

**Statement of Steven R. Mann  
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for  
South and Central Asian Affairs  
before the  
House Committee on International Relations  
Subcommittee on the Middle East and Central Asia**

**Tuesday, July 25, 2006**

**"Assessing Energy and Security Issues in Central Asia"**

Madam Chairwoman, distinguished members of the Sub-Committee, I am pleased to be here today to discuss energy and security issues in Central Asia. This discussion of engaging Central Asian countries on energy cooperation is very timely as the world confronts tight oil markets and as we consider ways to deepen energy security nationally and globally. This hearing's focus on Central Asia is particularly appropriate given the inauguration of the Baku-Tbilisi-Ceyhan pipeline on July 13, an event which I had the pleasure of attending.

U.S. policy for the development of oil and gas reserves in Central Asia is predicated on the use of best commercial standards and transparency to ensure that energy resources are developed efficiently and for the benefit of the countries concerned. In line with this, we have pursued a policy of encouraging multiple pipelines to afford the countries of the region options for export of their oil and gas. The completion of the Caspian Pipeline Consortium (CPC) pipeline from Kazakhstan to Novorossiisk on the Black Sea in Russia and the inauguration of the Baku-Tbilisi-Ceyhan (BTC) pipeline from Azerbaijan to Turkey are signal successes of this policy. We all can be especially proud of the role that American firms have played in these endeavors. BTC in particular represents a new environmental, social, and design benchmark for energy transport worldwide. The construction of the South Caucasus Pipeline will bring Azerbaijani natural gas to European markets and, ultimately, Turkmen and Kazakhstani gas may cross the Caspian and share this route. Our pipeline policy – a policy of antimonopoly – is changing the landscape of Eurasia in an important and welcome way.

In line with these promising developments, the United States welcomes the June 16 signing by Azerbaijan and Kazakhstan of an agreement to facilitate access of Kazakhstani oil to the BTC pipeline. Such an agreement provides Kazakhstan additional capacity to export the large volumes of crude that will need to reach markets starting in 2009-10, when the Kashagan field is slated to come on stream. We wish Kazakhstan and Azerbaijan well in their next round of negotiations on the host government agreements with the individual oil companies that will protect the interests of governments and project investors alike, paving the way for commercial partnerships and prospective international financing.

U.S. firms are among the biggest investors in Central Asia's energy sector, and this is a welcome development in many ways. Major U.S. oil and gas firms such as Chevron, ConocoPhillips, and ExxonMobil have extensive investments in the Tengiz, Karachaganak, and Kashagan fields. In addition, U.S. oil services companies and equipment providers such as Parker Drilling, McDermott, and Baker Hughes Services International have found promising opportunities. When speaking of oil and gas development, we must keep in mind that regionally Kazakhstan and Turkmenistan hold the largest reserves. Kyrgyzstan and Tajikistan have significant hydroelectric resources, but little oil and gas. Uzbekistan is largely closed to Western companies and has more limited potential.

The extent of Turkmenistan's gas reserves remains unclear, and Turkmenistan is completely dependent on the Russian pipeline system to bring its gas to market. A proposed trans-Caspian pipeline foundered in 2000 when the parties could not reach an acceptable commercial agreement, and little has changed since then.

With the completion of the first phase of the East-West Energy Corridor, we must now press on with the second phase of supporting new energy routes out of Central Asia. We also encourage the Congress to continue to increase its knowledge and understanding of Central Asia through visits and parliamentary exchanges. Such visits, along with student and cultural exchange programs, contribute greatly to bringing the United States and Central Asia closer together.

Countries bordering the Caspian Sea—Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan—are significant oil and gas suppliers to world markets, and their importance is growing. The countries of the north

Caspian have reached delimitation agreements, but Iran and Turkmenistan have not yet joined these agreements, among other reasons, because of Iranian insistence on its claim to one-fifth of the Sea. Lack of agreement has impeded exploration and development of hydrocarbon resources in disputed waters, and there remains the potential for conflict in the southern Caspian where promising offshore deposits of oil and gas remain to be developed.

### Kazakhstan – Energy

Given the scope of the energy supply and demand challenges we face today and in years ahead, Kazakhstan can play a very helpful role in addressing the world's energy needs. Kazakhstan and the entire North Caspian region have tremendous resources. At Tengiz, Kashagan, and other fields, nearly 30 billion barrels of reserves are proven; there is potential for up to 100 billion barrels. Natural gas reserves generally range from 65-70 trillion cubic feet, and could be as high as 100 trillion cubic feet. We strongly support the work of U.S. energy companies and their international partners, who are now focused on ramping up production and improving transportation to markets. U.S. energy companies were among the first non-CIS foreign investors in Kazakhstan; we expect American companies to be active in the region for many years to come.

