State Department stood up a Bureau of Energy Resources with dozens of diplomats devoted to these topics. At meetings abroad and in Washington, energy was literally on the agenda, assuming a more prominent role than at any time since the Carter administration.

Following the 2016 US presidential election, the talk has changed again. The Trump administration has spoken about taking policy steps to unleash American energy and its benefits for our allies. In June of 2017, President Trump and several administration officials and supporters publicly announced that a new era of "energy dominance" was at hand, hailing the potential of exports of fossil fuels to friends around the world. To give us a flavor of what dominance looks like, while visiting China in November 2017, President Trump announced possible Chinese investments into the US energy and chemicals sector in Alaska and West Virginia worth dozens of billions of dollars. Whether these memorandums of understanding will in fact become firm agreements, time will have to tell, yet that nuance likely gets lost on the broader audience. "Dominance" might also take a more negative connotation in the future, as recent discussions about a possible border tax on energy resources have suggested.<sup>3</sup>

This paper takes stock of US energy diplomacy historically and in the wake of the 2016 election and considers the prospects of the concept going forward. The question the paper asks is whether the conventional wisdom suggesting a prominent and growing role of energy in US diplomatic efforts is a valid starting point, given the realities of the US energy sector and the domestic and global energy markets. It is intended as a first attempt at sketching a framework for understanding the underlying nuances of US diplomacy in the energy field, where the possibilities and opportunities for diplomats lie, and where they might be constrained in a market where, to a significant extent, the private sector beats the drum. In the US oil and gas sector, the distinction between public and private actors is quite rigid. Independent—not state owned—energy companies are making investments to develop resources. These investments decisions are informed by a myriad of factors, some of which



are controlled by the government (such as tax regimes, concessions, and regulations). However, the most critical signal, whether the price of a commodity creates an incentive to produce and sell, comes from the market and informs whether investment decisions receive financing and can be made..

In discussing these issues, this paper begins with an overview of the evolving US energy posture and US diplomacy. We base our analysis on several dozen interviews with stakeholders, ranging from private sector actors, regulators, and scholars to government officials, including (former and current) diplomats. These interviews were conducted based on anonymity, and we will therefore not provide a list of participants in our research. We then turn to a case study on natural gas in Europe to help provide a better understanding of the challenges related to US energy diplomacy, and we identify where US diplomats may benefit from enhanced energy extraction and trade and where they may find challenges. We conclude with some brief observations on the current administration, the role that energy diplomacy may play going forward, and how, despite significant political uncertainties, market realities suggest that continuity is more likely than radical change. Our analysis suggests that energy diplomacy will, at least rhetorically, occupy a more prominent position in US foreign policy thinking but that achieving foreign policy goals using energy diplomacy is far more difficult than some of the rhetoric has promised.





# CHANGING ENERGY LANDSCAPE AND ITS POTENTIAL IMPLICATIONS FOR FOREIGN POLICY

It is hard to overstate the impact that the US oil and gas boom has had on domestic and global markets. Understandably, the availability of large amounts of new resources comes with a myriad of ripple effects. The dramatic changes in the US energy landscape provided members of the US diplomatic corps with a powerful narrative when they engaged with their peers around the globe.

Various scholars and energy experts have suggested the United States could enjoy important geopolitical benefits from increased domestic natural gas and oil production.<sup>4</sup> Some contributions in this genre have even claimed that US authorities should try to proactively leverage these resources to the country's diplomatic advantage.<sup>5</sup> These discussions are often framed in terms of “helping allies” and “punishing foes” and using US energy diplomacy as a means to achieve these goals. What is problematic about these contributions is that they fail to provide a detailed description of what “energy diplomacy” means and lack a clearly defined starting point, or framework of analysis. Thus, it sometimes remains vague what government agencies can in fact do to “use” those resources to the advantage of the United States. Indeed, in our interviews, we began by asking what US energy diplomacy means. We got as many different answers as we had interviews. As one respondent noted: “Energy diplomacy can be whatever you want it to be.”

