

# BRUSSELS FORUM 2009

## *Day 1 – Discussion: From Blame to Responsibility: Europe's New Energy Paradigm*

**Katinka Barysch**

**Deputy Director, Centre for European Reform**

Welcome everybody to this night owl session. Alright, okay. Hello, welcome everybody. Please find yourself a seat. I hope you all have a drink. Okay, welcome to the night owl session. Thanks to GMF for putting us together here to discuss what is of course an extremely important subject, which is the energy security of Europe and we will also of course try to explore whether there is a Trans-Atlantic dimension to this. It is still a very hot topic. Not too long ago the majority of European Union countries were cut off from their gas supplies coming from Russia. There were people freezing in many European countries, factories stood idle and we are still now trying to digest the lessons from that.

I will start by briefly introducing our excellent panel. We will then have a short conversation. But I want to draw as many of you into the debate fairly quickly.

I'll start with Ana Palacio who probably understands the linkage between foreign policy and energy and law it could be said better than anybody else. She was Spanish Foreign Minister in Azana's government five years ago. She was also a member of both the Spanish and the European Parliament where she ran the Internal Market and the Legal Affairs Committees. She is a distinguished Lawyer and one of her many jobs that she had in that capacity was as the General Counsel of the World Bank. With her foreign policy hat on she also sits on the Board of just about every single prestigious foreign policy think tank in the world. And since last year Ana Palacio has been Vice President for International Relations of, the French nuclear group.

To my left I have Tatiana Mitrova who is an Economist by background. She is one of Russia's most high profile analysts on energy matters. She is not only a consultant but

she also attracts a lot of attention through her writings. In particular, she often warns that the EU/Russia energy relationship could turn into a lose/lose situation if there is no trust and no long-term contracts on which to base it. For the last three years Tatiana has been the Head of the Centre for International Energy Market Studies at the Energy Department of the Russian Academy of Science.

Alexandr Vondra, very much the public face of the Czech Presidency of the EU in his capacity of Deputy Prime Minister for EU Affairs. Energy was always supposed to be one of the priorities of the Czech Presidency, but I think few people would have predicted just how urgent the matter would be at the beginning of your Presidency when Russia and Ukraine turned off the taps to Europe.

Sacha Vondra started his political career in the Czechoslovakic Democratic Opposition Movement in the 1980s and by the early 1990s he was Foreign Policy Advisor to Vaclav Havel. He has also been Czech Ambassador to the US and Foreign Minister.

Last but not least Karl-Theodor Freiherr Zu Guttenberg was recently appointed German Economics Minister, the country's youngest ever. This came after a fairly dizzying rise through the ranks of the Christian Social Union which is the Bavarian sister party of Angela Merkel's CDU. One of the many things that Mr Guttenberg's ministry is in charge of is of course energy. Mr Guttenberg, his party is the CDU CSU Representative to the Foreign Affairs Committee in the Bundestag and he is probably one of the most prominent spokespeople of his party on many issues of foreign affairs. He is also on record as saying that Germany should extend the life of its nuclear power stations and diversify its energy resources away from Russia.

Please welcome our panel.

## Q&A Session

**Katinka Barysch – Deputy Director, Centre for European Reform**

*Let me start with you Sacha Vondra. When the gas dispute started between Russia and Ukraine in January, your government's initial reaction was let's not get involved. But then you actually played a very hands on role in trying to end the standoff going back and forth between Moscow and Kiev and Brussels and you're now equally intimately involved in helping the European Union to draw the lessons from this crisis in January. Will you explain to us please what these lessons are?*

**Alexandr Vondra – Deputy Prime Minister, Czech Republic**

Well I think this lesson is that you know we had a lot of talks about a solidarity within the EU. For example, you know this is a part of the Lisbon Treaty. There are the clauses related exactly to the energy security. But once we are confronted with the problem, the paper means simply nothing and we have to be prepared materially, legally, operationally. And I think that the magnitude of that crisis, because look it was not for the first time, but what was the first time was the complete cut which lasted approximately three weeks. So that was a new and it brought some countries into a serious problem. I would stress two special cases and that's Bulgaria and Slovakia.

I would say that this combination of two countries is very important also in the larger geopolitical setup and the quality of the relationship with Russia. So to a certain extent it could be played even intentionally and I think that the lesson was that we have to be ready to react on this crisis immediately with a system of technical, legal and other measures.

To a certain extent, the response I believe, the first serious response was coming today when we with the European Council have approved this package, this so-called EUR5b project to improve the energy security. And a substantial part of this is dedicated to improved gas interconnections.

For example, the Slovaks they were not able to reverse the flow of the gas in their pipeline. We were able to supply them with the gas on some kind of emergency basis. I mean as the Czechs, Germans and others, but they did not have the compressors to be able to reverse the flow. For Bulgaria the problem was even more difficult because they are lacking the alternative interconnections.

This idea you know that in the short and medium-term we will build the new interconnections. We will build the facilities to be able to reverse the flow and also to support the various diversification measures. So I'm very grateful example that we were able to sign the agreement on Nabucco despite some hesitations. Nabucco [Nabucodonosor].

**Katinka Barysch**

*Thank you very much. Tatiana how does it look from Russia? Can you explain to us what went on in these early days in January when Russia decided to first reduce the flow of gas and then cut it all off together? What are the lessons that Russia is drawing from this crisis?*

**Tatiana Mitrova – Head of the Centre for International Energy Studies, Russian Federation**

I'm afraid that here in this auditoria I have the most difficult role to explain what the hell is going on and how could it happen. Actually, believe me, for Russia it was an extremely difficult decision and extremely difficult situation, especially if you are supplying gas for more than 40 years and you are very proud of your reputation of reliable supplier. You face this situation and you don't have any choice other than to do what was done. It's really very, very difficult and everybody understood what the reaction from the European Union would be and everybody understood, as you have mentioned, that the most suffering countries would be the closest partners of Russia's historical partners like Balkan countries.

So it was really very difficult, but at the same time, look, for the last let's say 15 years Russia was trying to ask Europe to pay more attention to Ukrainian transit issues. It was the topic for numerous discussions and appeals. In 2006 actually what Russia was asking from the European Union like hey guys, look, it's not just our problem; it's a problem of the whole Europe as well. Ukraine is not more part of the Soviet Union and Russia cannot force it to fulfil its obligations on transit.

