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Esteemed parliamentarians and ministers, 
Your Excellencies, 
Ladies and gentlemen, 

It is a great honour and a great challenge for me to open today’s conference on Black Sea cooperation as a key prerequisite for energy supplies and energy security not only for the Black Sea countries, but for the entire European continent.

Firstly, I would like to congratulate the organizers from the Friedrich Ebert Foundation for the choice of subject, timing and place for this forum, because:

- The energy supplies and energy security of Europe are two issues which are extremely important and extremely urgent; 
- The Black Sea region with its geo-strategic location, and after the accession of Bulgaria and Romania with its “close neighbourhood”, will soon become a key factor for the energy security of most of the European countries; 
- Bulgaria as one of the biggest producers of electricity in Southeastern Europe and as an important transit and distribution hub has already become an energy centre on the Balkans.

I believe that the presentations and discussions during the conference will go into further details with regards to the complex problematic of the subject, and this is why I will limit myself to sharing some more general political concepts that President Georgi Parvanov has always promoted as a Bulgarian head of state and as a representative of a Black Sea country:

Firstly, The Black Sea region and its energy security should be
seen as an inseparable part of Europe which after the accession of the Western Balkans to the EU will have to become a priority for the next enlargement of the Union.

Secondly, The Black Sea region, with its key geographic location between Europe and Asia, has established itself as one of the most important energy transport hubs between the two continents and this potential of the region is to be developed further by completing the existing transit networks and the construction of new pipelines, like the oil pipelines of Bourgas-Alexandroupolis and Bourgas-Vlora and the Nabuko gas pipeline.

Thirdly, along with the transit of energy resources, the countries of the Black Sea region could develop its own electricity generation mostly through increasing the share of nuclear power and the wider use of renewable energy resources like biomass, water, solar energy, wind and geothermal waters.

Fourthly, the energy supply and energy security of the Black Sea region, and Europe as a whole, cannot be achieved through confrontation of one country against another, but would require a close cooperation among all countries regardless of whether they are suppliers or consumers. The cooperation should be based on mutual trust, transparency and loyal competition – principles which characterize the free energy market in the EU and the European Economic Area.

I can assure you that Bulgaria, which is at the threshold of its full membership in the EU, is ready to take its responsibility for promoting such cooperation and turning the Black Sea region into a pillar of energy security in Europe.

In conclusion, I would like to wish you successful work in today’s conference which may lay the cornerstones of Black Sea cooperation as a key to the stable energy future of Europe.

Good luck!
Hannes Swoboda:
„The common strategy for Europe’s foreign security and energy policy“

Dr. Hannes Swoboda is Vice-president of the Socialist Group of the European Parliament

In order to develop a common European strategy we need without any doubt a Common Foreign Security Policy and a Common Energy Policy. The Common Foreign Security Policy (CFSP) is in elaboration, many steps have been done and more steps still have to be done. The Constitution would have given it a boost, but even without the Constitution one should work on a real common European Strategy.

Concerning energy policy until recently nobody spoke about a Common European Energy Policy. And we don’t have yet the legal basis to create a common energy policy. Again the Constitution would support that in the sense of an energy policy divided between the European Union as such and the individual member states. But since the crises in the beginning of this year between Ukraine and Russia even many people from the right wing who are mostly against common European policies demanded a Common European Energy Policy.

Things changed apparently, and there is now a chance to develop a Common Foreign Security and Energy Strategy for the European Union in the coming months. Some decisions by the Council, the Greenbook by the commission and the Parliament’s position could contribute to the formulation of a common strategy.

1.) The main task to create a basis for common European energy policy in the foreign affairs field is to raise the room of maneuver, especially concerning the fossil fuels. That means we have to decrease the dependence of the European countries and the European
Union as a whole from fossil fuels. What can we do?

a) It is important to raise the energy efficiency and to develop clear concepts of energy saving. The less energy we use and consume the less we need fossil fuels and the more we have chances for our energy and foreign affairs policy. We have to develop all possible kinds of alternative sustainable forms of energy. If it is solar, wind, wave and tide or earth, if it is development of biomass, especially bio fuel: all these forms of energy production have to be developed.

b) Much research has to be put into the development of alternative energies to make them viable and cost effective. Again: the more we can decrease the use of oil and gas the more possibilities for these kinds of alternative sustainable forms of energy we have.

c) Coal comes in again. We recognize the development of clean coal technologies. But coal is not per se a safe technology. It is not a form of energy without problems facing the enormous number of accidents in winning coal. Nevertheless, the development of the technologies of Carbon Capture and Storage, CCS, is on the way to forward a more environmentally friendly and sustainable technology to use coal for winning energy, especially electricity, maybe also for fuel for transportation. One should not underestimate the possibilities, but one should also not negate the risks in connection with the use of coal for winning energy.

d) The nuclear energy is a last point I want to mention in that respect. The European Union as such has no nuclear policy besides policies on safety and security. It is up to the member states to use or not to use nuclear technologies. What we have to be concerned with an ongoing spread of nuclear technology in energy is the question of safety. In this point the European Union must develop the highest standards of safety but also with security especially in connection with the proliferation question. Everything has to be done that the spread of nuclear energy does not result in the spread of
nuclear weapons. Therefore measures like the multilateralisation of enrichment of uranium is one of the ways where we can try to give every country the right to use nuclear energy but in the same time to prevent as far as possible the spread and proliferation of nuclear technology for military, in any way non civil purposes.

2.) Another important point is the question of diversification. To my point of view it is absolutely necessary to diversify the geographical areas of supply. The areas from where the resources oil and gas come are mainly Russia, but also the Middle East, North Africa, Central Africa and Central Asia. Many of these countries are countries of low stability and high risk. If you leave out still viable European sources like Norway you come to the conclusion that there is a strong tendency of a combination of a high amount of oil and gas and a high degree of instability and risk.

Therefore diversification is necessary to diversify and to lower the risks. Of course Russia is right when it argues that they too are dependent on consumers, in the moment especially on consumers in Europe as most of their distribution lines go versus Europe. We can understand that Russia is also trying to diversify their markets and is also going towards China and other countries. Nevertheless I think that Russia could and finally would do it at any time. Therefore I am convinced that risk sharing and diversification is going towards stronger interdependence.

Diversification of geographical areas of supply is of course not enough and not viable if you don’t extend and diversify the infrastructure for the distribution, especially in gas: Trans European networks with their connection to different geographical areas of pipelines and the so called LNG ports, ports for liquefied natural gas. (Gas is brought by big ships in a liquefied form to these ports and is transformed again into fluid gas transported to the different locations of consumption.) One of these prominent connections would be the Nabucco pipeline from the area of Azerbaijan to
Eastern and Central Europe (Austria), which would be an important investment in diversification.

An enormous problem with promoting diversification and with the strengthening of interdependence is the question of liberalised markets. The more markets are liberalised the less influence from government side is feasible and the more difficult it is to develop a clear energy policy. Therefore we always have to be careful in combining a market strategy with some basic political steering possibilities which give politics the chance to satisfy demands of our citizens and having enough energy supply for the necessary consumption in our economies.

3.) Last but not least we have to think about interdependence. In the beginning I already spoke about dependence and the importance of less dependence on oil and gas. But one can hardly be less dependent from energy over all. Taking into account all measures taken, from energy efficiency to energy savings and development of alternative energy, we cannot think that today and in the coming years we will live in an economy and society without still massive use of oil and gas. But to safeguard the access and the supply of oil and gas we have to insist on an interdependent system between consumer, production and transit countries.

Only if it is clear that we have common ownership, common enterprises and treaties that guarantee the consumers that the producers would deliver and for the supplies that there will be consumers who will demand and both of them can trust that there will be countries with free transit without politically or otherwise motivated blockades, then the system can work to the benefit of the world economy and the citizens.

Therefore I think that to create this interdependence of mutual benefits is necessary in the field of exploitation, financing, technological cooperation, of building and owning the infrastructure for
distribution, etc. There are many fields of cooperation in which we have to create that interdependence.

Next, I would like to deal with some of the regions where we have to develop a special policy. Especially Russia is for us the main region of supply concerning oil and especially gas. For this reason we have to have a special concern about that relationship. For lots of years and even decades Russia – the former Soviet Union – were very reliable sources of energy. The deliverance and supply was absolutely without any doubt and all the contracts were kept to the point.

With the Ukraine in the beginning of this year there was the first sign of changing contracts. Not that there were no reasons for Russia to ask for higher prices in the direction of the world market price. But that was done deliberately before the elections and not by chance in other countries like Belarus in the time after the elections.

From my point of view this showed the political element. If one looks to the importance of Gasprom for politics and the influence of politics starting from President Putin on Gasprom it is very clear that for Russia the economic importance of gas and oil is at the same time of high political relevance. And if one looks to the recent developments concerning major fields of exploitation, one sees that the Russian authorities and enterprises want to have a stronger influence, partly by demanding new, more favourable contracts, partly by not accepting offers by international organisations and multinational companies under recently still accepted conditions to participate in delivering technologies, finance, etc. to the exploitation of gas and oil fields.

A particular critical point is the fact that in spite of the recent G 8-declaration of St. Petersburg Russia is putting pressure on changing existing contracts. In the declaration on Global Energy Security the following is written: “We, the leaders of the G 8, commit to transparent, accurate, stable and effective legal and regulatory
framework including uphold contracts.” The term “uphold contracts” is put into doubt by the recent events.

Therefore I think we have to speak very seriously with Russia how we could put energy in the centre of the future Partnership and Cooperation Agreement (PCA). Russia didn’t ratify the Energy Charter Treaty (but so didn’t do Norway). We can not accept that without alternative. We can not accept that there are no clear rules while it was written in the G 8 declaration, to have a transport regulatory framework. We need such a framework of rule in the relationship between the European Union and Russia and also concerning the work of multinational companies.

We need rules concerning the solution of disputes. In this sense we need a dispute solving mechanism like in the WTO. Russia of course is very active in an area which is theoretical an alternative for oil and gas for the European Union, especially in the South Caucasus and in Central Asia. Some of these countries like Azerbaijan or Kazakhstan are difficult but nevertheless partners where contacts are done or could be enhanced. Other countries like for instance Turkmenistan are awful dictatorships. Still there is an enormous supply of energy in this country, but we have many difficulties from the moral and human rights point of view to enhance the cooperation between the European Union and e.g. Turkmenistan. We are still in doubt, how this relation should be developed.

Concerning the Middle East it is obvious that this region is first of all an enormous area for energy supply. But it is a very critical area with the still ongoing conflict in Palestine and the recent developments in Lebanon and of course especially with the situation in Iran. We have a very fragile situation. The more we try to carry on negotiations to solve some of the problems, that means in the first line the Palestinian problems, but also the nuclear issue with Iran, the more it would be a contribution towards stabilisation of the region and also our energy supply.
Out of many reasons it is important for Europe to play a bigger role from the start in order to reduce and soften the threats and the fears in connection with that region. That could not only save lives and prevent new wars like the dreadful war in Iraq, but could also give boost for economic and political stability. And this finally would also underline stability for energy supplies.