In a 2014 testimony, David Goldwyn, who served as the US Department of State's special envoy and coordinator for international energy affairs from 2009 to 2011, gave an overview of the tools that the US government has at its disposal to mitigate possible energy supply disruptions, increase energy security, and mitigate the consequences of climate change.<sup>6</sup> In sum, this includes educating foreign governments and other constituencies (e.g., about market reform and free trade), providing technical assistance (e.g., sharing best practices regarding shale gas extraction), and US companies bringing more natural resources into the global system, thereby putting downward pressure on prices and forcing incumbents to adapt. Also in 2014, Goldwyn's successor at the State Department, Ambassador Carlos Pascual, used European progress to further integrate its natural gas markets as an example of how competition can help relieve countries of the yoke of monopolistic suppliers, in this case Gazprom.<sup>7</sup> Amos Hochstein, special envoy for international energy affairs from the State Department under former president Obama, became the personification of the US new energy posture. Testifying in front of a House of Representatives subcommittee in 2016, Hochstein observed that “the United States has transformed into the world's energy superpower.”<sup>8</sup> In a separate interview with the Houston Chronicle, Hochstein indicated in reference to Ukraine that “the idea is to use LNG to free the country from their dependencies.”<sup>9</sup> Compare that to Department of Energy's George Person's Senate testimony from 2005, when conventional wisdom dictated that US imports of energy resources, including oil and natural gas, were going to continuously grow. Against such expectations, Person in his testimony mentioned that was one of the fundamental principles guiding US foreign policy. In his words, this had to be interpreted as an “ongoing, quiet dialogue” as “the best vehicle for our interaction with producing countries, enabling us to frankly exchange views on oil market developments



and to promote a greater understanding of key issues.”<sup>10</sup> Thus, we can observe that within a relatively modest time frame, the US diplomatic corps shifted its modus operandi from quiet diplomacy to openly promoting energy wealth for foreign policy purposes.

Hochstein was correct to point to the dramatically changed US energy landscape. While any suggestion that the United States is a lone energy superpower is probably an overstatement, it is truly one of only a handful of such superpowers (table 1).

**Table 1:** Overview of 2016 world top energy producers and exporters

Product	Rank	Country	Unit	Value
Crude Oil Production	No.1	Saudi Arabia	Kbpd	10,460
	No.2	Russia	Kbpd	10,349
	No.3	US	Kbpd	8,876
Total oil production (crude + NGL)	No.1	US	Kboe	12,354
	No.2	Saudi Arabia	Kboe	12,349
	No.3	Russia	Kboe	11,227
NGL production	No.1	US	Kbpd	3,478
	No.2	Russia	Kbpd	791
	No.3	Canada	Kbpd	505
NGL exports (gross)	No.1	US	Kbpd	804
	No.2	Algeria	Kbpd	354
	No.3	UAE	Kbpd	324
Biofuels production	No.1	US	Kboe	669
	No.2	Brazil	Kboe	347
	No.3	Germany	Kboe	60
Refinery output	No.1	US	Kbpd	18,468
	No.2	China	Kbpd	11,419
	No.3	India	Kbpd	5,236
Refined product exports (gross)	No.1	US	Kbpd	3,517
	No.2	Netherlands	Kbpd	2,321
	No.3	Russia	Kbpd	2,044
Natural gas production	No.1	US	Bcf/day	72
	No.2	Russia	Bcf/day	56
	No.3	Iran	Bcf/day	20



Product	Rank	Country	Unit	Value
Coal production	No.1	China	Million tons	3,411
	No.2	India	Million tons	692
	No.3	US	Million tons	661
Wind capacity	No.1	China	MW	148,640
	No.2	US	MW	82,453
	No.3	Germany	MW	49,534
Wind power generation (gross)	No.1	China	TWh	241
	No.2	US	TWh	229
	No.3	Germany	TWh	77
Solar capacity	No.1	China	MW	78,070
	No.2	Japan	MW	42,750
	No.3	Germany	MW	41,275
	No.4	US	MW	40,300
Solar power generation (gross)	No.1	China	TWh	66
	No.2	US	TWh	57
	No.3	Japan	TWh	50

Source: JODI and BP WEO data.