So therefore, the energy security it consists of three elements – security of supply, security of demand and security of transit. If one of the elements fails, the whole system is unsustainable. Here all these relationship and transit crisis are with the Ukraine it demands efforts from both sides. Not only from Russia, but from Europe and the biggest lesson from this crisis, from in my mind, is that for the first time Europe has shown understanding of this situation. For the first time European companies they understood that they cannot avoid involvement in this crisis. As you know, they've proposed to make this consortium for technical gas and so on and so on. It was the reaction from the business side and it is actually extremely important.

So now the question is where to move and what can be done in order to avoid such sort of situations in the future.

**Katinka Barysch**

*Okay. What is Russia doing? Is it going to speed up an on-stream project?*

**Tatiana Mitrova**

Okay. Well of course, as everybody says, first of all diversification. From the Russian side it's diversification of transit, of transportation, the routes and it means first of all North Stream and South Stream, which are, despite crisis and despite also national difficulties, all energy companies and the role they are facing, they are going on and even faster than it was intended initially. So it's first of all.

Secondly, it's development of underground storage facilities inside Europe in order to somehow sustain the supply flows in case of emergency. And of course, it is all the efforts to find some decision with Ukrainian transit because you see in any situation, it is impossible to diversify for Europe 120% of gas going from Russia through Ukraine. It's simply physically impossible and therefore, speaking about all alternative projects, LNG, Nabucco whatever, we have to have in mind that we cannot avoid the transit problem by the end of the day. It has to be solved and there is a need for a new framework. That's what Russia was proposing; to try to think about new mechanisms, what to do, how to manage this situation.

The former framework it was developed in the times of the Soviet Union, Eastern Block when there was no transit problem at all and the gas was sold on the border actually. That's it. But now, when there are so many participants in this chain there is a need for some multilateral framework in order to protect interests of all the parties involved. So I think it's really a very important topic for discussion.

### **Katinka Barysch**

*I think we might come back to the energy charter treaty a little later. Mr Guttenberg, Germany's energy relations with Russia are fairly sound and I think the progress on Nord Stream, a direct link from Russia to Germany and obviously other European countries as well, is good evidence of that. I've heard you saying in the past that on Russia and on energy specifically the European Union must speak with one voice. What does energy solidarity mean in the European context?*

### **Karl-Theodor Freiherr Zu Guttenberg – Minister for Economy and Technology, Germany**

Sacha has already pointed to the term solidarity and I think it's well enough just to talk about solidarity and to use it as a typical nostalgic European phrase, but also to fill it with life. There is one sentence that has been created. That means there is no solidarity without responsibility. Exactly the demand for responsibility we do need and that means measures that have to be taken in any single member state.

As I think we have conceded on a graduated process that takes into account first the companies, then the member states and then the European framework as such and the homework that has to be done. It may be investments in infrastructure. It may be those things that, as Sacha has already mentioned, which I think were pointed at in the council resolution today. I was just given the thing here to me what caused the Prime Minister to say that he is more sceptic than ever now. I don't know where that actually came from.

[Inaudible]

I think you can be proud because you have mentioned the right things in here and you have pointed at the adequate crisis mechanisms. You have pointed at solidarity and

other things but we have to fill it with life. And speaking with one voice is even mentioned here. In brackets, by the way. I think we need it as a clear sentence.

Where we have to be careful, and I'm also looking to Tatiana here, I think we have to be very, very cautious that speaking with one voice is made possible and that we don't outwit ourselves and that others don't use ... I'm not talking about others in a very abstract way, but we have to be very, very cautious and careful that energy policy doesn't equal foreign policy as such. It's a very simplistic phrase, but one we have to be aware of.

In that regard, I think it is a major step forward that we have not only a paper here, but also substance. Although I give you all credit when you were mentioned Nabucco and our euphoric willingness to embrace it, although I absolutely do see the necessity. This is part of energy diversity.

With some respect I would just like to cite, or to quote the sentence that is the solution now. It invites to commission to present by the end of the year proposal for concrete action on the development of the Southern Corridor, including mechanisms to facilitate access to Caspian gas. This is Europe. How to avoid Nabucco...

#### **Alexandr Vondra**

No, no, no, you do not have the annex to that. There is the annex and in the annex there is Nabucco and EUR200m.

#### **Karl-Theodor Freiherr Zu Guttenberg**

Okay Sacha, this is Europe then.

#### **Katinka Barysch**

*Okay, the small print. Ana Palacio, diversification has been mentioned a few times already. Now diversification obviously doesn't only mean different pipeline routes and trying to get access to new sources of gas in the Caspian. It also has to do something with the energy mix. Nuclear is part of such an energy mix in some European countries, not in others. Does the European Union need a policy on the energy mix or is that something we should leave to the individual countries?*

#### **Ana Palacio – Senior Executive VP for International, AREVA**

Allow me one word on the gas issue. Tatiana mentioned that European citizens have understood European citizens. That is true and then we listened to the Minister saying that foreign policy is not energy policy. You know what? The energy, the nuclear energy industry is going to create an award. An award for the renaissance of the nuclear Europe and give it to President [Mezervis] and Prime Minister Putin because each time they have an issue in this crisis of the gas, we have two or three countries

that go back to nuclear. This time it was Sweden, it was Poland and it was Italy. So for us, frankly, for the industry, it's great. Go on with the gas crisis.

The only thing is that transit was a European citizen demonstrating that they understood the crisis. But probably, in addition in the way that you were implying. So that about.

Now for me the issue here is that we are in this Trans-Atlantic dialogue and frankly, today energy is probably the sweetest part of this honeymoon between the two sides of the Atlantic. If we take your title, this idea, there is two parts of the sentence, this paradigm well we Europeans, we are growing. Now the Americans listen to us. It's not just Joe Biden that says it. It's that they listen to us. They have copied. They have grown to accept our premises. And on the other side of course blame for the Bush administration and judge responsibility by the Obama administration.

But frankly, the world is much bigger and honestly, the first thing is that I think that we Europeans, especially we Europeans have tended to be extremely Euro-centric. We have to understand is that the energy equation in the sense that you were mentioning is a mix. It has to be solved at the global level.

We may agree or disagree with nuclear, but the reality is that now nuclear is picking up. That China, India, Brazil, that they have launched big nuclear programmes that in 2030 the idea means the projects are that 40% of the nuclear reactors will be in those countries and not any longer the nuclear country will not be in Europe mainly and in the United States. Not at all.

