



JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY
RICE UNIVERSITY

OPENING REMARKS AT THE CONFERENCE
“RUSSIA AND THE CASPIAN STATES
IN THE GLOBAL ENERGY BALANCE”

BY

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Opening Remarks: “Russia and the Caspian States in the Global Energy Balance”

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Opening Remarks: “Russia and the Caspian States in the Global Energy Balance”

Good morning. I am very pleased to welcome you to the Baker Institute conference on “Russia and the Caspian States in the Global Energy Balance.” This is the fourth energy conference that the Baker Institute has organized in Moscow, in partnership with the Carnegie Moscow Center. It is no surprise that we return to Moscow on a regular basis. It is not only because of our excellent, long-standing research ties with the Carnegie Endowment. It is also because the topic of Russian energy policy is of great importance and remains a rich and complex subject to explore when thinking about global energy geopolitics.

We are deeply privileged that The Honorable James A. Baker, III — the 61st United States Secretary of State — and His Excellency Aleksandr Bessmertnykh, former foreign minister of the Soviet Union — are able to join us today. Secretary Baker and Minister Bessmertnykh will deliver keynote addresses during lunch, and they will offer their invaluable perspectives on the future of U.S.-Russian relations.

Russia ranks among the world’s most important oil and natural gas producers. Given its large proven reserves, Russia has enormous potential to enhance its status as a global natural gas supplier. Whether through geography or geopolitics, Russia controls many of the major pathways for the export of oil and natural gas from its own territory and from other hydrocarbon rich countries, like those of the Caspian states.

Last September, Russian Energy Minister Sergei Shmatko noted that Russia has “such a significant position in the high society of world oil, a Russian factor should appear.”¹ This conference aims to discuss what this “Russian factor” is — or should be. In his speech of last year, the minister mentioned the possibility of mothballing or shutting in Russian fields until prices rise again. Indeed, Russian oil production is expected to decline this year.

However, the Russian economy, like that of other energy producing countries, is under pressure from declining oil and natural gas prices, which raises questions about how Russia may respond if other energy producers react to falling prices by boosting output volumes to make up for lost

¹ “Russia wants to influence global oil price-minister,” Reuters, September 25, 2008
<http://www.reuters.com/article/rbssEnergyNews/idUSLP47710620080925>.

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revenues. Many countries, such as Iraq, Libya and even Venezuela, have responded to the present situation by seeking a higher level of foreign investment. On the consumer side, new policies are being adopted in the United States and China to permanently slow growth in energy use. Europe is actively seeking to diversify its energy suppliers. The question is: What does the changing global energy outlook mean for Russia? We look forward to hearing from our Russian colleagues on this.

The Russian Federation is a major power in global affairs. Energy relations have given Russian leaders an enhanced platform for international influence and created openings for Russia to assert itself on the international stage.

Russia has consolidated its logical position in Caspian oil and natural gas resources and transit routes. At the same time, this development has also encouraged Europe to seek out alternative supplies more vigorously. In December 2008, the European Union (EU) voted to offer \$5.4 billion in grants to help fund natural gas and power interconnectors in Europe, including financial aid to the Nabucco pipeline, which would bring Caspian natural gas to Europe through routes that bypass Russia.

According to critics of the Nabucco approach, the U.S. strategy of pursuing multiple pipeline routes in and around the former Soviet Union has not achieved the desired results. The United States has not been able to diminish the Central Asian states’ reliance on Russia as the main conduit for their energy exports. Consequently, critics have called for a new direction in U.S. policy toward the region.

Today, we have a major opportunity to discuss the future of the global energy market and Russia’s important role in the mix of complex players and policies that will shape supplies and pricing in the coming years. Allow me to add that President Barack Obama has taken office at a crucial juncture in U.S.-Russian relations. The time is ripe to examine the areas where our mutual interests may converge. To this end, a renewed strategic dialogue between Washington and Moscow, including energy issues, is long overdue. If I may, let us indeed press the “reset” button and not the “overload” button.

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I would like to thank all of our distinguished speakers from Moscow and around the world for joining us today to discuss the future of the global oil and gas market. We will be presenting new Baker Institute research during our deliberations, and we look forward to receiving your feedback and input to help us refine our analysis. The research that is being introduced today is preliminary. We welcome comments not only from our guest commentators from the Russian Academy of Sciences, the International Energy Agency and Moscow State University, but also you, the audience, to enrich our understanding of the complex forces that are shaping energy markets today.

I would like to thank our sponsor Baker Botts for their support and assistance in organizing this event. I would also like to welcome the delegation from the Institute for Energy Economics of Japan, and my good friend Masahito Naitoh, for joining today’s deliberations and for our 15-year partnership in energy research. And finally, I would like to thank the members of the Baker Institute Energy Forum for their participation in our programs and events. The dialogue we have at international meetings, such as today’s conference, constitutes a critically important element in our ability to promote original, forward-looking discussion and research on the energy-related challenges facing our society in the 21st century, which we believe leads to more informed and realistic public policy choices.

And now, I would like to introduce our opening speaker, Amy Myers Jaffe, the Baker Institute’s Wallace S. Wilson Fellow in Energy Studies. She led the Baker Institute’s researchers on this study and will present the overview of our research findings.

Amy —