Although the contours of energy diplomacy under the Trump administration are not entirely clear, we have a broad understanding. Differences with the previous administration do not seem substantial when it comes to oil and gas production and exports. The president has repeatedly indicated that he wants to “unleash” US energy resources on the world and benefit from increased exports. Yet the Obama administration put in place much of the framework that could help achieve that goal. It was President Obama who streamlined the process to license exports of liquefied natural gas to countries without a free-trade agreement (exports to FTA countries were always less cumbersome) and who made a deal with the US Congress in late 2015 to lift the ban on crude oil exports. Exports of oil products and NGLs were already allowed, though they shot to record highs during the Obama administration on the back of surging domestic oil production. How Trump’s anti-free trade posturing will be reconciled with the fact that trade agreements are an obvious tool to create rules that encourage energy exports remains to be seen. There is some room for the Trump administration to incentivize oil and gas production on public lands and offshore, and time will tell whether that will have a material impact in terms of additional production. However, the fundamental difference with the previous administration is that Trump dismisses anthropogenic climate change. Doing so in turn allows this administration to be more explicit about the benefits of oil and gas



production and exports, and to include coal production and exports into that narrative. The best illustration of this was the public acclaim of the deal that a Pennsylvania coal company struck with a Ukrainian utility to export 700,000 tons of US coal to the country to help produce electricity and heat homes.<sup>11</sup>

We know that energy will continue to play a role in foreign policy as it has done for many decades, but possibly in quite different ways than those imagining an energy superpower expect. President Trump campaigned on a promise of revitalizing and releasing what he said was a regulatory chokehold on the domestic coal industry. Indeed, US foreign policy under President Trump has put coal back on the diplomatic agenda, and when Ukraine agreed to import coal (in the absence of options to import natural gas) from the United States to replace resources from Russia, there was much rejoicing among the shrinking ranks of those who believe burning coal is smart.<sup>12</sup> While the Paris Agreement is out of favor in Trump's Washington, that will not keep other countries committed to mitigating climate change from bringing up the topic through regular diplomatic channels, requiring if nothing else a "defensive" US energy diplomacy.

Separately, it is worth noting that the nature of diplomacy is less nation-state based than at any time in several hundred years.<sup>13</sup> Cities, subnational regions, and a host of civil society and private sector actors will continue to be active in the diplomacy space, and energy concerns occupy these players as much as foreign ministries do. Moreover, probably more than anywhere else in the world, private investors have a significant amount of autonomy, and, as long-term investments are customary to the energy sector, there is reason to question whether the rhetoric of US administrations over time should be seen as steering US diplomacy but rather as framing US diplomacy within a context of various moving parts that can only be controlled to a limited extent.

In addition, market realities could conspire to undercut President Trump's bold rhetoric on unleashing American energy. For example, despite Trump's highly politicized revival of the Canada-US Gulf Coast Keystone XL oil pipeline that had been axed by President Obama in 2015, recent news coverage suggests that owner Trans-Canada is struggling to find sufficient interested market players, due to changed market conditions. Similarly, efforts to revitalize the coal industry and increased coal exports face strong headwinds. Houser et al. have shown that despite Trump's rhetoric to the contrary, government policy was not among the key factors contributing to US coal's decline.<sup>14</sup> Instead, much of the pain the industry faces stems from structural trends and competition from rising supplies of low-cost US natural gas. It stands to reason, then, that absent drastic measures such as subsidies, it is unlikely that coal will make the comeback promised by Trump during the campaign.<sup>15</sup>

All of this points to the considerable limitations facing a government seeking to use energy resources to achieve foreign policy goals and also promoting commercial transactions. We tentatively conclude this section by observing that the posture of US officials when it comes to energy resources has fundamentally changed, partly but likely not exclusively spurred by the advent of unconventional oil and natural gas. While during the Obama administration, officials tended to walk a fine line between promoting fossil fuels and mitigating the consequences of their usage, the agenda of the Trump administration is more straightforward,



at least rhetorically, and aimed at promoting hydrocarbons and reviving the nuclear and coal industry. As we have hinted at, these ambitions should be assessed within existing market realities, which in turn also impact how successful diplomacy can be.