Perhaps energy is not the main issue in having a good relation with the area. But it is of course one element that our citizens expect, that flows for that region are stable, even if some of these countries are not the main suppliers for Europe.

I will not go further now in describing and putting the other regions of oil and gas supply for the European Union in a relationship to EU policy. But one of the most difficult things concerning North Africa and also Central Africa is of course the question of stability and the contribution of oil and gas profit for the development of the countries. There is very often a vicious circle: exploitation which is not leading to income for the development of the whole economic society but more for the profit of some warlords, small parts of the society and that will create unrest in the countries concerned and finally contribute to political instability and in that sense to instability of energy supplies.

We need a development policy in the wider sense especially in helping that the high profits from oil and gas for the countries concerned are going into sustainable development, including investments into the environment and into education, etc. also by the big multinational companies would be a very important contribution towards stability in the region decisive for our energy supply.

Conclusions
In order to create a Common Energy and a Common Foreign and Security Policy in a combined strategy we have to fulfil certain conditions and we have to develop certain instruments:
1. We need stronger support for measures raising energy efficiency and energy savings.

2. In general we have to raise the non fossil fuel mix in our countries.

3. We have to diversify the supply from the different regions in a more risk reducing mix and distribution of supply regions.

4. We have to extend and adopt the distribution infrastructure, that means pipelines and LNG ports.

5. We have to strengthen the dialogue between the big demand and consumer countries like Europe, USA, China and India to have a more common policy of the consumer countries in relation to the common policy of producer countries, especially OPEC, but also Russia.

6. We have to enhance the technology transfer, especially concerning energy efficiency, energy savings and the development of alternative forms of energy including research and development in these fields to other countries in order to reduce the world demand on energy, especially to Russia, China, India, etc.

7. With Russia we have to have a new Partnership and Cooperation Agreement with a more accurate and balanced relationship between Russia as producer and Europe as consumer. And we have especially to include binding rules on dispute resolution analogue to the rules of the WTO.

8. We have to have a close relationship with neighbouring countries which are especially transit countries. We should develop some sort of an EU-Black Sea-Community including countries like Ukraine, but also Turkey or countries from
South Caucasus. Some of these countries are clearly European. Turkey is already in negotiations with the European Union. For South Caucasus there is no decision taken yet. This should not prevent that we have especially in energy a very close relationship with these countries. On the other hand we have to have of course close relation to countries of the Mediterranean Sea (not only on energy). The EU-MED community could enhance this cooperation. In this sense we should work with this two neighbouring regions in a close, also multilateral cooperation.

9. We have to have a strategy for strong interdependence on exploration, distribution and consumption. We need a clear strategy that no one can blackmail the other because there is a common system. If one tries to blackmail the partner there could be immediately new alternative streams of supply and delivery. It would be necessary therefore to involve everybody into a peaceful development of a world energy system. And Europe has to be in the forefront. It has the clearest strategy of finding alternatives to the dependence on oil and gas on the one hand. On the other hand it still has a strong interest of having stability in the supply and distribution of fossil fuels.

10. I think we have to enhance the contribution from income out of oil and gas exploitation and supply to the development in the countries concerned. It is irresponsible and morally unacceptable that these questions of possible contribution from the profit of countries and the companies are very often disregarded and disrespected. More transparency, long term funds for investment out of these profits and contributions from the companies concerned in the sense of Cooperate Social Responsibility are of enormous importance for creating stability in the main areas of oil and gas supply.
Gernot Erler:
„Regional Cooperation and Energy Security”

Gernot Erler is Member of the German Bundestag and Minister of State at the German Federal Foreign Office

The subject of energy security and security of energy supply requires further attention on the part of the international community. It is not by accident that this subject was a focal point at the G-8 Saint Petersburg summit. It will resurface again in 2007 in the work plans of the double German presidency of both the EU and the G-8. This has its grounds:

- The noticeable depletion of fossil fuels results in gradual decrease of supply. The rapid economic growth in the so called ‘new economies’ like China and India, which are emerging as serious competitors on the demand market, pushes the prices up. A balanced competition for energy resources has started.

- Different strategies are being employed in this competition. The US, as the biggest energy resource consumer in the world, is putting the emphasis on the traditional politico-militarist approach to securing the strategically important Persian Gulf region. A country like China pursues an aggressive policy of acquiring shares in entire finds. The Federal Republic chose to diversify its supplies network with the Russian Federation still holding a big relative share and this approach has been mostly positive so far.

In this respect, we cannot but point out that complete security will remain an illusion. This is being illustrated by new events like the Lebanon war in July and August of 2006 which occurred in dangerous vicinity to the most important gas and oil finds in the world, as well as the Iranian nuclear program crisis which affects the country with the second biggest oil and gas reserves in the world. Or
the Russian-Ukrainian gas conflict at the beginning of 2006 which drew attention to the significance of transit countries in a very dramatic manner.

This experience reinforced the understanding that energy security can be accomplished through broad regional cooperation. A balance between supplier-countries, transit-countries and consumer-countries can be achieved within the framework of such regional cooperation. Apart from that a gradual interrelation between the energy and the economic sectors could be achieved leading to a lasting and secure energy supply based on mutual interest and interdependence. This is the political rationale of the European Union which is especially clear with regards to the Energy Community with South-eastern Europe.

The Treaty for the establishment of such Energy Community signed on 25 October, 2005 led to the creation of the biggest common electricity and gas market in the world. Parties to the treaty are the 25 EU member-states as well as nine other countries, respectively entities: Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Albania, Macedonia, Romania, Bulgaria and Kosovo, which is under the UN transitional authority. This means that together with the acceding Bulgaria and Romania, the Western Balkan countries, which have perspectives for EU accession, are also partners to the EU under this Treaty.

The expansion of the Energy Community with South-eastern Europe with the inclusion of Moldova and Ukraine, as well as the likely addition of the South Caucasus republics in the mid-term may turn out to be a key element in the intensive neighbourhood policies of the EU. This fact is also interesting given Germany’s goal to strengthen the EU neighbourhood policies during its presidency of the EU in the first half of 2007. The abbreviation for this initiative is ENP+ and it has an important role to play in the future.
I strongly believe that the importance of the South-eastern Energy Community was underestimated initially. Its significance as a nuclear energy centre and a starting point for a comprehensive regional cooperation even beyond the energy sector has in fact become clear gradually during the different crises this year.

The Treaty, that I am speaking about here, will create an opportunity for the countries of South-eastern Europe, after the four bloodshed wars in the Balkans in the 90ies, to reach an agreement on one central and very sensitive area and to work out a common political vision. The Treaty for the establishment of an Energy Community is a key element of the EU strategy for South-eastern Europe and a working tool for European integration.

In this sense I put the South-eastern Energy Community on equal footing with the two other European strategies for South-eastern Europe, e.g. the Stability Pact and the Stabilization and Association Process – SAP. The Energy Community Treaty is aimed at creating opportunities for countries of the region even before full EU accession to benefit from the advantages of the internal energy market while at the same time the EU would quickly complete its own electricity and gas internal market.

The arguments for the expansion of this internal market beyond the EU borders are convincing. The expansion towards South-eastern Europe would result in the establishment of a regional market and its seamless incorporation into the internal energy market of the EU. The idea of the common internal market also means that there needs to be a unified approach to foreign trade and abolition of obstacles to the internal energy market. This practically entails the introduction of acquisition and integration in one central area which will be located in countries which have not yet become EU members, but have a clear perspective to do so.

The practical implementation of the Energy Community with
South-eastern Europe will lead to intensive regional cooperation. Many speakers here even claim that it will become an example for regional cooperation. This cooperation, however, is lacking one important element or rather, this element is underdeveloped. In the ideal scenario the regional energy cooperation functions as interlocking of the interests of the producer-countries, the transit-countries and the consumer-countries. Of the 34 member-states of the Energy Community, though, only two can be defined as producer – countries. Those are The Netherlands and the United Kingdom, with the role of the UK as a producer being diminished and the Netherlands being expected to play this role only in the mid-term.

When we speak about the possible inclusion of Ukraine into the energy community and Germany’s objective to strengthen the energy dialogue with Russia during its EU presidency, this is because we need to involve as much as possible an important transit – country and an indispensable supplier into such a system of regional cooperation designed to achieve energy security.

Such arguments are being used in Germany under the motto of “Convergence through interlocking”. This motto was created as a pragmatic signal denoting the goals of our presidency and our relations with Russia. It shows the willingness and intention to develop energy cooperation to such an extent so as to achieve mutual interdependence. We believe that only such a system of energy cooperation can withstand the arbitrary political reshuffles and political change. Such a system of interdependence would bring to a minimum the risks to energy cooperation.

Regional joint activities in the area of energy are not being carried out in Europe alone. It is an interesting fact that there are rumours now that India has expressed interest in being supplied with Iranian gas through Pakistan as a transit-country. If this is to happen, India will put itself under the control of its bitter enemy. Such regional cooperation would be an indisputable evidence of the changes that can
occur under the pressure of achieving energy security. This would be a considerable political change on the Indian sub-continent.

This development also demonstrates that the European endeavours, I spoke about, reflect a world trend which has no alternative. Even such examples of possible political change have their own history. Such a process of “regional joint actions” with consequences for the world’s history had already taken place in Europe. I am talking about the establishment in 1951 of the European Coal and Steel Community or the so called Montanunion. The Treaty to establish the ECSC brings us back to the Schuman plan for the creation of a community for coal and steel, an initiative launched by the French Foreign Minister Robert Schuman and proposed to the German Chancellor Conrad Adenauer. Adenauer agreed with the idea since it implied a joint control over the industry, i.e. the energy and steel industry of the member – countries without imposing customs duties. By the way, this also meant that the German Ruhr Province, which had been under the control of an international committee of the countries that won WWII, under British occupation and whose industrial facilities continued to be dismantled, would receive an unexpected chance for a revival. This chance, as is known, was made use of and the Ruhr Province with its coal and steel industry in the heart of Germany became the driving force for economic reconstruction.

The main objective of the Treaty, according to Schuman’s argumentation, was to secure internal European peace through a community approach, i.e. mutual control of the important military industries of coal and steel and ensuring supplies for industry reconstruction after WWII. Montanunion was the starting point for the subsequent Treaty for the Establishment of the European Economic Community and the Treaty for the European Atomic Energy Community -”EURATOM” which in turn led to the development of the European Community which the Maastricht Treaty of 1992 transformed into the European Union. We could, therefore, argue without any exaggeration that a specific form of regional coopera-
tion in the area of energy comparable with the establishment of the Energy Community with South-eastern Europe, served as a cradle for today’s European Union.

Today, by the way, there are also other interesting examples of cooperation between producer and consumer countries apart from the Energy Community with South-eastern Europe. This is, for example, the case with the EU’s relations with Norway. Norway is striving after membership in the Energy Community with South-eastern Europe and in its capacity of a producer-country has a significant contribution to the diversification within the Energy Community. What is more, Norway plays a key role of a safe port for the European, and especially German, energy supplies.