So yes, I think that in Europe we have to understand that a) the reality of the world is that there is a nuclear renaissance and b) we may think what we want about nuclear. But the reality is that energy is a global issue and we'd better listen and we'd better just influence on the legal framework, on the multilateral institutions. We have to strengthen them and frankly, in the end, we have a margin of manoeuvre and maybe the next question is Germany and Spain and Austria will just go back to nuclear.

### **Katinka Barysch**

*I think we might come back to that. Does anybody want to catch my eye at this present point in time and throw in a question? Yes please.*

### **[Arbuck Turbeck] – Trans-Adriatic Pipeline Company**

*I have a question to the Czech Minister about his achievement on Nabucco today because in this region, to bring the Southern Corridor to reality there are three competing projects. The one called the Italy/Greek interconnector, there's one called the Nabucco project and there was one called the Trans-Adriatic pipeline project. The Nabucco project is estimated to cost EUR7.9b according to public figures. The IGI we haven't seen figures. Our project is estimated at EUR1.5b. All*

*of them do the final trick of connecting the Caspian gas to the European market. My question is why do you suppose EUR200m after the most expensive project which cost about EUR8b with the least chance of getting to the gas and thereby distorting competition among three projects trying to do the same thing?*

**Katinka Barysch**

*I think your preferences on the projects are clear. Why indeed? Why are we throwing money at the problem?*

**H.E. Alexandr Vondra**

I think because we want to diversify. Diversification is one of the most important things. And I think that the current crisis has shown that we need to have the instruments both regarding Ukraine and that could be an on-stream and I do not see this as a competition to Nabucco. We need also to have the ability to bring just the Russian gas to Europe. You can do this with LNG. You can do this terrestrial way and that's Nabucco.

I understand that you have to promote Europe project. I know about the scepticism about Nabucco and how it goes deep into the history.

In the past I remember you know when we decided to diversify in the Czech Republic with the oil there was the project of connecting Prague with [Singulstrat] and many people argue you know that's not a feasible project. It's useless. It saved us already twice when there were the shortcuts in the Russian oil deliveries by drying the original pipeline.

There were also doubts about Baku Chauhan. As a result, the American support for this project, and it was political support in the beginning, there would not be a Baku Chauhan. Now there is a Baku Chauhan and it serves to diversify the oil terrestrial deliveries to Europe and it helps us. It brings the [Azuray] oil to the Russian refineries in the centre of Europe as well.

Just maybe the last argument, in just this three week long crisis in January how much the companies, how much money they have lost. It went to the billions. So I think in this light the investment amount which is required for Nabucco is not as a big deal. Of course you have to promote your project, that's logical.

**Karl-Theodor Freiherr Zu Guttenberg**

Just a short comment. When we had this crisis in Europe which by the way I mean already in last September was visible was coming because Europe was flooded with a bunch of Russian PR experts telling them that Ukraine will make trouble in the winter. But I have to remind you that in January 2005 there were mysterious explosions on three lines coming from Russia to Georgia. At that moment in the Russian territory.



At that moment Russia we were importing 90% of our energy from Russia and we had blackout at the coldest time of the year at a record cold winter for almost a week when we switched Southern [inaudible] pipeline which was there.

But one thing is clear, through all the time of this crisis, Prime Minister Putin mentioned three times, or four times publicly, he said we are giving gas even to Georgia now. We get 15% of our gas is paid for Russia. Putin would have loved to have switched off Georgia this winter except that the point is that since last time in 2005 we learned our lesson. We diversified and we upgrade our hydro power, so we produce energy and we export it to Russia. We no longer import from it and we have gas from Azerbaijan with alternative from Iran. So there is no sense to disconnect Georgia and that's the lesson for everybody.

Putin boasting that he is giving gas to Georgia, give me a break. He would love to freeze that to death. We know it.

But the point is that economically it doesn't make sense. There is an alternative and I think that's a best case for Europe. Whilst there is Nabucco, once there are other lines, there is an alternative and there is nuclear energy and then will be maybe no sense to switch off Europe. I was surprised when some people in Germany were saying oh without him now we would have had no trouble with Ukraine. Excuse me but next time they don't like some CDU statement in Germany they will switch off Germany directly. That's how they are.

Shouldn't ask a CSU member. Or CSU for that purpose. Thank you.

### **Katinka Barysch**

*Thank you very much. To broaden that point out a bit, you said that energy policy, the European energy market starts with the companies and then sort of we move up. How much State involvement do we need? The EU energy policy really started as a part of the single market. We liberalised energy just as we liberalised every other market. But energy security is a public good is it not? How much State involvement do we need?*

### **Karl-Theodor Freiherr Zu Guttenberg**

Not too much. Hopefully not too much. It's a debate we're leading more or less actually in any public discussion right now. It's the States, the better entrepreneur in such regard as well. It's the most simplistic answer to quite a complex question you have asked.

I think as long as the private sector has the capabilities and the capacities to manoeuvre in that regard they should do so and we should give them all opportunities to do so. If we start with the government level, with the State, I think we turnaround the effects we actually would like to have.

So I would like to see this gradual process. It has still to be made clear that it starts with the companies. That we may find region connexus, but also starting with the companies as also an instrument that has an early warning aspect in it maybe. But start there and don't start with the government at the State level.

**Katinka Barysch**

*So more market in energy meaning that unbundling is a good idea?*

**Karl-Theodor Freiherr Zu Guttenberg**

More market yes. Unbundling, that was a tricky question. As you know it's not a good one and I will just mumble as an answer.

**Katinka Barysch**

*I don't think mumbling is allowed at the Brussels Forum. It said so in my instructions.*

**Karl-Theodor Freiherr Zu Guttenberg**

No.