# ENERGY DIPLOMACY IN THE DEPARTMENT OF STATE

There have been some suggestions that energy diplomacy within the State Department was “invented” in response to a greater international competition for energy resources.<sup>16</sup> However, our interviews suggest that it is more accurate to say that the Bureau of Energy Resources was created for two chief reasons. First, a highly ambitious secretary of state, Hillary Clinton, and her key advisers had identified energy resources and climate change as key areas for the United States to make a profile in, given the rapidly changing (domestic) market realities, and aforementioned changing US energy posture. The second reason was related to more classical bureaucratic processes, in which certain parts of government felt that tasks related to energy diplomacy were not being fulfilled optimally by existing governance structures, and changes in that structure were therefore deemed necessary. It was for these reasons that activities that had been historically pursued by departments like Commerce and the international bureau at the Department of Energy (DOE) were now in part taken over by a new bureau within the State Department. But it is worth noting that the international office at DOE remained intact and that the Department of Commerce continued to do its share of commercial interest representation. Within the State Department, there are geographic focus groups in addition to thematic groups, which sometimes causes an overlap of interests. Anecdotal evidence suggests that at times these various interest groups work well together, but competing interests and ambitions also can come to the fore.

In turn, within the State Department, the Bureau of Energy Resources went through its own development. Originally labeled the Global Shale Gas Initiative (GSGI), this was designed as a shale gas promotion initiative, then renamed Unconventional Gas Technical Engagement Program (UGTEP), providing technical expertise to policy makers in other parts of the world, spearheaded and announced by David Goldwyn.<sup>17</sup> The agenda of the initiative broadened over time. Subsequently, Ambassador Carlos Pascual became the special envoy for energy diplomacy. A career diplomat, Ambassador Pascual quickly broadened the focus of the initiative and moved into various initiatives varying from oil and gas to renewables and efficiency. Amos Hochstein, the last special envoy under President Obama, was very vocal about European energy security and a proposed pipeline from Russia to Germany called Nord Stream 2. By the end of Obama’s second administration, the bureau counted almost 100 energy diplomats, and around the Paris negotiations, a special envoy for climate change, Todd Stern; his successor; Jonathan Pershing; and their staff had been merged into the bureau as well.

The fate of the bureau came into question after the 2016 US presidential election. A Heritage Foundation blueprint suggested the existence of the energy diplomacy bureau in its current form had been under discussion.<sup>18</sup> However, the July 2017 appointment of John McCarrick as deputy assistant secretary seems to imply that bureaucratic continuity is more likely than abrupt change. It is also worth keeping in mind that even if the bureau had not survived the Trump administration’s pursuit of “less government,” this would not have to mean the end of energy diplomacy, since other diplomats in the State Department could have continued their work, as could officials in other parts of government. In addition, we should note that



while our focus has been on the federal level of government, diplomacy can take place at other levels of government as well. Examples include exchanges of views and best practices between states and/or regulatory authorities and foreign delegations regarding best practices of shale gas extraction and regulation, and the Global Covenant of Mayors for Climate and Energy.<sup>19</sup> Certainly when it comes to the topic of climate change, it would not be unreasonable to anticipate an increase in diplomatic and advocacy activity to come from levels of governance other than the federal level, given the Trump administration's stance on the topic.



# CASE STUDY - NATURAL GAS IN EUROPE

Europe's dependence on natural gas from Russia has been a regularly debated topic in foreign policy circles in Washington, DC. Government officials have discussed the potential benefits and importance of reducing Russia's dominant role in the European gas sector since the Reagan administration, even though at the time these concerns were generally ignored in Western European countries. Arguably, this changed with the 2004 and later 2007 expansions of the EU, in which several Central and Eastern European countries and the Baltic states joined. This is because in these countries the notion of energy security has a drastically different connotation than in their peers in other parts of the EU, based on experiences of market power abuse and often complicated historical relations with Russia. Additional concerns about Europe's dependence on Russian natural gas came after two major gas supply disruptions, first in 2006 and later in 2009, which resulted from commercial and political disputes between Russian gas giant Gazprom and Ukrainian gas company Naftogaz. Since then, discussions about natural gas have become increasingly securitized and polarized.<sup>20</sup>