But there are also other instances. A very positive example is the cooperation between the US and Canada, i.e. between two economies which are much more integrated than those of Germany and the Netherlands, for instance. Based on the remarkable reserves of oil in the Alberta Province in Canada, which are estimated at 24 billion tons (of course, in the form of oil sands) and constitute one of the biggest reserves on the planet, Canada plays a similar role with regards to the US as Norway for the EU.

Those two successful regional partnerships, between Norway and the EU and the US and Canada respectively, are in no way limited to the energy area. The example of the US and Canada, as well as the example of Norway and the EU, demonstrate that the true joint action should not be restricted to energy only.

The joint actions in the energy area can, of course, become a starting point for regional cooperation, but experience shows that this is limited in time. When the first phase is completed, what is needed is a broader and more diverse basis for long-term, permanent cooperation. Otherwise, the regional cooperation may turn out to be a dead-end street. For example, when the energy prices are falling,
this is at the expense of the producer and transit countries. When prices go up, this affects the consumers. Regional cooperation cannot be achieved on such an unstable foundation.

In order to establish stable regional communities, and hence energy security, it is necessary to go beyond energy partnerships. An added political and economic element is also needed. In this respect, we need to differentiate between homogenous partners like the EU and Norway, and heterogeneous partners like Japan and Russia. The latter applies to Russian partnership with the countries from Central Asia – a cooperation which is of key significance for us, Europeans. It is, however, complicated by the fact the Russia plays a double role here: on the one hand it is a transit-country for the Central Asian gas, and on the other, it is an energy supplier to Europe which also includes the Central Asian gas supplies.

Regional cooperation in the energy sector is a relatively new phenomenon and should not be taken for granted. This can be demonstrated with the American oil finds in Northern Alaska. At the end of the 60s and the beginning of the 70s the American administration decided against a pipeline through Canada and chose a more disadvantageous solution. The time was simply not right for the US to see the benefits of regional energy cooperation.

The consequences of inept energy cooperation were seen in the dispute between Russia and Ukraine at the beginning of this year. The turning of the switch to reduce gas supplies which was seen by the whole world on TV had significant political effects. I think that the Russian policy as to why it did not predict the event will remain a mystery for quite some time. In Europe those TV shots triggered off a debate on diversification which was in no way to the advantage of Russian interests. Experts had long been in agreement that for a number of communication reasons the conflict was bound to happen. But despite that, the question remains as to why it needed to be so demonstratively aired.
This Russian-Ukrainian dispute on gas proved in an impressive way the extent to which European energy security is dependent not only on the producer-countries, but also on the transit-countries. The German Federal Government believes the statements of both sides – Russia and Ukraine – that the events of this winter which almost caused an energy and political shakeup would not happen again. Some even compared those events to the shock of the oil crisis in 1973 and the second oil crisis after the ousting of the Iranian shah in 1979.

And now let me touch upon the global dimension. The insufficient cooperation at regional level even among producer-countries could in certain cases have global consequences. An example for this is the consequences from the Iran-Iraq war in the 80s which practically resulted in both countries being unable to export their oil and gas using maritime routes. Only the sufficient world reserves of energy resources prevented, as was in the case of the Second Gulf War in 1990/91, the occurrence of a new global crisis followed by subsequent economic crises.

Things were different in the regional Yon Kippur war in 1973 which caused the first big oil crisis and led to a period of deep recession in the world. These examples serve to show that depending on the current state of supplies, the deficiencies of regional cooperation and a failure in the cooperation system in a situation of regional crisis may have a global impact.

In conclusion, we need to be well aware of how interrelated regional cooperation and energy security are. The Energy Community with South-eastern Europe of 2005 created a modern instrument oriented towards the future and whose significance became clear during the crises of 2006. The introduction of this strategic concept has long been part not only of the EU strategy for the Balkans, but a key component of importance for the EU itself. The expansion of the community can bring positive results.
The Black Sea region is a key zone for protecting European energy community. It is the Black Sea region which is expected to play an even more important role for transiting energy resources from the Caspian region and this builds upon the interests and activities of producer-countries, transit-countries and consumer-countries in a way that is unique for the world.

In this respect, I would like to make an appeal to our Bulgarian friends. For a number of reasons it would be in the spirit of the EU, if Bulgaria would decide to play a more significant role in relation to Black Sea cooperation for the purpose of implementing the policies of the Energy Community with South-eastern Europe. We see that Romania took the favourable opportunity into account and set up the Black Sea Forum in June in Bucharest. I will be glad if this conference creates an awareness that Bulgaria needs to make a bigger commitment to the more intensive Black Sea cooperation.

Derek Taylor: „The Energy Policy of the European Union”

Derek Taylor is Energy Advisor at the European Commission

Thank you very much, Mr. Chairman.
Good morning ladies and gentlemen.

I must admit I’m very pleased to be here. It’s my very first time in Bulgaria so it’s a wonderful opportunity to actually see a potential new member state or a new member state in being. I think its 80 days to go, I saw on the screen near the parliament yesterday. Before I say anything else I must point out that I’ve moved to sit here not to distance myself from my Russian colleague there or from my colleague from the European Parliament, but purely so I can see the screen so that my speech doesn’t get totally out of sync with the slides.
What I want to talk about mainly is the green paper on energy which the Commission adopted in March of this year and will form the very basis of the future European common policy in the energy sector. As a very first step, much more will need to come. A lot of it will have to be done during the German presidency. But this is the very first step and it set out three core principles. The core principles were sustainability of energy, competitiveness and security of supply of energy. These were the three core principles. These are self evident, I think, for any major energy importing country. If you are completely independent with your energy sources then you can at least not worry too much about one or two of these. But for a region like the European Union all three are very important.

What does it mean “The three different core principles”? The first one is sustainability and the main one here is environment concerns which are mainly of course related to carbon dioxide emissions and climate change. Climate change is something we hear about on a daily if not more frequent basis nowadays. And there are two main sectors in the EU responsible for CO2 emissions
where the emissions are growing and where they are growing beyond those from 1990. 1990 of course is a key date because of the Kyoto convention and our objective is to reduce our emissions to below the 1990 level. But in two sectors, which are transport and electricity generation we are moving above the 1990 CO2 production. I would add at this point, in particular for some of our colleagues here to take note at this, that presently planned phase outs of nuclear capacity, together with a renewed interest in coal burn in some member states will serve to exacerbate the growing problem of CO2 emissions.

Some of the following graphics are the base case model for our projections for EU 25. They take into account the phase out of nuclear capacity that has been decided in a number of member states. And so you will see a decrease of nuclear capacity over the next 25 years. This next graph shows the EU emissions by sector, you’ll see the largest CO2 emissions in the European Union are from power and heat generation by far.
After that transport is the next largest emitter of carbon dioxide. And these are the changes I mentioned earlier.

You see that relative to 1990, already transport by 2000 was quite above the 1990 levels and by 2010 it’s even farther above and by 2020 power generation will also be significantly above the CO2 emissions from 1990. And these continue to increase as you see well above 1990 levels. The community as a whole is unlikely to meet its Kyoto targets. And several members’ states will certainly not meet their Kyoto targets. Just in passing I would point out that I like this next graphic. These are the sources of Carbon dioxide. The amounts of Carbon dioxide emitted per kilowatt hour of electricity generated for the power sector and you’ll see the main source of course is coal generation, followed by oil. We don’t use a lot of oil in electricity of course. Natural gas also emits substantial quantities of CO2. Some renewables produce more CO2 than they actually don’t produce, if you see what I mean. Nuclear power is the lowest producer of CO2 per kilowatt hour in the whole sources for electricity. So that’s all for the issue of sustainability.
Competitiveness

The competitiveness at the European Union will be influenced by energy prices. The more our companies have to pay for their energy the less competitive they become, unless everybody else in the world is paying the same, which is a problem. Within the European Union, we are trying to liberalize the energy market, to make it a common energy market for electricity and for gas, with the objective as stated by the International Energy Agency that tells us that liberalization delivers lower prices and improves security of supply. So we’re doing the liberalization of these markets and some benefits have already been realized. We did get for some time lower prices, we got convergence of prices between member states. But the process is far from complete, the markets are far from being totally liberalized and open and energy prices have recently of course increased. They’re higher than they were a year ago.

The final demand by different types of fuel: we see in this next graphic what we predict over the next twenty-five years. Oil demand will grow, gas demand will almost double. Electricity de-
mand will grow. Actually solid fuels appear in this graphic to be in relatively small amount and renewables are an even smaller part. One of the main reasons for this of course, within the electricity and heat, there is gas, there is nuclear there is also solid fuels, there is also renewables. The renewables in this graphic are those in addition to the electricity generation just as the gas is an addition to what is used for generating electricity.

You see in these figures a growing demand for energy and also - in the next graphic- increasing prices. The prices have increased as you all know tremendously in the last year or so. When this graph was drawn we were hoping it might well come down. Of course it went up after this graph was drawn but now they are back down around 60 dollars a barrel - so they’re still around the top corner of that graphic even though they have come down a bit. When are they going to come down much further? We’re not certain. We can keep our fingers crossed that they will do, but we don’t know. In some ways of course the high prices have a benefit for the medium to longer term because there has been lack of investment in the oil
and gas sector for some time now, which has caused the very small spare capacity of production over demand. And it’s this very small spare capacity in the production and the refining parts of the market that is partly responsible for the very high prices. Therefore the high prices encourage greater exploration and production so could be a benefit in the long term – hopefully, as long as we can have access of the areas and the regions where the oil and gas resources exist. If we don’t have access to them, the high prices will not benefit us in that way.

Also you see the electricity prices have gone up in Western Europe over the last couple of years at a reasonably steady rate of increase. The reason for this is reasonably clear once you look at sources of generation and you see quite a large share of gas in there, so the increasing gas price has significantly increased the electricity price. You see in this next graphic how we expect the generation by source to change over the next 25 years and we expect a big increase in the gas share, again in electricity genera-
tion. And somewhat surprisingly I suppose the increase in the use of solid fuels post 2015.

![EU electricity generation - by source](image)

I’ll come back to this in a little while and you’ll see again as I pointed out earlier the decrease in the nuclear share caused by the plant phase outs.