Kazakhstan, a huge country, remotely located, for many years held valuable resources but lacked export routes to global markets. After the breakup of the Soviet Union, Kazakhstan had to rely on Russia's Transneft to carry its crude oil exports. That situation changed in 2001, when the Caspian Pipeline Consortium (CPC) completed construction of a nearly 1,000-mile pipeline from the North Caspian to Novorossiisk, Russia, on the Black Sea. CPC, a joint venture with private partners that include U.S. energy companies, now transports over 600,000 barrels per day, mostly from the Tengiz field, and gas condensate from the Karachaganak field. The partners have drawn up plans to expand CPC capacity to 1.34 million barrels per day by 2009. Those plans have been delayed, however, as Russia expresses concerns over tariffs, corporate governance and management control. We have strongly encouraged the Russian Government to work constructively with CPC partners to resolve these issues and move forward with expansion, particularly as production in Kazakhstan is set to increase.

Overall, Kazakhstan produced about 1.29 million barrels of oil per day (b/d) in 2005, and exported, through CPC and other routes, about one

million b/d. The Kazakhstani Government expects production to increase to about 3 million b/d by 2015, especially as the huge Kashagan field comes into production. Moreover, Kazakhstan has expanded production of natural gas in recent years, and expects to reach 570 billion cubic feet this year. A lack of export infrastructure – plus a focus on oil – has limited gas production in Kazakhstan; previously, gas had been flared or re-injected into oil wells to maintain production pressure. The Government of Kazakhstan is now studying options for increasing gas production and distributing it to global markets. As Kazakhstan aims to expand oil and gas production, it will require additional investment. We will encourage Kazakhstan to be transparent and give all capable companies fair access in any new tender process, whether for new acreage or for subcontracts on existing projects.

Recognizing strong demand for crude in the east, Kazakhstan and China have begun constructing a three-part pipeline to China. Scheduled for completion in 2011, it will extend from Atyrau in the north Caspian region to western China and will ultimately have the capacity to carry 400,000 b/d. The section between Atasu and Alashankou was completed in December and is already transporting oil. Kazakhstan and China are also carrying out a feasibility study for a gas pipeline to China. The sale of PetroKazakhstan, a Canadian venture, to the China National Petroleum Corporation is indicative of China's focus on new sources of energy. Clearly, demand for oil in East Asia, as well as in South Asia, is expanding rapidly. Kazakhstan, given its location, is well suited to meet a portion of those demands. At the same time, we expect Kazakhstan to continue exporting to the West, particularly from the Tengiz, Karachaganak, and Kashagan fields.

We need to continue our work with Kazakhstan to promote transparency and private investment, and to encourage leaders to expand cooperation with U.S. energy companies. Moreover, we must work with Kazakhstan and other countries of Central Asia and the Caucasus to encourage them to expand infrastructure, and, in particular, to increase options for the delivery of oil and gas to market. Continued improvement of the investment regime and stable tax rates are essential in ensuring continued U.S. investment on a commercial basis.

The United States has urged the prudent use of energy resources in Central Asia through transparency. The Extractive Industries Transparency Initiative (EITI), in which Kazakhstan participates, is a step forward in ensuring increased transparency and appropriate oversight over revenues

from hydrocarbon extraction. The International Monetary Fund has also praised Kazakhstan's management of its National Fund, in which oil and gas revenues are placed.

### Kazakhstan – the Broader Relationship

The United States has long-term interests in Central Asia. Our strategic goal for the countries of Central Asia, including Kazakhstan, is to support their development as fully sovereign, democratic, stable and prosperous nations, contributing to regional stability and the global war on terrorism and potentially serving as models of ethnic and religious tolerance. Our relations with the five countries of Central Asia rest on three pillars: security; economic reform and development, including the oil and gas sector; and democratic reform.

Kazakhstan is one of the premier performers in the former Soviet Union on the first two pillars, but needs to move forward on its democratic reform plans. The best guarantor of Kazakhstan's future is a prosperous, stable, and democratic society where all have a stake in the political system.

The United States and Kazakhstan enjoy a vigorous strategic partnership with a constant stream of high-level visitors. Energy Secretary Bodman met with President Nazarbayev and Energy Minister Izmukhambetov in March, Vice President Cheney met with President Nazarbayev in May, Secretary Rice saw Foreign Minister Tokayev on July 6, and Agriculture Secretary Johanns is in Kazakhstan now on an agricultural trade mission. We expect this trend to continue.