Europe's strategy to deal with dominant gas suppliers rests on several key pillars (i.e., market liberalization and integration, strengthening the legislative and regulatory framework, supporting market functioning, supply diversification, and moving away from fossil fuels altogether). This strategy has received support from Washington. Even though this strategy continues to be a work in progress, it has yielded substantial success. By better interconnecting national markets, facilitating the free flow of gas across borders, investing in additional infrastructure to create access to various sources of supply, streamlining national regulatory regimes, and creating and strengthening a European regulatory authority, Europe has become a resilient and in large parts increasingly liquid gas market. With 400 million consumers, it is also an attractive market where companies want to compete, and those who do not play by the rules are challenged in court, as Russian state-owned Gazprom experienced on multiple occasions as of late. However, one of the key pillars of Europe's strategy, namely the expectation that the European market would transform so that dozens of suppliers would compete for clients like the United States, has not materialized. Instead, European gas demand is still met through a combination of domestic supplies and its traditional major external suppliers, namely Norwegian Statoil, Russian Gazprom, and Algerian Sonatrach in the south, and then volumes of LNG. Indeed, the realities of the European gas market have put some European policy makers in an awkward position, certainly since Russia became more aggressive in interfering with Ukrainian affairs in 2014. However, despite that growing wedge between the EU and Russia at the political level, these trends do not change the actual flow of commodity or end long-term offtake agreements. Therefore, in all realistic scenarios, European consumers will continue to use significant amounts of natural gas from Russia.<sup>21</sup>

## U.S. Diplomats in the Driving Seat?

We return to supply diversity shortly, but first discuss the role of American diplomats in furthering the agenda of European market integration as a tool to enhance European natural





gas security. It is debatable to what extent US diplomats can take credit for the progress that Europe has made in terms of market integration and increasing access to alternatives. It is probably fairer to state that a nudge may at times have helped but just as easily may have irritated counterparts in European capital cities. Anecdotal evidence suggests that American diplomats in Baltic states, for example, frequently provided policy makers with advice on changing gas markets and the possibilities offered by leasing technology that could help make liquefied natural gas easier to access and urged policy makers to make good on their often-voiced concerns about gas security. However, the narrative of European market integration to enhance overall energy security has prevailed in European institutions for many years, predating recent US energy diplomats and possibly outliving the current one.<sup>22</sup> In addition, when it comes to implementing this market integration agenda, for instance the construction of an interconnector between two member states, financial and regulatory support comes from those member states, or occasionally in part from Brussels, but certainly not from Washington, DC. In sum, it is difficult to pinpoint what role US diplomats have truly played.

## Challenges of Supply Diversity

Politically motivated calls for supply diversity are easy to make, but complicated to realize. This is because in a liberalized market environment like the European Union, investment decisions are generally not made by political actors. The European gas market is a case in point. Over the course of several decades, a total of 23 regasification terminals have been built on EU shores to enable the flow of liquefied natural gas to the continent. A brief glance at their utilization rates in recent years confirms that market actors, not politicians, are in the driving seat here. Depending on availability of resources and competition from other parts of the world, imports of LNG into the EU have in recent years been relatively modest, despite the often-vocalized political desire for supply diversity. The political economy of this series of regasification terminals varies, though a full treatment of their economics is beyond the scope of this paper. Suffice it to say that some should never have been built on the basis of their economics, and in some instances the European Commission even chipped in to carry a part of the costs. There can be valid reasons for this type of government support (e.g., if market size prevents the private sector from investing in a certain project, but there are important perceived public benefits to make that investment anyway). A recent example of this is the LNG terminal in northern Poland. The point, though, is that when governments look to develop a project that market forces do not dictate, that project will come at an additional cost, and this is something that often gets lost in analyses about diversity of natural gas supply in the EU.

A more obvious example of a politically motivated project to diversify EU gas supplies is the so-called Southern Gas Corridor. This initiative was launched by the European Commission in 2008, and its purpose was to bring new natural gas supplies from the Caspian region and the Middle East through Turkey, and then on to Greece, Albania, and Italy. Development of Caspian natural gas and shipping this to the EU is not just good for Europe, the argument goes, but also for countries in the Caspian region, in this case Azerbaijan. Developing resources to lift economies to the next level, and preferably out of the direct influence sphere of Russia, has surely in Washington, DC, been a key objective of diplomatic support for these



initiatives (more about oil trade in the Caspian region in the next section). Support for the regime in Azerbaijan comes with challenges as well (e.g., related to human rights), which, at least for energy security reasons, European and American officials at a minimum publicly do not like to talk about.