**Security of supply**
The European Union’s dependent on imports for close to 50% of its energy, we know this, and this is going to rise to 60% by 2020 and close to 70% in 2030, unless we drastically change our policies.
Security of Supply

- The EU is dependent on imports for close to 50% of its energy.
- This will rise to 60% in 2020 and close to 70% by 2030.
- By 2030:
  - Oil will rise from around 75% to close to 90%
  - Gas from 55% to over 80%
  - Solid fuels from below 35% to around 65%

And I mean to drastically change our policies, we must introduce all the improved efficiency that we want to do, we must increase the amounts of new and renewables in line with the targets that we set. At the moment neither seems likely, but if we can achieve it, then we can stop this increased dependence, that’s shown there. However it will not be enough to keep us down at 50% depending, I don’t believe.
By 2030, we’ll be importing 90% of the oil that we need into the community. Over 80% of our gas will be imported, and 65% of our solid fuels. And, when you realize that the only solid fuel that we import is hard coal, because we don’t import lignite, you will understand we are importing a very high percentage of our hard coal by 2030. Graphically it’s shown like that. You can see the natural gas – it’s going up by far the fastest, together with solid fuels. I said “solids” – but this is hard coal imports, not lignite imports.
These are the origins of import in the European Union in 2004:

<table>
<thead>
<tr>
<th>Origin of imports to EU (in 2004)</th>
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</thead>
<tbody>
<tr>
<td><strong>Main suppliers of oil</strong></td>
</tr>
<tr>
<td>- Russia (31%)</td>
</tr>
<tr>
<td>- Norway (20%)</td>
</tr>
<tr>
<td>- Saudi Arabia* (13%)</td>
</tr>
<tr>
<td>- Libya (10%)</td>
</tr>
<tr>
<td>- Iran* (7%)</td>
</tr>
<tr>
<td>- (* Total Middle East ~22%)</td>
</tr>
<tr>
<td><strong>Main suppliers of gas</strong></td>
</tr>
<tr>
<td>- Russia (33%)</td>
</tr>
<tr>
<td>- Norway (29%)</td>
</tr>
<tr>
<td>- Algeria (21%)</td>
</tr>
<tr>
<td>- Mainly LNG (12%)</td>
</tr>
<tr>
<td><strong>Main suppliers of coal</strong></td>
</tr>
<tr>
<td>- South Africa (26%)</td>
</tr>
<tr>
<td>- Russia (16%)</td>
</tr>
<tr>
<td>- Australia (15%)</td>
</tr>
<tr>
<td>- Colombia (12%)</td>
</tr>
</tbody>
</table>

And you see the main supplier of oil was Russia. Quite considerably more than the total amount of oil we receive from all of the Middle East. The main supplier of gas was Russia. Although in 2004 it produced a smaller percentage of our imports than it usually does, because usually it’s close to 50% but for some reason or other 2004 was a relatively low number, over a higher one for Norway. Surprisingly enough, Russia was our second largest supplier of hard coal. And also, and it’s not shown on that graphic, our largest single supplier of uranium. So Russia is our main energy supplier. By far our greatest energy supplier. So when we hear what happened between Russia and Ukraine in January, you can understand the concerns that ran through the political establishments. But on the other side I should also point out that for 30 years Russia has supplied us with energy without interrupting our supply.

Those are the three core priorities and in response we put forward a proposal covering six “priority areas”. We have three core prin-
ciples and we have six priority areas that we need to address. The first one is the environment. An integrated approach to tackling climate change. The second one is completing our internal market. The third is having a diverse and sustainable energy mix. The fourth is an internal energy supply policy. Solidarity between the member states and supply. A lot of this of course relates to stockpiles and keeping stockpiles to protect us in the event of shortages.

Another priority is “energy technology and innovation. This mainly refers to future research, including of course our seventh framework research program, the budget for which is presently still being debated.

And finally, external relations, of course. The coherent external relations policy with the objective of 25 or soon 27 member states negotiating from a stronger position than individual member states can. Now I won’t talk on the last three issues, partly because they have already been covered quite extensively already this morning and also you can give a totally separate speech on the research, covering all the aspects. So I won’t talk on that either. But I’ll concentrate for the rest of my talk on the first three items, the environment, the internal market and the energy mix.

The environment
We need to reduce our CO2 emissions. That is clear. We must reduce the amounts of CO2 we produce. We’ve signed up to the Kyoto protocol, as I said, but many member states are having difficulty in achieving their target. A great deal of difficulty. Several will miss them by a long way. We have the emission trading scheme, as you will all know which already covers 10,000 installations across the European Union. In fact somebody said a couple of days ago that it’s 12,000, so I’m not sure what the exact number is. And it’s clearly having an impact. But we’re not certain the impact it’s having is actually long term. It may be just people switching supply from one day almost to the next depending on the price of CO2 permits. Depending on the price of carbon on the market. And we
don’t think yet it’s driving the direction of long term investments away from CO2 emitting technologies. And it has not been without its problems. I think you may know about the crash in the price that occurred, I think it was in April or May, when the price more than halved in a few days. Less than that. So it’s not without its problems and without a reasonably stable price (of course the traders don’t really want a stable price, they make their money on the big fluctuations) but without a reasonable stable price we will not drive the technology in any one direction because there will continue to be uncertainty in the market. We are in the process of reviewing the emission trading scheme, and there will be a report out later this year I hope. Then we will look at how it should be extended, how it should be revised in phase two, which is for the period 2008-2012. And also we will look what we should do beyond 2012 onwards. It’s likely that we will propose modifications for 2008-2012, and then for 2012 onwards it is more than likely that there will be a proposal put to the Commission, and when the Commission will adopt it, committing the emission trading scheme in the future, beyond 2012. How far into the future it will be extended, of course will in the end be left very much to the member states to decide. And I’d like to make a little aside on this one, because our companies want stability. They want a regulatory framework that is stable, that they can predict. When you know a power plant is going to live for 40, 50, or even 60 years in the case of some nuclear plants, you want to know that the framework is going to be reasonably stable. So you can’t work with a scheme that might change in 5 years or might not change in 5 years. I’m sure that my colleagues in DG Environment will put a date far enough into the future. I talked a few days ago to some counterparts from the US. These are people not from Mr. Bush’s persuasion. These people actually believe in climate change. And they also think the emission trading scheme is a good thing and they believe the Americans will introduce an emission trading scheme. The only thing is they don’t expect the Americans to introduce an emission trading scheme for possibly 10 to 15 years. But in the meantime the Americans want us to continue
to use our emission trading scheme. Of course it adds to the cost for our industry. However the Americans said that if we don’t continue our trading scheme, it’s unlikely that the Americans will ever adopt one. So they want us to continue it almost in a vacuum in the hope that someday the Americans will adopt one as well. Because an emission trading scheme purely for the EU 25 could become a burden around our neck with probably limited long term impact on the environment. So this is something we’ve got to watch. Give a strong regulatory long term framework, but at the risk of losing our competitiveness if others don’t join us. So we need a lot of pressure and we need everybody to help support us to push for others to join us in battling climate change. We can’t do it alone forever.

Efficiency
Decreasing our energy consumption whenever possible is the best way to sustainability. The energy you don’t use is the best form of energy. That’s clear, we must push for energy efficiency and as you know the Commission published a green paper that focused on energy efficiency that said we can make 20% energy saving on our consumption with a target date of 2020 for achieving this 20% improvement in efficiency. We’re in the process of finalizing an action plan on energy efficiency to achieve this 20%. Watch this space, the actual proposal should be adopted by the Commission next week. It will involve mainly better implementation of existing regulation, increasing public awareness, because a lot of the savings have got to be done by individuals now. And it will also look at new regulations, probably the building sector to improve the energy efficiency of buildings. But also on transport to increase the efficiency or emission of transport. This is of course a major issue.

Completing the internal market
Sustainability competitiveness and secure energy needs a competitive energy market. We need competition between companies, looking to become European wide companies not just dominant national players. Open markets and not protectionism should
strengthen Europe. If we can get a proper open market we could bring down prices and improve security of our supply and boost our competitiveness as long as we can work it properly. A complete, effective single European Electricity and gas market would achieve that. And you can also help make companies close the less efficient energy plants, which will be good for the prices and also good for the environment. In brief however the main problem is the lack of integration between national markets. There’s a real lack of integration and a key indicator of this is the absence of price convergences across the EU. There’s still dramatically different pricing. There are dramatically different prices for one member state to another, but even sometimes within member states. Another indicator is the relatively low level of cross border trade within Europe. It’s generally due to existing barriers for entry, inadequate use of existing infrastructure and insufficient interconnection between member states, which leads to congestion and bottlenecks at the connectors between member states. A lot of companies are making money on this congestion, so they don’t have a great deal of incentive to change it. We’ve got to try and provide them with the incentive to change it. We’ve got to improve the amount of interconnection to get rid of a lot of this congestion that exists. We’re looking for example for electricity minimum of 10% of electricity capacity. 10% of its capacity should be covered by interconnections with adjacent member states, with neighbours. A big problem, of course though is still we will need at least 500 giga watts of new electrical capacity by 2030. At least 500 giga watts, some people say 700 giga watts of new electrical capacity. How are we going to incentives the building of this capacity? Companies say they want a clear regulatory framework. They want to know if the internal market’s going to work and yet the market’s changing, the regulations are changing, the whole framework, the grand rules of the game are changing, so we need to get a clear ground rules, otherwise we won’t get the investment that’s needed in the European Union’s market.
**Level playing field.**
We need a level playing field and the key word here is “unbundling”. We’ve tried legal unbundling, where these big companies have got to legally divide off the ownership of their production, their transport and their distribution. It hasn’t worked very well. So the next that we’re probably going to go for - the key word now - is “ownership unbundling”. It’s not very popular with many of the companies of course. They don’t want to be “unbundled”. But this is the next possibility. We must make sure that we boost the competitiveness of European industry. Sometimes some of the things we do are not just related to the internal market but also to sustainability and security of supply and they could have a negative impact on competitiveness. We have to be very careful that we get the right balance. The balance between sustainability, competitiveness and security of supply is a vital one and very difficult to achieve.

**The energy mix**
Each member state and energy company chooses its own energy mix. That is clear. However the choice made by one state, of course can affect another state and its neighbours as well as the community as a whole. Here are a couple of examples taken straight from the green paper, if anybody has read out of the green paper here, they will recognize these two – the move to natural gas for power generation could have a significant effect on the security of supply of a neighbouring countries in the event of a gas shortage. And also a decision by member state related to nuclear energy can also have significant consequences on other member states in terms of the EU’s dependence on imported fossil fuels and of course on CO2 emissions. These statements are straight out of the green paper.

Turning very briefly to the energy mix and coal, because I say coal and lignite produce one third of our electricity, counting for about 15% of our total consumption. Climate change however means that this technology, burning coal and lignite is only sustainable if accompanied by clean coal technologies i.e. improved efficiency
of coal burn and commercialized carbon capture storage – CCS technology. So coal and lignite can only continue in the mix if we can make them low carbon, or near zero carbon emissions. We have a communication coming on what we call sustainable coal. Sustainable coal is a mixture of clean coal and carbon captured storage, which will look at possible targets for achieving near zero carbon emission electricity generation. Two of the numbers we are discussing now is that we should not license in Europe any power generating plant after 2020 that does not have carbon capturing storage included in the design. Post 2020 no coal burning plant should be licensed unless they’re equipped with carbon captured storage. With the objective that by 2050 all carbon emitting power generating plants will be closed or phased out of the mix i.e. by 2050 our electricity generation should be near zero carbon emission throughout Europe. Those are numbers that have not yet been adopted by the Commission. The seventh research program, which was mentioned, puts emphasis on both clean coal and carbon capturing storage, including what is called a zero emission fossil fuel power plant technology platform, which had its first big stakeholder gathering a few weeks ago, which was very well attended and has got a very precise strategic action plan and research agenda which I will recommend to you. You can access it from the technology platform’s website and this is the kind of a flagship of our clean coal and carbon capture and storage research program.