**Katinka Barysch**

*That was a clear answer. Thank you very much.*

**From the Floor – Chairman, [Adamatanko]**

*Thank you Katinka. Now I tend to think that one of the reasons why there is so much scepticism around Nabucco is the fact that in terms of the security of supply in the supply sources, there is uncertainty about where the gas is going to come from. I was interesting to hear Mr Vondra's comments when he referred to the BTC project and I was wondering whether he can be slightly self-critical about the EU in terms of its past performance in getting access to natural gas in the Caspian region? Because when you refer to BTC, BTC was a project that had the political backing essentially of the US administration and it came into being as a result of the political backing of the US administration. The EU had a very minimal role to play in the building of BTC. So at a time when we have offers on the table from the Russian side for the whole output of [Aziree] gas, when the Chinese are getting into the market in Turkmenistan to buy a share of that country's output, what will be the signs where as European citizens we can say that yes now the EU is serious about this and they are going to get the gas from the Caspian?*

### **Alexandr Vondra**

No look, in general I agree with you. I told that it was mostly the American support behind the BTC and that the European players should do more regarding the diversification. You know, we are leading the EU just for six months, so what we have achieved is political support for Nabucco in March and what we are trying to prepare is the Southern Corridor. We are meeting in May to bring the leaders of Azerbaijan or Turkmenistan and some other situation countries to review. We are also pushing for concluding the central government agreement on that.

You know you need all the players and Turkey I think in fact is a key country in that. So if you can help to convince the authorities in Turkey to play a constructive role as a transit country in that project I think it would be extremely helpful. In fact, if I see some problems, of course, it's a European hesitation. There are some differences of view, but we are able to overcome this now. But Turkey is a key country. Turkey is the most important.

### **Katinka Barysch**

*Turkey argues that, if I understand it correctly, addressed to the European Union, if you want to talk to us about energy, talk to us about energy in the framework of the EU and accession negotiations which of course the European Union cannot do because the energy chapter is blocked. Any chance of unblocking the energy chapter any time soon?*

### **Alexandr Vonda**

Well we are making a research that is related in the eyes of some players with the situation in Cyprus. I just can hope that this year we can have some progress in solving the Cyprus issue and certainly these issues should be an incentive to do a smart [shift] as they can do to start to fix the problems. So yes, an energy chapter is the real important one.

### **From the Floor**

*I work in London for the Centre for European Reform. [Inaudible] Sacha Vondra, my question is again to you if I may. Without sort of getting into a blame game for the gas war in January I think we would all agree that Europe's energy security would be strengthened if Ukrainian transit system was a little more transparent and better managed. So three questions falling from that. What do you expect to come out of the March 23<sup>rd</sup> meeting? Second, what sort of changes in the long run would you like to see in the way the Ukrainian pipeline system is managed in terms of transparency? If you had the Presidency for another two or three years, which you won't if Cargill has anything to say on that, what sort of leverage or incentives would you like to apply? What leverage and incentives does the EU have vis-à-vis Ukraine to introduce more transparency in the energy system?*

**Alexandr Vondra**

Well the general aberration is the bypassing Ukraine. That's the leverage. North Stream, South Stream those are the leverages. Certainly we still would need the Ukraine as a transit country for the Russian gas because even if you can imagine all those alternative routes to be operational still we would need more capacity. If this climate in energy legislation will fully enter into force, it would require even more gas. That's you know if you study the investment needs of the power generation companies and you know with all the respect for AVIVA, affords you know to cause another energy crisis in the Ukrainian relationship.

[Inaudible]

On this playing ground we are moving ahead as well on the Ukrainian energy. If you read carefully the conclusion of the today's council there is the support for the nuclear energy if the countries wish to do so. You know the language. But there is the support, but...

**Ana Palacio**

[Inaudible] Europe. It is not just about addendums and annexes; it's about language.

**Alexandr Vondra**

It's directly in the conclusion. No annex.

**Ana Palacio**

But what conclusion is you can do as you want. It's in your competencies.

**Alexandr Vondra**

But I think I have to, back to the question on the Monday's meeting in Brussels, I think it's important. I think it's very good that the meeting takes place. We could go. We were not certain whether the Ukrainian delegation accepts all the conditions set up by the Commission and those conditions are going in favour of having a more transparent environment there. I think that we terribly need it. That's one of the lessons, or another lesson which we have learned from the crisis and that's also the reason why you know you mentioned that originally you know the first week we were talking that we are not going directly to be engaged in those disputes. Of course. Because we did not to be in a situation of having a better card game in our hands for those who are going to pay for the consequences of this fully.

So need more transparency and I believe that this general conference can lead to a solution.

**Katinka Barysch**

*Now transparency is not only something that concerns us when it comes to Ukrainian transit, but it's also something that we wonder about in the case of Russian gas production. If I'm correct, the latest figures from early March show that Gazprom's output is down by almost a quarter on the average of 2008.*

**Tatiana Mitrova**

No, no, no. It's the wrong figure. It's nearly stable with a little decline. But month to month production in this year it is really declining. But there is a very simple reason for that – lack of demand.

So they have to reduce production though it's technologically rather challenging. People who know how the gas industry is working understands that. It's not so easy just to close the well and decrease the pressure in the pipeline. But as the European demand is stagnating and it started in October actually. Russian gas exports to Europe started to decline because European industry doesn't need so much gas due to industrial output decline and domestic gas consumption is also declining because the most energy intensive industries like metallurgical, construction, cement and so on it's suffering a lot because of crisis and they also don't need as much gas as it was supposed to. So all producers, not only Gazprom, but also independent producers, oil companies, they are reducing their output and there is no market.

**Katinka Barysch**

*But looking a bit further into the future there is quite a few people in Europe who don't worry so much about Russia's willingness to sell us gas, but about its ability to do so looking sort of 10 to 20 years ahead. The big Siberian fields are all exhausted and we're still waiting for the big new fields in Yamal and Stochman to be started up and perhaps it's not going to get any easier in a very capital short environment. What is the production outlook for Russia? Would Russia actually be able to comply with its contractual obligations to Europe? Sell us additional gas, satisfy its domestic demand and sell more gas to Asia as Putin repeatedly said it should.*

**Tatiana Mitrova**

Well you see it will take several minutes to describe Russian gas balance. Well starting from the depleting fields in the Western Siberia, yes they are in production now since 1970s. But still the resources arrested in one particular field in [Yambruk] are more than the whole resources of Algeria. Now these three big fields are in that [important] area. They are producing 85% of all Russian gas. And they will peak in 2012, 2013, but then the decline is inevitable and at least it will reach, in 2015, the level of 2007 production. So anyway, there are many measures for brownfield

management and development of satellite fields and deeper horizons in these existing fields. So this production is not just disappearing. It will be very significant.

Concerning [Yemal], last year not many journalists paid attention to the information that actually the development of [Yemal] had started already. And they are drilling first wells, and they are building the most challenging part of the transportation system [so called] [inaudible]. It's really, technologically extremely challenging. And for many years people were doubting whether it was realistic at all, but they are doing it. Last year they spent \$4 billion for all these developments. This year it's \$6 billion. Compared to [Nobuka] it's a real development.