Previously, an alternative route, from the Turkish border north to Bulgaria and then on to Austria, had long been considered and actively supported by both the European Commission and the Clinton administration, under the name Nabucco pipeline. When the consortium members, led by UK energy giant BP, decided to opt for the route to Italy instead (Italy is the second largest gas market in the EU, after Germany), the Nabucco initiative ended. The Southern Gas Corridor, however, is progressing, and with the construction of three connected pipelines underway, it is anticipated that around 2020 natural gas will flow from Azerbaijan to the EU. Yet contrary to some predictions suggesting that flows through the pipe could reach up to 60 bcm per annum somewhere in the future,<sup>23</sup> the pipelines under construction have a total capacity of 16 bcm per annum to Turkey, and then the final piece of infrastructure, the Trans Adriatic Pipeline, has a total capacity to ship 10 bcm to Italy, at a cost of 40 billion euros. To put this in perspective, the EU's annual gas demand in 2017 was around 500 bcm. In addition, there have been reports that suggest that availability of feed gas in Azerbaijan could at times be constrained, and volumes from Russia would have to make up for it. This is not to downplay this project. The addition of 10 bcm per annum of Azeri natural gas could bring some competition to Southeastern Europe, especially if interconnectors between, for instance, Greece and Bulgaria are constructed, and gas can flow freely in that part of the continent. What this case does illustrate is that diversity of supply can come at a great cost, and politically motivated projects have a hard time making it to the finish line, if the liberal market paradigm dictates investment decisions.

Europe's political push for diversity of supplies was not the only response to the gas supply disruptions in 2006 and 2009. Russian Gazprom also opted to invest in new supply routes, developing a pipeline running directly from Russia to Germany, through the Baltic Sea. The project, named Nord Stream, commenced in 2005 with first natural gas delivered to Germany in 2011. It was a controversial project, with various EU member states objecting to being circumvented as transit countries and losing transit revenues and others sharing concerns about the potential for environmental damage in the Baltic Sea. In 2015, Gazprom proposed a second pipeline directly to Germany, labeled Nord Stream 2. It is worth considering this decision in the context of the war in Ukraine, which commenced in 2014, and the deeply soured relations between the European Union and United States on the one hand and Russia on the other. Following Russia's taking of Crimea and meddling in eastern Ukraine, the United States and European Union put a series of sanctions in place to punish Moscow for its adventurism. Yet despite the clear political desire among at least a substantial number of EU member states and the United States to punish Russia, a consortium of five European companies from four different member states (i.e., Germany, France, Austria, and the Netherlands) decided to team up with Gazprom to construct this second pipeline, as the company published record export volumes of natural gas to Europe. This decision caused outrage in both Brussels and Washington, DC, which aggressively sought ways to block the project from moving forward. The European Commission has repeatedly expressed its reservations regarding this investment, and the former special envoy from the State



Department, Amos Hochstein, went as far as to suggest that construction of this project would be “dangerous” and “redraw a Cold War line in Europe along economic lines.”<sup>24</sup>

Time will tell if this tactic proves successful for the United States or if it would have been better off playing the role of honest broker and seeking common ground among key allies. At the time of writing, the controversy about Nord Stream 2 has not been settled. In early 2018, the European Commission is waiting to hear from the European Council whether it will formally get a decision-making role in this specific project and whether the member states will accept the proposed changes to existing legislation, extending the Third Package, in an alternative attempt from the EC to get a foot in the door. There is also some uncertainty whether Gazprom and its financial supporters can continue with this project. New unilateral sanctions that the United States imposed on Russia in 2017 have further increased the political risk for those companies involved, and more sanctions might follow.<sup>25</sup> With the Trump administration in power, rhetoric in Washington, DC, regarding Nord Stream 2 has quieted somewhat, even though the story line has not changed, with US diplomats actively participating in public discussions in Brussels to lobby against Nord Stream 2.