*Briefly on energy mix and nuclear*
Nuclear also contributes roughly one third of the EU’s electricity production. While we need to make sure it’s an issue of waste and safety, if it is well managed it does represent the largest single carbon free energy source in Europe at this moment. The strategic energy review, which I’ll mention very briefly in a moment, should allow a transparent and objective debate on the future role of nuclear energy in the European Union. Transparent and objective, not polarized to ideological debate, hopefully, which is always difficult with nuclear, as mentioned earlier. And we believe the European
Union can pay a useful role in making sure that all the issues are properly discussed in a well informed, objective and transparent way. This comment is straight out of the green paper again. And in a few weeks time there should be an illustrative nuclear program, adopted by the Commission, which will review the progress on nuclear. What’s been happening, what it could be doing in the future and the costs and benefits of it in line with what was requested. I mentioned a strategic energy review and we want to put in there somewhere an overall strategic objective for energy in the European Union that balances the three core principles. The one we are discussing at the moment might to be aim at a minimum level in the energy mix of secure and low carbon energy sources. A minimum level of those types of sources in the energy mix, which will evolve over time. I haven’t heard the latest on the percentages of the low carbon and secure energy that could be in the mix, but people I’ve heard of talked of 50% and even greater by 2050. Other possible indicators are also being discussed. We should know soon. And the objective: the text on this slide is a direct quote from the Green Paper. The indicator to be adopted should point to where we’re going and also be a guide for future regulation that might be needed to drive energy policy in this direction. We can not tell member states what mix they should have, but what we can do is to aim at a minimum percentage of low carbon energy in the communities mix. We can get member states hopefully to agree to that.

*The follow-up to the green paper*

We’ve had a public consultation process, which I hope some, if not all of you have been involved in, which finished a few weeks ago. We had 1,500 individual responses and 150 position papers from the main energy based organizations and also from several member states. And in December of this year or January next year the Commission plans to adopt an energy package. This will be number of reports, communications and proposals for legislation, covering a number of different areas. I’ve mentioned some of them already including the one on energy efficiency which will be adopted soon.
We have to achieve the 20% energy efficiency. There will also be numerous ones on new and renewables, which I think my colleague from the parliament will mention later. There’s also the one on the nuclear policy and the one on sustainable coal. The covering one for this will be the strategic energy review, which will be the real successor to the green paper as a next step. They will represent a number of relatively small steps, but important steps towards a European energy policy. The documents will all land, all ten or twelve documents will all land with a very big thump on the table of the German presidency, and so they’ll have to deal with this.

Energy issues have shot up the global political agenda. And this is partly driven of course by increasing concerns over security of our supplies, especially our imports. And something here which I’ve not really mentioned at all and it has almost been mentioned in passing by other speakers is the problem of India and China. These are rapidly growing with impressive economic growth. They’re increasing their demand and they’re our competitors on the world market. And they’re competing in exactly the same markets that we are in many ways. And they’re growing in strength and they’re also growing in muscle, especially China. China is quite happy to go into areas and say “We want to buy that resource! Please produce it for us and here’s the money!” They’re not too worried about market prices. They go in, they have the money, they buy what they want. They want their resources. So they’re changing the rules of the game to a large extent. And of course there’s the US as well, which is still by far the major energy consumer that we also need to talk to more closely.

It’s done partly driven by recognition that climate change is already happening. We can’t stop it. All we can do I think is slow it down. And learn to live with it of course. But we need to slow it down, because otherwise we’re in a big experiment, over which we have no control and we don’t have really any real clue over what will happen. Of course its driven partly by concerns over the
competitiveness of European industry. This I think was something that has not been brought out strongly enough in the first green paper in March. One of the main criticisms I’ve heard and one I must admit I tend to sympathize with is that the first paper put too much emphasis on sustainability and on security of supply and not enough on our competitiveness. Because if our industry looses competitiveness because of our policies and because of the cost of energy, what happens? They go offshore and they go to countries where they can produce their goods without worrying how much carbon dioxide they emit and get cheap electricity. What happens of course, we lose employment in Europe, we lose industry, we stop being competitive in the world and yet our environment deteriorates because these companies are producing more CO2 overseas. So it’s a lose-lose situation, unless we make sure what we do does not have an adverse effect on the competitiveness of European industry.

So basically as a last word, the great energy debate, as we refer to, has been launched. But action must follow quickly. We can’t just debate it, we’ve got to have some action, we rely of course, as I mentioned earlier a couple of times now, on the German presidency to make sure this action actually does follow. But we must all play our part, whether we are members already or about to join the European Union, but also our major suppliers and fellow consumers must all play a part in making sure that the energy debate comes to a successful conclusion and that we have an energy rich world.

Thank you very much for listening.
Britta Thomsen:
„Renewable Energy Sources and Sustainable Energy Policy“

Britta Thomsen is a Member of the Socialist Group of the European Parliament and Deputy Chairperson of the Committee for Industry, Science, and Energy

Ladies and gentlemen,

First of all I want to thank you for inviting me to speak at this conference. When you read the main European newspapers today, you will have a hard time finding a paper where the energy issue does not dominate and most of these articles are dominated by one word: renewables. This is due to the fact that awareness of our energy situation is rising. People can feel it directly on their wallets and purses, when they pay for gasoline and heating bills. The rising world demand, especially propelled by the rising Chinese energy consumption, has triggered a new situation for European producers and consumers. The high energy prices are here to stay and if we don’t react to this new energy situation, the price will keep rising to the disadvantage of the economy and citizens in the European Union.

The recent green paper from the European Commission for a „European Strategy for Sustainable, Competitive and Secure Energy“ shows a rather pessimistic scenario for the future European energy situation.

The demand for oil has increased by 20% since 1994, and global oil demand is projected to grow by 1.6% per year. CO2 emissions are expected to rise by some 60% by 2030. This has an effect on our climate. According to the Intergovernmental Panel on Climate Change (IPCC), greenhouse gas emissions have already made the world 0.6 degrees warmer. If no action is taken there will be an increase of between 1.4 and 5.8 degrees by the end of the century. The European dependency on import is also rising. In the next 20
to 30 years around 70% of the Union’s energy requirements will be from imported products compared to 50% today. Some of the import will come from unstable and insecure regions.

Faced with these challenges we have several responses. We talk about energy efficiency, energy savings, carbon capture technologies, nuclear power and so forth.

It is my intention to provide you with renewables energy sources as an answer to the energy challenge. Renewables are indeed capable of solving the problems of energy supply and sustainable growth.

Let us first talk about energy supply. The question is: can renewables supply enough energy for the rising energy demand? Let me state the fact, that renewables are just as capable of solving the problem of supply as any other energy sources - and still be competitive! And it is obvious that further economic growth has to use an increasing share of renewables to be sustainable.

The present use of fossil energy sources are insufficient in solving the problem of security of supply and sustainable growth, which is due to the fact, that fossil fuels needs to be imported and they pollute. There is also a finite amount of fossil fuels. Whether we run out in 30, 40 or even a 100 years is not really important. But we are going to run out. That is a certainty.

The usage of gas is getting more and more expensive and recent studies shows that the main exporter of gas, Russia, will not be able to satisfy European demands, because of the lack of investment in infrastructure.

As regards to nuclear power the price of electricity is also rising. The cost of uranium has risen dramatically from $ 26 pr. kilo in 2003 to $ 94 in 2006. And in this price we haven’t included the increasing cost of waste disposal.
Energy efficiency and energy savings are indeed important subjects, where member-states and EU have to act and implement much needed policies. Even though EU energy consumption is twice as efficient as USA and five times more efficient than China, there are still lots of ways to reduce the waste of energy in buildings and energy production.

A good example of the importance of energy savings comes from Denmark, where we have succeeded in doubling our Gross Domestic Product without raising our energy consumption! The question of energy efficiency is thus a matter that transcends all types of energy-mixes, and a strategy that can be combined with different ways of energy production.

This brings me back to the subject on energy production from renewables. I stated earlier that renewables are just as competitive as other energy resources and can secure the energy supply in Europe. This is not just words coming from a „green fanatic“, who has a romantic vision about Mother Nature doing the work for us. No, a recent study from the Wuppertal Institute for Climate, Environment and Energy shows that renewables are the best way of handling the problem of energy supply and sustainable growth in the future.

The study was requested from the Committee of Industry, Research and Energy in the European Parliament. Different energy scenarios were sketched out, including one where Europe relied on more nuclear energy, one with more energy efficiency and one with more renewables. All of the three scenarios were projected against a baseline, where EU policies were business as usual.

The analysis shows that in 2030 the renewables scenario was noticeably superior to the others scenarios in all measured parameters such as reducing import dependency, increase energy efficiency and reducing CO2 emissions.
But can this really be true? There were some critical comments to the study in the debate that followed the presentation. One said that not all countries were suitable for production from renewables. Another that renewables can’t substitute coal- and nuclear power plants now or in a foreseeable future.

It is true that sunny areas are more capable of reaping the gains of photovoltaic energy production, and countries surrounded by mountains can’t exploit wind energy in the same scale as flat countries close to the sea like my home-country of Denmark.

It is also true that we still have to bear other energy sources in mind, when we decide the energy-mix for our future energy production. But it is not our intention to say that all our energy production has to be from renewables! Our message is that renewables are just as competitive as a coal or nuclear power plant.

Not least due to the fact, that there still are huge unexploited potential in renewables. Windmills, for example, are getting more and more specialized, so that they can fit to different wind and geographic conditions, not to mention the enhanced electricity production at weaker and moderate wind-strengths. The study shows that the potential for wind-power for example in the new member-states is as high as 19% of the power generated by 2020. It is also calculated that the price of investment will fall by 25% from 2002 to 2020.

In Denmark we have for one decade led an offensive policy approach with regards to renewables. Public investment in renewables and concentrated research efforts has given Denmark a lead position when it comes to energy production from renewables energy sources. Today 25% of the Danish energy production is from renewables energy sources, and we have a potential of raising that share to 50%.

The main obstacle to wind-power is the connection requirement and extension of electricity grid infrastructure. It must be acknowledged
though, that the need for infrastructure investment is not only relevant for wind energy, but benefits all types of system users. A modernization of the European grid infrastructure is indeed necessary for all types of energy-mix, and it will further enhance potentials for renewables, if other member-states are capable of receiving power from water in Norway, from wind in Germany and from the sun in Spain. Thus renewables is much better than its reputation.

Another hot topic right now when it comes to renewables is biomass and bio-fuels. The benefits from biomass for energy are many, such as raising the share of renewables in energy production and reducing CO2 emission and oil dependency. The EU currently meets 4% of its energy needs from biomass. If it made full use of its potential, it would more than double biomass use by 2010. This is documented by the Commissions paper on Biomass from 2005.