And concerning the financial crisis and all these challenges of investments, you see Gazprom is acting inside the country. All their spending for capital operational costs are in rubles. You know that the ruble is devaluating rather fast. So actually, for the same amount of money in dollar terms, they can make a much bigger investment program. They are not going to decrease it significantly in the volume of the work to be done.

Moreover, if we are speaking about financial capabilities, speaking frankly, Gazprom is a state-controlled company. And you know there is a very long line of companies coming to the Russian government and asking support. I do think Gazprom will be the last one in this line to get some financial support if it's needed. All these infrastructural projects of course can be regarded as sort of Roosevelt's New Deal, supporting national steel producers, [bioplant] producers and so on. So I'm sure that in case of emergency, if there is lack of capital and so on, the state will support Gazprom. But even now, Gazprom has long-term contracts for exports. And for banks, it's the best guarantee of return of capital. So to get loans, Gazprom is in a much better position than many other companies all over the world.

Now the situation with Russian gas balance has changed dramatically. For the last five to seven years the main idea was when Russia runs out of gas, when we see the shortage of Russian gas, this year, next year or now, the question is, where is our market because domestic demand is decreasing dramatically. External demand is decreasing. The North American LNG market with this shale gas development in North America -- where is the market actually? So now it's Russia waiting for when the demand will recover after the crisis. So that's the problem.

#### **[Tamorea Kamochuri] - Georgia**

Where is the market? The market is still there and trying to escape from Europe. I'm a little bit surprised because, as far as I remember, you were the ones who kicked out the Western companies from developing the fields that you are referring to. I doubt very seriously that Gazprom has the technology to develop those fields or money. And Gazprom is the one who has the trouble getting credits or paying for credits. And that's also public knowledge. That's not invented by me.

But what I wanted to say is, I hear a lot about energy security diversifying the supply [holds]. The August war between Georgia and Russia showed that it's not enough because [BTCJ] Pipeline and [inaudible] Pipeline were targetted by the missiles coming from Russia, the same missiles that they were trying to aim at you from Kaliningrad. I'm talking about the [iskander] missiles. And I can assure you that those pipelines are very far from [Uphauser] and [Sauso Certia]. Thirty-eight bombs were dropped there. Fortunately, all of them missed. So it's not only enough to have an alternative supply route. It should be defended as well. As we see now, it's not only closing the tap but also probably closing the airspace from the bombs that can drop on these pipelines.

### **[Rika Samankeng] - Hungary**

I would be very interested also in the Russian reading of two of the, I think, most important consequences of this January's gas crisis, namely that I think this gas crisis killed or shattered at least two major Central European or Central Eastern European energy strategies by one shot. One of the energy strategies that was proven non-functional by this crisis was the Bulgarian, but I would also add the Serbian energy security strategy, which was that by nurturing very friendly and close relations with Russia, you can ensure energy supplies for your country.

The other energy security strategy that I think was very characteristic, especially for Slovakia, was that because Slovakia is a major transit pipeline for Russian gas transit towards major markets, that in and of itself ensures Slovakia's energy security. Well all of these countries were seriously hit by this crisis. One of the most immediate results was that Slovakia quickly announced its interest of linking its gas supply system with Hungary, which is good in itself. But I would be very interested in the Russian reading of these potential close allies for Russia and the potential supporters of cooperation. What was the reaction? Is it simply, "Life is tough. It's too bad. And once the crisis is over, we can go back to business as usual without any consequences"?

### **Tatiana Mitrova**

You see, as a result of these questions, I get a feeling that the perception is that Russia, bad boy in a [clause] decided to hurt European countries, and first of all Central European countries, in this January. Well generally speaking, Russia has suffered a lot. And Gazprom, which is always accused as the bold evil, has lost more than \$2 billion on this situation. So actually, what I was trying to say at the very beginning of this session, when Russia got into this situation in the beginning of January. It has only two alternatives whether Ukraine is stealing gas and not paying for it. And there is no mechanism to push it to pay for it. The second is, we stop supplying Ukraine.

So you see, actually if you are dealing in any other trade negotiations, in any other trade deal, if you are selling some good to a customer who is refusing to pay for it, you stop the sales. So there is no alternative. And you cannot force him to fulfil his obligation. He's obliged to pay but he isn't. The Energy Charter Treaty doesn't work

and so on. So here actually, Russia didn't intend to hurt the Central European countries. Of course it's not in our interest. And of course, Gazprom will make all efforts possible in order to avoid this. And of course it will try as much as possible to participate in the development of the infrastructure. Nobody in Russia could even imagine such a situation, that these countries could suffer so much because of this crisis with Ukraine, that such a crisis could happen.

### **Unknown Speaker**

Just one sentence, if I may. Just from my own experience, it raised the anti-Ukrainian sentiment in Slovakia, what's happened in general, the last time I could hear this, yesterday from the politicians when we were discussing some issues.

### **Katinka Barysch**

*Ana Palacio, would an Energy Charter Treaty help?*

### **Ana Palacio**

Well I think that any legal framework helps. And I think that the Energy Charter is not a perfect framework. And frankly, Russia has been negotiating the Energy Charter as if to sign it. And in the end we are in this very ambiguous -- I honestly think that in order to be part of the community, you have to accept the rules of this community. And I think that from the European Union perspective, we are willing, and wishing and expecting a partnership in all areas of energy. And we could also speak of the partnership in nuclear with Russia. But of course we expect Russia, especially in the charter. Russia has been present at the negotiation table and has given all the signs that they would accept the treaty, that they do. There is a kind of agreement with the negotiations.

