

SMITH: Thank you very much, Mr. Chairman. It's a pleasure to be here.

I've been writing about this subject for a number of years and there wasn't much interest, quite frankly, until particularly in -- well, in the U.S. and I would say in western Europe until the Gazprom cutoff of gas to Ukraine in January of 2006.

It suddenly became a topical issue and there was a lot of interest and excitement about the issue. On the other hand, there's a lot more excitement and talk than there is action. Some of my Russian colleagues know that I'm a strong critic of the present government's policies on energy, but I also criticize, to some extent, the European reaction to this.

And I say that having lived 13 years of my life in Europe and dealt for many other years with European issues, but my European-born wife keeps insisting that I should give equal criticism to the United States and Europe. But I tell her I really don't deal with that, I deal with Russian and European energy issues.

But I think that there has been, for a long time, too long, ignored the growing use of Russian energy resources for political and strategic purposes and while January of 2006 was, to some extent, a wakeup call or at least a snooze alarm for a lot of people on energy, the use of Russian energy goes back to 1990.

And in 1992, I was in Latvia and Estonia and experienced a situation where I had to sleep in my clothes at night because the energy had been turned off. It had been turned off for the reason that the Russian government wanted to pressure the Estonians and Latvians into allowing Russian military officers to stay there in their countries.

Then in 1993-94, we saw the cutoffs to the Ukraine, had a lot of political implications. Some of this is in my testimony and I won't go into it.

From 1997 to 2000, lived in Lithuania, where, because of negotiations between an American and a Russian company and the Lithuanians -- the Russian Transneft, the monopoly exporter of Russian oil, cut off oil shipments nine times during the three years I was there.

And we've seen it happen, it happened in Latvia almost four years ago. Oil was cut off to Latvia, even though Latvia's an EU member. Nothing was done. There was almost no reaction in Brussels. Lithuania was cut off many times since, but definitively, it was cut off last July.

The reaction in the European Commission was a weak letter, quite frankly, from the president of the EU, was never replied to, never followed-up. Now, beginning, there's some follow-up, but the Russians announced definitively that this problem with the pipeline that they had in Russia, they can't fix it and it will never be fixed and there won't be any oil going to Lithuania.

It's obviously a political thing and we know more about this all the time. This is something that I think that people need to pay attention to. For too long, in Europe,

the European energy policy was really decided by Mr. Putin, Mr. Schroeder, Mr. Chirac and Mr. Berlusconi in private meetings.

It's becoming more open now, but I think that there's still a legacy in Europe of the large countries kind of deciding what they're going to do to support their own companies and the smaller countries kind of had to make do.

So the idea of a European energy policy, somewhat like the U.S., is more talk than it really is action. There has been movement in Europe and I think in the right direction, but meanwhile you've got a Kremlin which is very agile, knows how to operate behind the scenes, non-transparent action.

You've got intelligence officers running the energy policy in Russia. These intelligence officers, they know how to operate and they know how to operate quickly and they've been very successful over the last couple of years in checkmating European attempts to develop alternative supplies of energy into Europe.

I think some of the deals recently reached, very non-transparent deals with Hungary, with Slovakia, with Bulgaria, Serbia, I think these things, these are going to really hurt the European policy and make it much more difficult for Europe to find alternative supplies of energy.

I think the Nord Stream or the pipeline that the Germans -- Mr. Schroeder particularly reached with Mr. Putin, an undersea pipeline, gas pipeline deal from Russia to Germany, the way it was done was not in the interest of Europe and I don't believe in the interest of Germany.

I mean, the fact that the Germans will be paying more than twice what they would if there was a free market in gas and this was done, as we all remember, the man that put this deal together was a former Stasi agent, east German intelligence agent, who worked closely with Mr. Putin during the Cold War and he's now the deputy CEO of the company located in Zug, Switzerland, and the CEO is Mr. Schroeder.

So there's been a lack of transparency, a lack of, I think, working together for the common European interest. This is changing, but Europe is dealing, I think -- it's like all democracies and democratic organizations. It works slowly and by consensus and meanwhile you have a very fast running Kremlin which has worked quite effectively, I think, in cutting off some of the plans that the Europeans had to bring in alternative energy.

So a lot of the stuff announced today, the plans for alternative energy are good, I applaud them, but, quite frankly, I think they're going to be -- some are going to be too late and some are going to be slow and it's going to take a long time in developing.

I think there are some things that Europe can do. There's a mythology, I think, in Europe which has developed that Russia is not bound by the energy charter treaty which it signed in 1997, because it hasn't ratified that treaty. Well, Article 45 of that same treaty says that it should go into force on signature, not on ratification. And, in

fact, Russia has ratified -- has signed these 40 agreements, which is put into force and not ratified.

So I think the Europeans would have been wise to kind of push that and push Russia to open up its pipeline systems using that.

The second thing I think the Europeans have some clout with, and we could support that, is the implementation of Article 82 of the EC treaty, which has to do with antimonopoly and antitrust legislation. They used it against the horrendous attempt at Microsoft to bundle its music program with its Windows program and Microsoft has paid a hefty fine as a result of that.

But meanwhile, Gazprom and Transneft, which are massive monopolies and which cost the European consumer billions of euros, have not been touched by Article 82 yet and I think there's some things that can be done there.

I think Mr. Bryza, in fact, and Mr. Mann mentioned some of the projects, specific projects in Central Asian and the Caspian area and I think that our support of those projects, I think, are very, very important. This is one case where I believe in the movie "Field of Dreams," if you build it, they will come. And I think if you build those pipelines, there will be oil and gas to fill those and it will help Europe and by helping Europe, I think you help ensure the security of Europe and the own interest, the security interest of the United States.

Thank you, sir.