A huge potential lies in bio-fuels. Since the abovementioned renewable energy sources mostly are applicable for energy production, bio-fuels are applicable in a huge energy-consuming and polluting industry: namely transportation. The transport sector is responsible for 21% of the total EU CO2 emissions. Henceforth it is imperative to reduce fossil fuels in transportation to combat global warming and meet criteria in the Kyoto protocol.

As to this point the most competitive bio-fuel is bio-ethanol produced from sugarcane. This production requires a tropical climate, which means we can’t produce enough to meet EU demand and have to import a large share from other countries, namely Brazil.

This doesn’t mean that we have to substitute one kind of fuel dependency for another. One of the most promising second-generation bio fuel technologies – lignocellulosic processing – is already well advanced. Three pilot plants have been established in the EU, in Sweden, Spain and Denmark. Other technologies to convert biomass to
liquid bio fuels (BtL) include Fischer-Tropsch bio diesel and bio-DME (dimethyl ether). Demonstration plants are in operation in Germany and Sweden.

To prepare for the large-scale use of cost-competitive bio fuels, continued research and development is needed to make the new technologies successful. The European Bio Fuels Technology Platform and other technology platforms can play a vital role in achieving this. Work should also be encouraged on the development of dedicated feed stocks and to increase the range of raw materials that can be used to make bio fuels.

Advanced bio fuel technologies could also provide a stepping stone to renewably-produced hydrogen, which offers the prospect of virtually emission-free transport. However, hydrogen fuel cells require new engine technology as well as a big investment in plants to produce the hydrogen and a new distribution system. That means that a shift towards hydrogen technology at present requires a large-scale, long-term strategy.

What is the European strategy and which step should be taken with regards to renewables?

Since 1997, the Union has been working towards the ambitious target of a 12% share of renewable energy in gross inland consumption by 2010. Unfortunately, progress in this field has been very slow. In 1997, the share of renewable energy was 5.4%; by 2001 it still only amounted to 6%. In the Turmes report, the Parliament stated that renewables can and should account for an increasingly large part of our energy-mix. The lacking implementation of the directives on renewable energy should not be seen as a call for slowing down policy developments. On the contrary: They call for further concentration of resources. The recent Green paper from the Commission emphasizes the need to act now, if EU wants to secure their energy supply the next many
years and live up to the Kyoto protocol. In my parliamentarian group, the European Social Democrats, we fight for binding targets for lower carbon energy production and more renewables in the Green Paper. We have to have a long term strategy now to combat global warming and mediate the effects of rising temperatures. We have to act in order to leave a world to our children worth living in. But nothing comes by itself.

Therefore, to achieve targets on renewables, as well as the European climate and security-of-supply objectives, we need more research in the wide diversity of renewable energy technologies. And we need to recognize that all non-mature energy technologies need a certain amount of support in the first years of development.

Acknowledging this, the Parliament resolution of September 29, also focused on the need for the Seventh Framework Programme on research and technological development (running from 2007-2013) to increase funding for renewable sources of energy and energy efficiency, and insisted that the specific programmes in FP7 should include a substantial amount be dedicated to renewable energies and to energy efficiency. A fixed budget breakdown would reduce the risk of discontinuous research funding and could provide the sort of assurance necessary to convince industry to make long-term strategic investments in renewable energy technology. Heating and cooling from renewable energy sources is the one missing sector in an otherwise impressive policy framework on renewables, adopted in previous years. The heating and cooling sector is responsible for nearly 50% of our total primary energy consumption. But unlike the bio fuels and electricity sectors, where clearly formulated targets and strategies have been agreed, the Union has not formulated concrete policy for heating and cooling so far. The European Parliament tried to seize the initiative and drafted an own-initiative report on “heating and cooling from renewable energy sources”, by Mrs. Mechthild Rothe, adopted by Parliament at the beginning of 2006. So far the Commission has not reacted,
but the Parliament hopes we have kicked off a process that will feed some needed EU policies.

So ladies and gentlemen,
We are at a defining moment in the history of energy supply. Is there literally speaking light at the end of the tunnel, or are we moving towards perpetual darkness? Everyday, when we open the newspaper, we are confronted with new stories that demonstrate the enormous task we are facing when it comes to securing Europe’s future energy supply. Oil and gas prices are soaring and few expect them to come down within the foreseeable future. The risk of supply disruptions is increasing as we witnessed in the first weeks of this year with the Russia-Ukraine gas supply disruption. At the same time, our demand keeps growing while Europe’s own conventional energy resources are gradually depleting.

I honestly believe that renewables are just as competitive as any other energy sources, we choose to use. Science and recent development backs me up in this. So the question is how we prioritize as politicians.

We must secure that energy is available to our citizens. We must also ensure that our energy supply is affordable for the European households and businesses. Finally, we must ensure that our supplies are environmentally sustainable so we do not hand over an environmental time bomb, and the cost of cleaning up, to future generations. In other words, we have a major responsibility towards today’s as well as future European citizens. Given the current energy situation, that is a massive task.

But I am confident that with will in our hearts and determination in our voice, it is possible to overcome this challenge and create a Europe, where energy production and consumption is secure, sustainable and competitive.

I thank you for your time and wish you all a very pleasant conference.
Galina Tosheva: „The Energy Policy of Bulgaria“

Galina Tosheva, Deputy Minister of Economy and Energy

Allow me to first point out that it is an honour for me to take part in this conference on Black Sea Cooperation – Energy Supply and Energy Security, organized by the Friedrich Ebert Foundation, a conference which is very important for Bulgaria, the European Union and the countries of the Black Sea region, especially given the fact that Bulgaria, as a Black Sea country, has always taken active part in the energy initiatives of the Organization for Black Sea Economic Cooperation (OBSEC) as well as in the implementation of the key energy infrastructure projects in the Black Sea region and South Eastern Europe.

The issue of energy security, which is the main topic of today’s conference, is a significant element of the national energy policy of our country.

The main priorities of Bulgaria’s energy policy are related to the development of a competitive national, regional and common European energy market observing the environment protection regulations and ensuring the security of energy supplies. The commitments that Bulgaria made in the EU negotiation process under Chapter 14 “Energy” resulted in an accelerated introduction of the EU energy legislation, the implementation of the necessary reforms and the initiation of measures for the liberalization of the energy sector.

Bulgaria is actively involved in the EU debate on the formation of a new energy policy of the Union and supports the priorities and goals outlined in the new Green Paper “European Strategy for Secure, Competitive and Sustainable Energy” adopted on March 8th, 2006. The six priority areas set out in the Green Paper (fully com-
petitive internal energy market, diversification of energy sources, solidarity among Member States, sustainable development, innovations, coherent external energy policy of the EU) correspond to the Bulgarian vision for the development of the energy sector.

Bulgaria is a key participant in the process of establishing a regional energy market in SEE and was instrumental in the signing of the Treaty for a Common Energy Community between the EU and the countries from SEE on October 25th, 2005 and its subsequent coming into force on July 1st, 2006.

Throughout the past years, at different points in time the Bulgarian energy industry covered between 45% and 100% of the deficit in the electricity generation balance of the SEE countries - net importers of electricity. This is a significant contribution to the economic and political stabilization of the region. The role of the Bulgarian energy sector in the region is also substantiated by the fact that a considerable share of the investments made in the energy industry in SEE has come to the Bulgarian energy sector. This year the Bulgarian energy sector is undertaking a series of energy projects with approved funding amounting to a total of 3.2 billion Euros, and by the end of 2007 the volume of investment is expected to exceed 6 billion Euros, which constitutes a significant share of the incoming private and public investments without government collateral.

Given the rising energy prices and the increasing discrepancies in price levels among the countries, as well as the growing need for investment, the key issue now is how to ensure a high level of competition in order to achieve higher efficiency and quality of energy services while at the same time providing maximum benefits from the Common energy market to every market player.

Out of the variety of approaches outlined in the respective EU Directives every country needs to choose such specific solutions for increasing competitiveness and efficiency which are based on care-
ful analysis and introduction of good practices, including restructuring to create opportunities for improved consumers’ welfare.

A key principle to be followed is the strengthening of regional integration, lifting the physical and trade barriers for energy supplies between neighbouring countries which will lead to increased diversification of supplies, better market liquidity and more active cooperation aimed at overcoming the negative external impact on the cost and security of supplies.

A significant issue for Europe, and Bulgaria and the region especially, is the establishment of appropriate mechanisms to meet the requirements of the EU environmental directives as well as the Kyoto targets. The main objective will be to put special efforts in maintaining the competitive positions of the coal industry.

The objectives of the Bulgarian energy policy are in harmony with the regional and European trends and are related with the achievement of efficient and accessible energy services promoting economic growth and contributing to the social welfare of the people. The forthcoming changes resulting from the establishment of a functioning and reliable energy market require coordinated action at regional level.

With a view of overcoming the physical and trade barriers and ensuring equal access to energy infrastructure Bulgaria’s energy sector is undergoing a series of restructurings which are aimed at separating the network system operators in compliance with the EU Gas and Electricity Directives. The goal is to create guarantees for a clear and fair access to the network and preventing any possible abuse of position on the part of the natural monopoly structures. This is to be done by establishing effective regulatory control mechanisms. The subsequent restructuring will entail the amalgamation of corporate structures in accordance with the EU directives, observing the rules of competition and clearly regulating the market role of each player.
The effective regulatory control is of crucial importance in this respect, since the efforts of the regulatory body will determine the extent to which the development of the internal market will be stimulated. The additional market options at regional level will further contribute to the considerable lowering of trade risk and boost of competition.

With regards to environmental protection and meeting Bulgaria’s environmental protection commitments without decreasing the competitiveness of the Bulgarian energy industry the efforts will be focused on clarifying the long-term environmental obligations of the country, allocating them on sectoral level and identifying the polluter companies. Another important task is to make an assessment of the financial parameters of the environmental obligations and work out appropriate financial mechanisms for environmental investment and encouraging emission trading schemes. This is the basis for determining the Bulgarian interest in implementing projects for rehabilitation and modernization of existing production facilities. Parallel with this, special attention will be paid on building new facilities like the Belene Nuclear Power Plant, Maritsa Iztok 1 Thermal Power Plant and Tsankov Kamak Hydroelectric station as well as the expansion and modernization of the energy distribution network.

Another priority is the development of environmentally friendly alternatives which include: accelerated gasification and development of the gas transmission network, encouraging electricity generation in hydroelectric stations and meeting the 11% target for electricity generation from hydroelectric stations by 2011, and sustainable development of the heat market and stimulating the combined production of electricity and heat.

It is in this respect that special attention will be paid on energy efficiency and saving. Bulgaria holds a great potential for energy saving which is why coordinated efforts are necessary to: improve the efficiency of the used primary energy resources for heating at
the end-consumer: improving efficiency in energy transformation and encouraging investment in energy efficiency at the level of the end-consumer. The timely mobilization of this new energy source will lead to a more competitive economy as well as reduced environmental obligations and an opportunity for economic growth with lower consumption of energy.