### **[Unknown Speaker]**

*I would like to move a little beyond pipeline politics because energy security is not entirely about the pipelines. There are 10 countries in the world with 80% of gas supplies. There are 23 with 80% of oil resources. But coal is much more democratically spread out, if you look at it. Eco-technology used to be Europe's religion until recently. 60% of the world's eco-technology market was the EU. But that is changing very fast. China took over from Germany, the sunny capital of Europe, as number one in solar energy in 2007.*

*Now Obama is stealing the European show. He's hijacking the green Venus of Europe in eco-technology. So we have the EUR5 billion package adopted today. There is a little bit for eco-technology, EUR180 million for each of the carbon*



*caption storage plants, which is not going to be enough for anything. So the question is, do we have the priorities sorted out and do we take a holistic enough picture in Europe of energy security?*

**[Peter Tarell], Chairman of [Hebra]**

*There is a pipeline that has recently been granted permission in Germany from the network agency there to connect where Nord Stream is going to hit Northern Germany and the Czech Republic. I think it's called the [Opal] pipeline. This is currently in front of the European Commission for approval for funding. What I'm interested in is apparently it is majority controlled by Gazprom. Is it the policy of Gazprom to have a pipeline across Germany, that it will control, to the Czech Republic?*

**Tatiana Mitrova**

As far as I can remember -- I cannot swear, the project is developed by [Wintershall], which is a joint venture. So Gazprom cannot control, but definitely it has some share. But yes, it is the strategy of Gazprom to go as much downstream as it's possible and not in order to switch anybody. It's business. It's strategy to capture the market in order to have guarantees of supply. If you are coming to the final consumer, first of all, it means that you are getting all the margin on the way. And secondly, it means that you have secured this market. And then it means guarantees of consumption of all this gas, not only in Germany or Czech Republic, but generally.

**Karl-Theodor Freiherr Zu Guttenberg**

I'm actually grateful for your holistic approach, so it's not all about gas. And I think if you talk seriously about even future prospects, the energy mix issue is crucial. And also, specifically for Germany, the green Venus was there. It tends to travel. But I think it still needs [closers] on. And this is actually a point I'd like to make, is first of all, it's not only a question of competition, whether it's Obama who is taking up the issue, whether it's China, whoever it is. It's a question of complementarity. It's a question of how to learn from each other. It's a question of how to use renewable aspects.

For instance, I think there are so many opportunities in this very field. And we don't discuss it. And to an extent, we should actually discuss it. And this kind of technology offers not only the scope to 2020 and our abilities in Europe to reach the 20% margin, yes or no, which is a rather optimistic viewpoint. But I think we should discuss it much more intensely. So that's the first point. Second point, we need to combine it with nuclear energy. That's my view. This is not the reason that I want [you allied]. And I know we are still struggling in the Grand Coalition in Germany with that very option. Personally, I'd say I would like to say an extension or

prolongation of the lifetime of our nuclear plants. And as an added aspect to a mixture, to have an energy mix that really makes sense.

A third point I'd like to make in this regard, we haven't talked about energy efficiency so far, and speaking in terms of possibilities, opportunities of technology measures we haven't even explored. And there again, the travelling green Venus offers many, many things to discuss. So to take those three parts into one holistic view as you have just mentioned, I think we could do much more. And then sentences we have found now in our presidency conclusions could be filled with life here as well.

### **Katinka Barysch**

Extending the lifespan of nuclear power plants but not building new ones in Germany at least.

### **Karl-Theodor Freiherr Zu Guttenberg**

I think the first step is quite a significant one if you make it true.

### **Ana Palacio**

I think it was a great question. And frankly, I think that Europeans, and everybody, Europeans and Americans, we have a responsibility. I think that we need to find a way to store renewable energy because the problem is that right now the country that has the highest percentage in Europe of renewables, which is Denmark, just produces CO<sub>2</sub>-per-kilowatt eight times what France produces per kilowatt? Why, because when the wind doesn't blow, you have to start the thermal plants. And the thermal plants are very contaminating now. So first thing, we have to invest in research, how to store and not just expect the hydrogen, which is good. But this is almost abstract research. We have to just find practical ways today to store it.

Second, in order to use renewable energy, we need to revamp the grid. We forget about the grid because the grid is about interconnections. And then once more, we get into these issues about Europeans just not having these fantastic sentences and the conclusions of the European [constants]. And I have continued myself in my previous incarnations to draft them so that everybody finds a way out and something to tell our citizens when we go back home, that we got what we wanted.

But the real thing is that we need interconnections. We need a smart grid in Europe. Unless we do that, we will never -- last, but not least, the third area where we have to invest and invest heavily is in CO<sub>2</sub> [securitisation] and storage. Why, because frankly, as you very well said, this is very well-spread all over. But let's be [peer]. Another figure, China every year, puts the capacity for Spain plus the Netherlands from coal today because they are launching their big nuclear. And we should be happy because of CO<sub>2</sub> because coal is very contaminating. A couple of months ago I was in India.

And the Indian Energy Institute, "You know what? We are going to burn whatever we have."

The problem is that there are 1.6 billion people that do not have access to electricity? And you know what? If there is a correlation that has been proven, it's development and electricity. This is absolutely proven. You need a bug to study. You need a bug to start your business. So we need to invest in this. And frankly, I think that we should. I think honestly that we have a responsibility, Europeans and Americans. We should be investing in these three areas, grid, storage for renewables and CO2, and of course in nuclear, absolutely necessary. Why, because this is base load electricity. Right now -- this is in terms of CO2 -- it's just the most convenient in all aspects. And we could go on in more details.

### **Unknown Speaker**

I have a question for Karl-Theodor z Guttenberg about energy policy. The Germans are normally pretty favourable to European integration. But they have been amongst the most reluctant to seek common policies on energy because they have, perhaps understandably, wanted to pursue their own bilateral energy relationship with Russia. They want their own energy companies to have bilateral relationships with Gazprom.

My question is about the impact of the Ukraine gas cut-off on German political debate. You were not damaged yourselves, of course, because you get your gas from a [inaudible] pipeline. But *are* people in Germany now more willing to contemplate European policies in energy. Particularly, could they contemplate EU institutions negotiating with Russia, [the minister] and whoever to set the political framework in which your companies could operate? Has there been any shift in German thinking since January?