The United States is assisting Kazakhstan to combat threats arising from narco-trafficking, terrorism, and all smuggling of contraband, including weapons of mass destruction, by building up Kazakhstan's rapid reaction capabilities. The U.S.-funded border security training program recently donated three 42-foot patrol boats to the Maritime Border Guards. Our security assistance programs are enabling the refurbishment of facilities at the Maritime Academy in Aktau, and we maintain a robust program of engagement to ensure that Kazakhstan has the capability to monitor and manage its land and sea borders. Kazakhstan is also acquiring with U.S. assistance refurbished Huey helicopters for use as part of its rapid reaction forces.

Kazakhstan was the first Central Asian state to develop and secure NATO approval for a Individual Partnership Action Plan, which has helped Kazakhstan gain a better understanding of NATO's role and purpose. Its participation in ordnance disposal efforts in Iraq has improved the Kazakhstani military's interoperability with U.S. forces. Kazakhstan has shown the greatest commitment to military modernization, both of equipment and doctrine, in Central Asia.

### **Shanghai Cooperation Organization**

It is logical that the countries of Eurasia would want to work together in a regional organization such as the Shanghai Cooperation Organization (SCO) to address economic concerns and trans-national threats. It is important for all members to have an equal voice in the organization's agenda and outcomes. We regret when it is used by some to pursue an unhelpful agenda such as the 2005 summit statement on coalition basing. We note however that the 2006 summit took a more constructive approach, despite the efforts of President Ahmadinejad. We believe that the SCO can play a useful role in coordinating regional anti-terrorism efforts and supporting economic development. However, it should not become an engine of exclusion or domination by its larger members. We continue to share our views regarding the Shanghai Cooperation Organization in our bilateral discussions with member countries.

### **Regional Integration Initiative**

The United States firmly supports maintaining and expanding Central Asia's ties to the Euro-Atlantic community, while also looking for new opportunities to the south. The creation of the State Department's Bureau of South and Central Asian Affairs reflects this expanded view. Institutions such as NATO and the Organization for Security and Cooperation in Europe (OSCE) will continue to draw the nations of Central Asia closer to Europe and the United States, as we seek new ties and synergies with nations to the south.

As Secretary Rice noted in her speech at Eurasian University in Astana last October, Kazakhstan has the potential to become the locomotive of growth for Central Asia and to give impetus to a "corridor of reform" extending southward to Afghanistan and the India Ocean. Kazakhstan's expanding economy and mounting funds for investment will ensure it a

growing regional role. In addition to our encouragement of continued economic and commercial reforms, we look to Kazakhstan to make concomitant political reforms that will establish the democratic institutions fundamental to stability and the orderly transfer of power when President Nazarbayev completes his current term in 2012.

The United States and the countries of the broader region share an interest in the free movement of energy, people, goods, and information from the Kazakh steppes to the Indian Ocean. We want not only to support economic development along a north-south axis, but also afford Afghanistan access to a wider world, thus becoming a bridge, not a barrier. In this vision, the United States wants to be the convener, facilitator, and engine for change by prying open physical and diplomatic bottlenecks. We look forward to undertaking a strategic dialogue on regional integration with the countries of the region later this year. We will also work with multilateral institutions, such as the Asian Development Bank, the EBRD, the World Bank, governments, and the private sector.

We are making progress in the areas of transportation, energy, telecommunications, and trade. The U.S.-funded \$36 million Afghan-Tajik Bridge is scheduled to open next year. We are assisting with construction of customs and border crossing facilities throughout the region. We have almost finished the Afghan ring road, cutting travel time between Kabul and Mazar-e Sharif in half. We are making progress on rehabilitation of the Afghan energy grid, and hope to lay the foundations for export of electricity from Tajikistan to Afghanistan. The U.S. Trade and Development Agency-sponsored *Central Asian Power Sector Forum* in June brought together all the governments in the region and the private sector to explore specific projects for Central and South Asian energy trading. We are seeking to reduce trade and investment barriers through a U.S.-Central Asia Trade and Investment Framework Agreement and through technical assistance.

## **Conclusion**

We have made progress on enabling countries in Central Asia to bring their energy resources to world markets. Much remains to be done, however, and continued robust U.S. engagement is required to push forward the next phase of energy development and provide the political space for the countries of the region to pursue their national self-interests. Security will continue to be a challenge. And continued progress in Afghanistan and a

lessening of narco-trafficking will contribute materially to the stability and security of governments in the region and will help to erode the foundations of fundamentalism and terrorism.

Thank you for allowing me this opportunity to appear before the Subcommittee on this important subject. I will be happy to take your questions.