Additional efforts need to be put in attracting investment in a market environment. The main goal is to focus the investment activities of the government on supporting trans-border infrastructure projects thus lifting the physical barriers to the country’s accession and making best use of the benefits of the good geographic location of Bulgaria as participant in the Common Energy Markets.

Based on the results of the analyses made, the growing dependency on energy import makes it necessary to search for mechanisms ensuring the security of energy supplies mostly through diversification. In this respect, the specific infrastructural projects which the Bulgarian state is actively involved with and which are a priority in the 2006 National Strategy on Developing Infrastructure are the following:

A priority for Bulgaria in the electricity sector are the electricity projects along the route of European corridor N8 (Bulgaria–Macedonia-Albania-Italy) which include the electricity transmission lines like the electricity transmission substations Chervena Mogila (Bulgaria) – Shtip (Macedonia) as well as the second electricity inter-system connection between Bulgaria and Greece - the Maritsa Iztok substation (Bulgaria) and Philipi or Nea Santa substation (Greece).

In the area of natural gas the main opportunity for diversification of gas supplies at this point is the realization of the priority EU project of the NABUKO gas pipeline. Bulgaria is among the key participant countries. This project will make it possible to transport natural gas from the Caspian region, Iran, Iraq and Egypt (via a connection with the Trans Arabian gas pipeline) through
Turkey, Bulgaria, Romania, Hungary to Austria and from there to Central and Western Europe.

Bulgaria also gives priority to the gas projects along the European corridor N 8, or the so called Trans Adriatic gas pipeline. A clear sign of the Bulgarian support of this initiative is the Memorandum of Understanding signed on October 4th, 2006 between Enel and Bulgargas endorsing the project.

In the area of oil supplies Bulgaria works actively for the implementation of two strategic projects for SEE, the EU and the Black Sea region - the oil pipelines Bourgas-Alexandroupolis and Bourgas-Macedonia-Vlora. The construction of these pipelines is extremely important both economically and geopolitically.

Taking into consideration the objectives set and the actual capabilities of achieving them, the competitive positioning and economically sound participation of Bulgaria in such trans-border initiatives requires serious national effort and significant funds, but in the long run the implementation of those projects will contribute to the practical integration of Bulgaria into the regional and common energy market of the EU.

Thank you for your attention.
Tetyana Starodub:
„The Policy of Ukraine in the Energy Sector“

Tetyana Starodub is Doctor of Political Science, Chief Consultant at the Department of Global Security and EU Integration, National Institute of International Security at the National Security and Defence Council of Ukraine

Ladies and gentlemen,

I represent Ukraine at this conference so allow me to make a presentation on the policy of Ukraine in the energy sector.

At this stage the process of deliberation regarding the role and place of energy security in the overall system of protection of national interests and the interrelation of energy security with the other subsystems of Ukraine’s national security has not been completed yet. This process is characterized by gradual development of the scientific and methodological foundations for the systemic definition of the nature of energy security as it relates to the development of the legislative and regulatory framework regarding different areas of activity and has not yet achieved full correspondence with the realities of market reform, and social-economic changes taking place in Ukraine in the past years. As a rule, the concrete definition of the term “energy security” is based on a dominating industry principle. In this respect the impression is that the term “energy industry” only refers to the thermal power stations (TPC) of the country. We would like to propose the following definition of energy security which encompasses the full array of energy issues.

Energy security – the combination of necessary conditions for economic sovereignty of Ukraine in securing the country’s energy supplies, obtaining the stable and harmonious social and political development of society, meeting the current and future needs for high-quality and economically accessible energy by taking into
consideration the specific mode of operation of the energy generation sector in crisis situations, the ability of the state to address existing or potential threats deriving from the negative impact of internal or external factors.

The threats to the energy security of Ukraine in the area of electricity generation are as follows:

• significant export shares and underdeveloped electricity network infrastructure;
• poor structure of the generation facilities in the integrated electricity production system of Ukraine for the regulation of the consumption schedule as related to the lack of optimal balance between basic and maximum power needed to regulate the daily and seasonal discrepancies of consumption as well as the frequency and schedule of external consumption;
• catastrophic export of main funds in the heat production industry;
• reduction of electricity production by thermal power stations which is accompanied by the approaching license expiration of most of the nuclear reactors.

The emergence of negative trends in the electricity production system of the country could potentially result in:

• power shortages for the national economy which will lead to increased dependency on imported energy resources;
• deterioration of the economic parameters in the energy industry;
• negative environmental consequences related to the increased heat emissions which might create obstacles to EU integration due to the inability of the domestic TPC to meet the EU environmental indicators and the higher trans-border hazardous emissions.

One of the most effective solutions to the above problems is the development of a system of decentralized facilities for energy generation within the regional system of energy transmission as part of the structure of the generation facilities TPC in the country.
The practical application of the installations in the decentralized energy production system requires that they be deployed on the territory or in the close vicinity of the consumers. In this case no electricity transmission lines would be necessary.

*The development of decentralized energy industry would benefit:*
- the consumers of electricity – by reducing electricity transmission losses;
- the energy efficient enterprises – by reducing the costs related to the technical upgrade and maintenance of the network substations.

This is the internal aspect of Ukraine’s energy policy. In the process of implementation of the new regional policy of Ukraine, however, and especially in terms of its energy component, we need to put special emphasis on the energy initiatives and specific projects which are being carried out within the Black Sea region. The project Danube Energy Transportation Bridge is one such initiative proposed by Ukraine to the GUAM (Georgia, Ukraine, Azerbaijan, Moldova) countries in 2005. In this context we need to quote from the Protocol of the Joint Meeting of the Ministers of economy, energy, transport and heads of customs services of GUAM from May 22nd, 2006 “to propose to the governments of the GUAM countries within a three month period to consider the economic project Danube Energy Transportation Bridge and make suggestions for further development and coordination to the Ukrainian party”.

*The project Danube Energy Transportation Bridge sets out to perform the following tasks:*
- consistent implementation of specific practical activities for the resolution of the existing national problems of the GUAM countries, increasing the level of political, economic and energy security of the member – states;
- gradual establishment of a technical and resource base which would secure and improve the energy independence of the
GUAM countries, optimization of the trans-border and transport-communication facilities, expansion of trade and economic links;

- development of a coordinated strategy of the GUAM countries with regards to the joint energy and transport, and communications policy in the areas of foreign relations and foreign trade.

The main priorities of the project are:

- create conditions for reducing the energy dependence, increasing the level of energy security of the GUAM member states;
- development of common energy markets and their gradual liberalization;
- optimization of the transport and communications links based on the introduction of modern logistical schemes, improvement and development of the existing infrastructure;
- contribute to the solution of the economic and social-political problems of the GUAM countries.

The main goals of the project are:

In the area of reducing the energy dependence and increasing the level of energy security of the GUAM member states:

- to increase the volume of exploration works for oil and gas along the North-West shelf of the Black Sea, to encourage the use and mining of hydrocarbon materials and develop the infrastructure needed for their transportation and processing;
- to optimize and increase the reliability of the electricity networks with a view of creating conditions for their merger into the electricity systems of the OBSEC countries;
- to establish a system of strategic energy reserves, oil and oil products in particular, aimed at preventing or overcoming possible crisis situations;
- to establish production and technology infrastructure for the generation of energy resources using local materials, production and household waste, and other untraditional sources of energy;
In the area of developing common energy markets and their gradual liberalization:

- to progressively identify and resolve the existing disputes and controversies in the energy area among the GUAM countries, firstly within the framework of trans-border cooperation;
- to create additional electricity generation facilities with a view of optimizing energy consumption in the Danube region, increasing the export potential of the Romania-the Balkans-Turkey axis;
- to formulate the basic principles for the establishment of common energy markets in the Black Sea and Danube regions;

In the area of optimization of the transport and communication links:

- to consistently identify and resolve the existing controversies in the transport and communications sphere among the GUAM countries, firstly within the framework of trans-border cooperation;
- to develop new logistical schemes with a view of boosting the competitiveness of the joint activities of the GUAM countries on the transport and communications market, to optimize and increase the volume of transit transport along the Europe - Central Asia – Caucasuses route and maximum utilization of the existing transport communications along the Central Asia – Danube region – Central Europe line;
- to create conditions for the full involvement of the GUAM countries in the OBSEC projects for the establishment of a Black Sea transportation ring.

In the area of solving other problems and unresolved disputes:

- to create conditions in the social and humanitarian sphere for meeting the energy and communication needs of the civil societies in the GUAM countries adhering to the EU standards;
- in the economic area - to create conditions ensuring the stable and reliable functioning of the enterprises in the GUAM coun-
tries and their regions;
• in the area of unresolved conflicts – to create mechanisms for moving the relations away from political confrontation and towards common economic interest by way of implementation of specific projects.

*The mechanism of project implementation* is based on the existence of *organizational capacity,* consisting of political, economic, and scientific and technological components:

*Political component:*
- support for the project by the Parliamentary Assembly of GUAM;
- support for the project by the Committee of National Coordinators of GUAM;
- approval of the project by the Security Councils of the GUAM member-states;

*Economic component:*
- establishment of an Energy Agency of the GUAM countries – a body responsible for the development and implementation of a common regional and inter-regional energy policy, approval of proposals and reports by the national working and expert groups regarding the realization of energy projects, organization and coordination of trade and production activities in the energy sector;
- establishment of an International Transport and Communications Logistical Center of GUAM – a body responsible for the formation of mutually beneficial communications and trade links based on commercial principles;
- approval of the project by the respective executive bodies in the GUAM member-states;

*Scientific and technological component:*
- establishment of an International Energy Scientific and Techni-
cal Center – a joint body responsible for the organization and implementation of research and development activities, output of equipment, preparation of qualified personnel for the GUAM countries;

Legislative and regulatory support:
- compliance with the norms, rules, etc binding for the GUAM countries, and with the international regulations and national legislation;
- legislative and regulatory drafting of procedures for the joint control of the different types of economic activity on the territory of project implementation in accordance with Protocol N2 of the European Framework Convention on Trans-Border Cooperation between territorial units or authorities, especially as it relates to inter-territorial cooperation;

Scientific, methodological and technological support:
- to determine the basic principles of organization of the stock exchange as an organic part of the market infrastructure in the energy sector;
- to lay the conceptual foundation for the creation of a system of strategic reserves, oil in particular;
- to develop and approve the introduction of energy efficient technologies;
- to provide for the introduction of untraditional sources of energy with a view of strengthening the energy independence of the GUAM countries;

Information and statistics support for project realization includes the establishment of an effective system for monitoring, production, supply, transport, consumption and payment of energy resources and provision of transport and communications services by way of:
- establishment of an International Information and Statistics Data Base of GUAM;
- establishment of a Situational Forecast and Analysis Center at the Information Office of GUAM;

Production and technological support:
- development of the transport and communications infrastructure of the GUAM countries;
- increasing the capacity of the connection between the Black Sea and the Danube aimed at expanding the economic presence of GUAM and the other countries of the Black Sea region on the European market;
- establishment of new energy production facilitates and development of the export and electricity transmission potential;
- increased participation of the enterprises in the process of manufacturing of special-purpose equipment.