### Unknown Speaker

*[Inaudible], [I'm] the Deputy Prime Minister of Ukraine for European Affairs. Ukraine was so frequently mentioned that I think I deserve some time to comment and then to ask questions. I was amazed by the logic of Russian colleague, Tatiana because the title of the panel is "From Blame to Responsibility." And I suggest that instead of playing blame game, Ukraine didn't steal a milligram of gas and you know that perfectly. The commission said this openly. The Commission of [Pubok] said this in Kiev publicly. So there is no need to continue to spread this false information.*

*But I want to concentrate on the responsibility. So responsibility starts with the rules that are respected. And the respect starts with confidence. Confidence requires recourses, and not just money but policies. And this is the key questions, whether we have in Europe policies that deserve to be respected, and if respected are implementable and supported by all the major players. And the answer is no.*

*The energy market is fragmented. It's easily manipulated by the stronger actors against the weaker actors. And as the focus of debate was Ukraine and the gas crisis, I should remind that the [examples] of the cut-offs of the gas and oil supply are multiple, and it's not just about Ukraine. There are a number of other countries who suffered from these policies or actions, precisely possible because of the lack of enforcement in the policies that are respected by all. Ukraine not only signed, but ratified the European Energy Charter. Ukraine is negotiating an entrance to the Energy Community Treaty and will become a member before the end of this year. So Ukraine is willing to become more compatible or fully compatible with the EU standards we have.*

*There is an energy dialogue between Russia and the European Union, which we fully support. But we want to see a result of this dialogue that would bring more predictability to the energy security in Europe. So therefore, the question I want to ask of the Russian colleague, Tatiana, what prospects do you think this energy dialogue between the EU and Russia could bring for increase in the energy security? If Russia doesn't want to ratify the European Energy Charter and publicly say this, what is the way out of this situation when there is no legal framework that is respectable by all the players, the suppliers, the transitors and the consumers?*

### Katinka Barysch

*Thank you very much. Maybe somebody here on the panel can also update us on where the PCA negotiations with Russia stand at the moment because I understand we're talking energy there as well.*

**Tatiana Mitrova**

You see, there are many points. First of all, I completely agree with you that the name of this session is "From Blame to Responsibility." And actually, that was my idea initially, to start to speak about possible ways out. But after all these statements accusing Russia of switching off, cutting off and so on, actually I had to go into some defence. And here I cannot agree with you, unfortunately that Ukraine was not ruining any obligations. You can call it not stealing gas but not transiting the whole amount of gas. I do not agree with your statements. And there is evidence on the Russian side that gas was disappearing in the Ukrainian transportation system. Let's put it this way, if you want.

Anyway, we can discuss it here for hours and there will be much evidence from both sides. I'm afraid that everybody was expecting -- so we will come back to this story. Ukraine has its own vision of the situation. Russia has its own vision of the situation. I'm afraid here we have to stop on this.

But coming to something constructive and positive, here, if we start to speak about the Energy Charter Treaty, I'm afraid this crisis has shown that mechanisms, legal mechanisms of this treaty do not work. All the contractual relationship between Ukraine and Russia, it's not a question of transparency. It's a question of the legal details written in all the contracts. They are not well-developed enough to be taken to the courts.

All the contractual relationship between Russia and Ukraine is developing rather slowly with all these conflicts every year, trying to negotiate. And you know that the contract finally was published on the Internet. A completely confidential contract was just thrown to the Internet. Journalists were happy. But if you look at these contracts -- it's available -- you can see that from the legal point of view, there are many, many weak points in it. And if you take it to the court, the decision is not clear because you can stay in this court for the [key], trying to find the truth and trying to find, again, who was guilty, who is to be blamed, where the gas disappeared because of the metering system and so on. You know how it is working.

So the very system of this gas trade between Russia, Ukraine and Europe, it is not transparent and well-developed enough to be workable in the situation of lack of trust. In the Soviet time, no problem, we trusted everybody and it was working perfectly. Probably the idea and the way out from this tunnel is just to develop legal framework in all the details.

**Katinka Barysch**

*You two are going to continue the conversation in the bar. We've only got about five minutes left. We still have a lot of issues to discuss, so hopefully we can continue that discussion later over a drink.*

*Is the German position shifting?*

**Karl-Theodor Freiherr Zu Guttenberg**

Does it need to shift? Who was that? It must have come from Austria. What an interesting observation, Charles. Let me answer it this way. I referred to the sentence, "Speaking with one voice," before. And I mean it very seriously. I think that very sentence falls on very fruitful ground when you talk to Germans, at the moment, to the German public and also within the German government and, I would say, all over the party lines.

Speaking with one voice does not mean, for us, speaking with a German voice, but with a European voice. And we are very strong supporters of the Energy Charter we were just talking about. We tried to bring in the proposals we have decided on, yesterday and today when we were having the question of, maybe on gas issues reverse flow, maybe on the question of adding a regional dimension, which is not only an intra-German region that I mentioned, but which goes across border on the minimum standards, on lowering the threshold when it comes to the question of the European Coordination Group. So just as a couple of examples, that we are really trying to hold this momentum as well.

Talking about also the German public, has the gas crisis changed anything? I'd say that romantic sods within the German public, when it comes to dependence on Russian gas, has already been limited for quite awhile. And this is the mildest phrase, the most euphemistic phrase I can find tonight, limited. And it's actually even more. So I'd say there's even more pressure also on the German government to really go on with diversification and other issues, and to seek a European platform. And I think we really try to support this very European platform. And again, an interesting observation but I would actually have to reject it. Thank you.

**Katinka Barysch**

You wanted to make a comment on the issue of trust.

**Ana Palacio**

Well a comment as a lawyer. You know weak contracts cannot go to tribunals. Tribunals have to close, because frankly when a contract is very clear, you don't have

a problem. You don't go to a tribunal. So I honestly don't think that this is a good argument on this issue. But that's just my legal self.

On German policy, well I don't know it in detail. I just know from the perspective of Siemens. And Siemens just now, I would say, very generously just commercialising most of their nuclear products. From another point of view, we are happy to do business with this joint venture of Siemens just commercialising in Europe [inaudible]

### **Unknown Speaker**

Is that a governmental policy or is that a policy between companies?

### **Ana Palacio**

Well maybe you can tell us. I would really like to know it.

### **Katinka Barysch**

Just to bring some clarity, Siemens are striking a strategic alliance with Rosatom, the Russian energy monopoly and trying to extricate itself from it's one-third stake in Areva.

### **Ana Palacio**

This contract is very clear. They take the money and they go. Everything else, all the engineers, all the patents, everything is Areva. So there has been certain ambiguity. Siemens has a fantastic label. And Rosatom has good technology. I don't know what the role of the governments have been there. And honestly, I'm dying to know it. It is said that a former chancellor has been going often to Moscow and not to discuss about --

### **Katinka Barysch**

I can see a German/French inquiry commission coming up here into the government policy on that. We've only got a couple of minutes. Can I ask you to keep one minute each and then we have to wrap up?