An alternative to importing more natural gas can be to produce more domestically. After the shale gas revolution in the United States, the federal government, particularly the Bureau of Energy Resources and its predecessor, UGTEP, started to promote the benefits of shale gas development in other parts of the world, including Europe. Based on very early and rudimentary resource assessments that were published by the EIA, in the early years of this decade, there was even a belief that several European countries might become the next frontier for shale gas production. US embassies in European capitals such as Warsaw helped promote American companies who had joined in producing large amounts of oil and natural gas (note that the majors were generally late to join the party in their home country) and helped exchange lessons from the United States by organizing briefings with academics and working visits with regulatory authorities at the state level, supporting research on the environmental consequences of shale gas production, and the like. The reality of shale gas production in Europe turned out to be more complicated, with public and/or political opposition hampering meaningful exploration activities in countries such as the United Kingdom, France, Germany, and the Netherlands, and disappointing initial drilling results as well as significant above the ground challenges preventing countries such as Poland to tap into their alleged resource wealth.<sup>26</sup>

## Diplomatic Success in Europe

In our interviews, we asked for examples of energy diplomacy successes and possible failures. The 2015 Joint Comprehensive Plan of Action (JCPOA), or Iran Deal, as it is often called, was the most often quoted instance of successful energy diplomacy. Some scholars have suggested that without additional crude oil (including tight oil from the United States) in the global system, countries in Southern Europe but surely also key importing countries such as India and China could not have been persuaded to curtail or limit imports of crude oil from Iran as part of the sanctions efforts.<sup>27</sup> This in turn prompted Iran back to the negotiation table and led to the JCPOA. Assuming the deal is adhered to by all those involved (an increasingly major assumption at this point), the JCPOA might indeed be labeled a success in the future.



Although a deep discussion of the deal and the environment leading up to it falls outside the scope of this paper, we would note that there is more to it than energy. Stringent financial sanctions and a decade-long diplomatic isolation played an important role, making this case arguably unique and multifaceted. The White House was also closely involved, and former secretary of energy Moniz played a critical role, not only because he is a nuclear physicist by training but also because he came from MIT, where two members of the Iranian negotiation team allegedly were trained as well. This underlines the point that individuals matter, and at the end of the day, diplomacy is about people getting along, listening to each other, sharing relevant information, and giving and taking, as opposed to the private sector producing more hydrocarbons.<sup>28</sup> More research into the details of this case, and how to think of it in terms of energy diplomacy, is desirable.

Several respondents mentioned the Baku-Tbilisi-Ceyhan oil pipeline, which opened in 2005, as an example of successful energy diplomacy. The Caspian region had long been known to harbor enormous amounts of hydrocarbons, and from a US point of view, the challenge was not just to develop those resources and local economies such as those of Azerbaijan and Georgia. Additionally, Washington wanted to see those resources brought to market through non-Russian pipelines, in order to further lure these former Soviet states out of Moscow's influence sphere. Initially, companies involved, including BP and Chevron, were more interested in exploring export routes through either Russia or the Persian Gulf, both of which were considered cheaper. However, the US government standoff with Iran created problems for the Persian Gulf option, while sending the crude through Russia would only increase Moscow's dominant position. US diplomats lobbied the companies for years trying to persuade them to instead develop a pipeline from the Caspian through Georgia and on to Turkey. Increased shipments of oil through the Bosphorus were considered as well but deemed undesirable and too risky. In the end, when companies realized that the Persian route was not feasible and the Russian route lost some of its appeal for other reasons that are beyond the scope of this paper, the BTC pipeline was agreed on and put into use in 2006.<sup>29</sup> As one diplomat who was directly involved recalled, when oil prices hovered around \$10 per barrel in the late 1990s, convincing companies to spend more money on a preferred transportation route is more complicated than when prices rise. When prices did increase, years of tough discussions between companies and US diplomats (the Europeans mostly stayed out of these discussions, arguing investment decisions were up to companies) were quickly forgotten. This example illustrates the importance of commodity prices in moving these capital-intensive projects forward. Diplomacy plays a role too, though. It is important to note that financial support for the pipeline also came from a number of financial institutions, such as the IFC, US-Exim, OPIC, EBRD, and JBIC.<sup>30</sup> In addition, the Istanbul Declaration, which was signed by Turkey, Azerbaijan, Georgia, Kazakhstan, and Turkmenistan under the auspices of US president Clinton, laid the groundwork for intergovernmental agreements between the countries involved, which were necessary to realize the pipeline.<sup>31</sup>



# DISCUSSION & RESEARCH AGENDA

For this paper, we offer the following broad observations for discussion and suggestions for future research.