### **[Christina Valentin] - [The EOP Observer]**

You said that this romantic view of Russia in Germany is already gone for quite awhile. Then why is the government still pursuing Nord Stream which really they expect a very romantic relationship between Chancellor Schroeder and then President Putin. Wouldn't it be maybe a sign of goodwill and trust and confidence to the Eastern Europeans to redesign maybe, Nord Stream through the Baltics and Poland?

It would be cheaper and it would serve the same purpose to bring gas from Stockman to Germany and the Europeans. Thank you.

### **Unknown Speaker**

One remark and one question. First remark, I think we should not be naïve about the fact that private companies in the field of energy are acting totally independently from the governments. We have never seen that in any fields. So I think we should just face the reality. And then the question, given the fact that we are facing huge difficulties with the non-reliability of the main gas provider, which is Russia and given the fact that there is a huge need now in nuclear energy, where there is also a need of unified European policy. When you try to sell a reactor, you have to have the authorisation from the 27 national security structure in the 27 European countries. So there is a huge need of having a common European policy an enough energy which doesn't exist today, which is not in the Lisbon Treaty.

So what are the obstacles and why isn't it possible to move forward at last to a real European energy policy?

### **Katinka Barysch**

We're going to wrap up now so I'll give each of you two minutes to make any final statements and address the questions if you wish.

### **Ana Palacio**

Well I think that this is a key question. The answer is political will. Frankly, let's call a spade a spade -- political will. And you are absolutely right. It doesn't makes sense that you license a reactor in France and you have to license it in Great Britain. And it takes a long time and a lot of money. And then you go to India and Indian authorities have a very light process because this reactor has been licensed in France. Frankly, what I fear is -- I'm a dyed-to-the-wool Europeanist.

I think European construction is the greatest dream, and at the same time, achievement of many generations. But I think that our challenge is in the energy field where we have public opinion that just is favourable to sort out this mess. And if there is no political will, well then let's think about having something like we have had, [indeed] a kind of [inaudible] of the energy. Why not? Let's get a group of willing countries and let's go forward because there is a need, there is absolutely a need, the same way that there was a need for the free circulation of people and we responded to this need.

### **Alexandr Vondra**

Right, there is not I think is pretty clear because we are dependent on oil and gas it comes from the countries where it's a part of their national policies. Then is nuclear



and there are still different views in Europe. There are the countries who were not in favour. So I think it's the function of this.

Somebody asked about the energy charter. There are two to tango on that. The first charter was not signed by Russia, although it was signed by 50 something States. The second attempt we are still waiting for their proposal. So that's not just an area where we can do the things without just [nipping] and taking into account this [inaudible] outside of Europe. That's the reason why we do not have a single energy policy.

Look, with the coal I think it could be possible, but we are doing our best to complicate the use of coal in our power engineering sector to fulfil the commitments regarding the CO2 emission reduction. Basically, we need to do the two things. All those talks about regular [inaudible] CCS etc, the [inaudible] just the future or there are the serious limits. So it's about the nuclear energy and it's about the savings. We call this energy efficiency in housing. Those two areas they can help us. But nuclear, it's difficult to have a common attitude until there are still the countries who don't want to take this up.

### **Katinka Barysch**

*Tatiana, is Russia ready to tango?*

### **Tatiana Mitrova**

It comes back to the Trans-Atlantic dimension. It's not only Russia that hasn't ratified energy charter but also United States which hasn't signed it at all. And generally speaking, there are several countries that are not very happy about the energy charter treaty simply because (I am speaking about Russian position) it's not answering the Russian needs and it's not interesting as a document. It doesn't take into account our interest. If you are making any deal between different participants, all the participants have to get something attractive from this deal.

For Russia, energy charter in its current formulation, it's not attractive especially with this integrational amendment which makes European Union the whole transit territory and so all transit protocol cannot be applied for it, for example. So there are several issues like that which make it unattractive for Russia. It doesn't answer our interests, so therefore, Russia doesn't ratify.

### **Alexandr Vondra**

What are your interests anyway? Energy findings.

### **Tatiana Mitrova**

There are many of our interests,

**Alexandr Vondra**

What is your interest?

**Tatiana Mitrova**

Profits. If we are speaking about energy trade, it's profits, maximising profits and minimising losses and risks.

**Alexandra Vondra**

If you would sign the energy charter as it stays you would lose the profit?

**Tatiana Mitrova**

It doesn't guarantee our profits in our relationship with the transit states. It doesn't defend our interests in transit protocol, so therefore, it's not a directive. The problem is that what actually I feel I was a little bit disappointed after this hour discussion because finally we get to blame each other and we didn't speak about any positive movements in all these legal frameworks especially with energy charter treaty. Well it took 15 years to understand that it doesn't work. Probably it's now time to try to start from the beginning and to start to make any other documents that could work because you see with so many participants in the international energy trade and so many transit countries evolving in any pipeline you take, for example, it's absolutely necessary to have something like. With sea trade they have this sea code and all the ships come into the port they know the rules. With energy trade we don't have anything like that.

**Katinka Barysch**

Oh dear, discussion is stuck. Mr Guttenberg we rely on you to give us an optimistic outlook for European energy.

**Karl-Theodor Freiherr Zu Guttenberg**

In that regard I have to answer the Nord Stream. Very quickly on the optimism I come with my latest remarks. Very quickly, first of all, we will ask you for coherence, for complementarity, for common means, for other things and to always have a tendency of mutual finger pointing. Very good, but this is probably connected to any energy question energy issue.

On Nord Stream also one quick remark. It's certainly not about German decision. The lovely questions are always the last ones, but certainly not only about German decision; it is to a certain extent without sounding cynical on pragmatism and hopefully also on style. And I underline the word style and that was missing

sometimes in that very regard and I'm looking at my Swedish friends, I'm looking at my Polish friends and at others and Carl sitting over there and maybe also a point we could discuss at the bar. If style is missing we do have a problem.

Last point, on optimism I'm very optimistic that Dr Morrison that is sitting on this place and will have to suffer of this remarkable aircon which is blowing exactly on this place here. Maybe we could fix that. It's ice cold and thank you very much indeed GMF. Tonight was the first night this week that I didn't have to talk about cars and the automotive sector. Highly enjoyable. All the best for the proceedings within the next two days. Thank you.

**Katinka Barysch**

I don't know about you, I really enjoyed the debate and we shall see you in the bar.

[end]