In the case of the United States, there is a clear division between private and public actors, and this is often misunderstood by outside observers and some commentators. Effectively, this has the following implications. First, US diplomats have relatively modest influence over US resources—how many are produced and where they are sold—which, at the end of the day, is decided by market participants, based on price signals, and subject to a wide array of government regulations, none of which are tied directly to diplomacy. These transactions may well come with geopolitical benefits, but to suggest that these are diplomatic successes is often a stretch. Second, were government departments relevant to energy diplomacy, such as the Bureau of Energy Resources, to be dismantled by the Trump administration, the abovementioned dynamics of market realities mean that there would be a relatively limited impact. Diplomacy takes place at various levels of government, making it unlikely that certain groups are indispensable. Additionally, cargoes of LNG, barrels of oil, and tankers carrying petroleum products will all continue to be sold to whomever wants to pay the right price. Sometimes investment decisions in infrastructure will be made, and sometimes they will not. Various institutions will continue to attempt to exert influence, make noise, object, and support, but at the end of the day, within the United States, at least, private sector investments within certain regulatory frameworks will determine the production and flows of energy resources. Our case study demonstrated how complicated it is to bring politically rather than economically motivated projects to the finish line. It could be that these dynamics change over time, but for the moment, this is where we are. In fact, we posit that in recent years the gap between public rhetoric and private action has widened further, and it will be interesting to see whether we will reach a stage at some point where politicians decide that it is time to intervene in that largely market-based system.

In most of the previous contributions, energy diplomacy has been (a) ill-defined, perhaps by design, and (b) approached as an isolated policy area rather than one aspect of multifaceted diplomatic relations between states. The organization of the Bureau of Energy Resources as a thematic silo within the wider bureaucracy of the State Department seems to underline this point. However, it makes more sense to think about energy diplomacy as just one option in a wider deck of diplomatic cards. Surely diplomats based around the world will face a variety of issues, and energy or climate concerns or challenges will be among them. These diplomats are unlikely to approach an energy issue in isolation but rather as part of a broader conversation, either explicitly or implicitly. Thus, if energy diplomacy carried out by the likes of the Bureau of Energy Resources is to be successful, dissemination of information is key, and it is safe to say that at times this works well, but just as often it does not. Based on available literature, the success of diplomacy depends on people and organizational structures, institutional behaviors, learning, and information sharing.

From a US government point of view, there may be broader security goals to consider. There



is agreement in the literature that expanding access to energy, whether electricity or raw materials, is a prerequisite for nations to develop and for people to move out of poverty. In turn, alleviating poverty advances US security goals by reducing incentives, for example, for radicalization, which has led to destabilization in numerous areas that are of strategic importance to the United States. However, there continues to be debate about what the best way to reach these goals is (e.g., small-scale decentral renewables or also large-scale integrated power to fuel industrial activity). It is likely that various approaches have a chance of being successful, depending on local conditions. Economic development and diversification of energy sources are also worth striving for, even though putting more supplies in the market, which can be good for energy security of importing countries, can at some point undermine investments in new resources. Yet because of their carbon intensity, the most prominent fuels in most energy portfolios around the world are directly at odds with a low carbon agenda and thus are contrary to one of the stated goals of energy diplomacy under President Obama. Clearly, though, under the current administration, that will likely not be an issue, as addressing climate change is not a pillar of Trump's policy. Still, here too there are important nuances to consider (e.g., that from a US perspective, there can be good reasons to improve the air quality in countries in South and Southeast Asia and Sub-Saharan Africa by displacing biomass/manure from home cooking by natural gas). In addition, climate diplomacy will continue at other levels of governance, as we have described in the paper. At the same time, adding more fossil fuels to the mix, which increases the possibility of locking developing countries into carbon intensive pathways, obviously comes with major challenges and likely long-term security concerns, including for the United States.

Arguably, the most tangible added value of US energy diplomacy is having a seat at the table. Having access to high-level representatives from other countries to share points of view has value. These interactions provide an opportunity to address other issues (the multicaud diplomatic playbook, of which energy is just one topic). A lot of the success in these processes depends on individuals sharing information and agreeing on collective and long-term goals, all of which are, of course, highly susceptible to typical human failure and misjudgment, as well as time. Measuring the success of US energy diplomacy is difficult, and failure is not an abnormal outcome. If information and lessons can be distributed effectively within the bureaucracies of government, there is a lot of potential gain toward advancing broader foreign policy goals.



# NOTES

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