Material and technical support would be provided by:
- the existing and emerging additional energy transport facilities of the GUAM countries
- optimum exploitation of the national industrial complexes, licenses;
- import of equipment in the cases of a lack of national equivalents;

The financial support will come from:
- funds from the national budgets of the GUAM member states;
- funds from the stabilization fund, which would be financed by production and trade revenues from its operation;
- funds from the Investment Bank of GUAM;
- foreign investment

The expected results:
- increased level of political, economic and energy security;
- new opportunities for cooperation with the European countries;
- development of mutually beneficial cooperation within the OBSEC;
- establishment of new opportunities for the expansion of the Baltic-Black Sea Alliance;
- specification and improvement of the energy component in the foreign policy of the GUAM countries;
- establishment of additional mechanisms for resolution of disputes and conflicts.
- In this way, as a result of the Danube Energy Transportation Bridge project GUAM would become an influential organization in the areas of foreign policy and foreign trade.
- There is another project that I need to draw your attention to and it is the oil pipeline Odesa (Ukraine) – Brodi (Ukraine) – Plotsk (Poland).

The Ukrainian position is that the realization of this project would to an extent contribute to:
- the further exploitation of the probing facilities of the Caspian countries, full use of the capacity of the Caspian Pipeline Consortium and increase of transits to Central Europe, the Baltic states and Scandinavia to 9-14 million tons;
- the proportional (28-45%) solution to the problem with the transport overload through the Turkish straits;

Politically, Ukraine’s position is that the proposed project will contribute to:
- the diversification of not only the oil routes to Europe, but also diversification of sources of energy via the additional channels providing access of new raw-material producer-countries to the European, Baltic and Scandinavian markets;
- the development of market mechanisms for energy supply, their liberalization and the elimination of Russia’s monopoly in this area;
- radical solution to the energy security issue in Eastern Europe; increased reliability of energy supplies, lower cost of maintaining the EU standards for the new EU members;
- lowering of the political risks related to Europe’s dependency
on Russian oil supplies.

It is possible that the philosophy of the project may require a review and an entirely new formulation of the project idea which would create guarantees for the balance of interests of all stakeholder states. This refers to not only the traditional triangle of interests from the past – producers/transit countries/consumers – to the existence or lack of the respective contracts and agreements, but in our opinion the realization of the project could be seen in an entirely different perspective.

Our proposal is to establish a Transnational Industrial and Technological Complex on the territory of Eastern Europe as an international consortium including Ukraine. This Consortium would include individual states or corporate structures and would, within the framework of the public-private partnership, carry out complex activities in the areas of extraction, transportation and transit of energy resources, oil refining, chemical industry and other, as well as implement exploration works and obtain hydrocarbons from the territories under the project. Given an approval of all stakeholder countries and the needed political will are in place, the following advantages will be achieved:

- free economic and trade zones;
- integrated development strategies and respective responsibilities for their realization.

*One of the instruments for such cooperation may be the implementation of specific economic projects within the framework of GUAM.*

*In particular:*

- the alliance between Georgia, Ukraine, Azerbaijan and Moldova could provide for the extraction and supply of 4-6 million tons of oil along the Odesa– Brodi– Plotsk route without hurting the interests of any of the participating countries. 2-3 million tons could be derived from the Danube and Black Sea reserves.
- the cooperation between Ukraine, Azerbaijan and Georgia in the area of oil transportation in the Black Sea could contribute to the establishment of the respective infrastructure of terminals and ports like the South Complex in Ukraine used for transit of oil to Europe;
- the cooperation of the GUAM countries with the countries of Central and Eastern Europe (Slovakia, The Czech Republic, Poland and others) could lay the basis for the development of industrial complexes for oil processing and energy generation in accordance with the energy security strategies;
- the involvement of Russia in the project would provide guarantees for the supply and transportation of additional resources and would contribute to the establishment of back up mechanisms for project implementation.
- This is the approach which Ukraine is applying at present to solve its energy problems in accordance with its new foreign and regional policies that reflect the interests of not only Ukraine, but the Black Sea region as well.

Thank you for your attention.

Andrej Vorobyov:
„The Energy Dialogue between Russia and Europe“

Dr. Andrej Vorobjov is Deputy Director of the Information Policy Division at the Department of Information and Media, Ministry of Foreign Affairs, Moscow

Allow me to first of all express my gratitude to the German organizers of this conference – The Friedrich Ebert Foundation – for inviting me to Bulgaria, where I have worked for several unforgettable years and where Russians are treated very favourably. I need
to point out that such a favourable environment is also in place with regards to the Russian energy business: in any case Lukoil has operated in Bulgaria for ten years now and the decision for that was made by the government of Ivan Kostov.

Today I am listening to the presentations of the colleagues and I cannot shake off the impression that many of them – possibly due to the coming winter – are quite concerned about the energy security of the continent. For several decades of joint work in this area Russia, it seems, have not given grounds to doubt its reputation of a reliable partner. Taking into consideration, however, the marked concern of our European colleagues, we, as you know, are doing our best to have a detailed, multilateral energy dialogue with our European partners.

Some elements of this energy dialogue are the October visit to Moscow of the EU Commissioner for Energy A. Piebalgs, the informal EU summit in Lahti where Russian President Putin is invited, the Russia - EU summit in November, etc. Today’s conference is undoubtedly another element of our dialogue.

The basic prerequisite for “energy dialogue” is the objective interdependence and interrelation of interests. At the beginning of the 21st century Russia, which has the greatest reserves of gas in the world (our gas export in 2005, I’d like to remind you, amounted to 152.4 billion cubic meters, which is 8% more than in 2004; and oil export was 470.2 million tons which is 2.5% higher than in 2004), and Europe, whose reserves constitute only 3% of the world’s, seem more economically interconnected than at any other point of our common history. There are not that many stable oil and gas regions in the world –predominantly Russia and some of the Caspian countries. This should be taken into account given the reduced access to promising projects for hydrocarbon extraction (compared to the 60ies when international corporations had free access to 85% of the fields, now the percentage is only 16%).

The gas industry is a key component of the energy dialogue between
Russia and the EU. Firstly, the share of gas consumption in the general consumption of energy in Europe is growing. Secondly, it is the gas supplies due to the systemic limitations of the transportation mechanisms that form the closest links between suppliers and consumers thus contributing to the establishment of regional alliances. The current situation shows that the gas market is consumer-driven, and not supplier-driven. All Russian pipelines go to Europe whereas the share of Russian natural gas demand in the European energy mix is one third. Given the increasing demand for gas in Europe, and the depleting reserves in the North Sea, and given the economic growth in the EU member states, the significance and price, in the very broad sense of this world, of Russian supplies would rise, especially in the individual countries. The following statistics is indicative: Germany covers 42% of its gas needs with Russian gas, Italy – 32%, France – 30%, Austria – 75% and Finland – 100%. The indicators are high in terms of oil supplies as well (a marked increase of energy supplies can be noted in the US, which imported Russian oil for 8 billion USD last year).

The weight of Russian gas supplies to Europe is even more significant, if we look at the price margins for the supplier and consumer. The Siberian gas supplied to the centre of Europe at first option prices reaches the end consumers at considerably higher prices (the difference comes form the tax and social policies of the EU). The cost of gas at the exit point of the Siberian pipe is 7 Euro per a thousand cubic meters, and the price at the heater of the European consumer totals 450 Euro per one thousand cubic meters. We need to always remember this when we talk about the access of foreign companies to exploring Russian fields and about the different control instruments with regards to the national reserves.

Such pressure has been exerted for quite a while, but until now some sort of mutual neutrality has been maintained. On the one hand, the EU and the US blocked the access of Russian companies to the internal markets of the wholesale buyers and would not al-
low the purchase of transportation infrastructure subject to privatization in Eastern Europe (Hungary and the Czech Republic) and the former USSR (Ukraine). On the other hand, the Russian side did not allow foreign companies to take part in the exploration of Russian fields. Today this balance of non-intrusion could change. We agree to open the inaccessible resource market of Russia given a reciprocal entrance of Russian players on the European transit and processing market.

There already are examples of reciprocal exploration of our fields – with German partners in particular. The access of foreigners to the stocks of Gazprom is already in place (the US company Conoco Phillips intends to become a strategic investor). Shell transferred 25% of its assets in the Sakhalin Energy to Gazprom receiving in turn 50% of the Gazprom field in Western Siberia. In this way we are willing to further develop the mutually beneficial cooperation taking into consideration the business interests of our partners and protecting our own commercial interest. In this respect, it is evident to all experts present here that the politicization of the problems which arose in relation to the Sakhalin 2 project is completely un-grounded. The problems boil down to a fierce battle of business interests connected with a promising business project. Not long ago this was confirmed by the British expert community which admitted that Shell initially underestimated the cost of its project in order to prove the project’s commercial viability and are now attempting to find a solution at somebody else’s expense. We are not planning to revoke the exploration permits for the Sakhalin fields, but there are serious concerns about the environmental impact of the project not only in Russia, but on the part of the international financial institutions as well. EBRD is still considering whether to fund Phase 2 of the Production Sharing Agreement (PSA) related to the platform installation offshore Sakhalin. The decision was put off again for an unlimited period of time for environmental reasons.

The commercial rationale for the problems regarding the Stock-
man field is equally evident: the probes showed such gas flows that it was necessary to re-calculate the reserves. No company was able to provide the assets, which could be exchanged at mutual benefit for the respective share of the Stockman reserves. This does not mean, however, that the field is not accessible to foreign companies. We are ready to sign business contracts for its exploration.

In the presence of such top level representatives of the European Parliament and European Commission I cannot help but touch upon the issue of the European Energy Charter. It is not a well-known fact that Russia is not the only country which refuses to ratify this document. It is interesting to find out whether Norway is subjected to the same pressure – Norway is another big energy resource supplier which has not joined the Charter. It seems that the cautious Norwegians prefer to wait and see the outcome of this experiment with Russia before making a final decision as to whether to take that risk.

One of the important factors in the Russia-Europe energy dialogue is the issue of equalizing Russia’s domestic gas and other resource prices with those on the common European market. This hot issue in the relations with the EU has not been resolved and will not be resolved even upon completion of the WTO negotiations. In fact, it is incorporated in the very model of the Russia—EU relations and finds its manifestation in the “common area” concept. One of the parameters of the common energy area (as a part of the European Economic Area) is the system of price setting. The EU would like to avoid “energy dumping” which is the reason why Russian industrial consumers obtain access to gas supplies at a price which is five times lower that the export price. By doing this, the EU claims, the Russian government subsidizes Russian industry “to the disadvantage of international competitors”. A significant share of the Russian export to the EU is taken by energy consuming goods like metals and chemicals and it turns out that the Europeans want them to be more expensive.
The perspective of our colleagues from the EU is understandable and we are ready to make compromises. There are unofficial accounts in the press that the negotiation target of the EU is a price of 60 USD per one thousand cubic meters for the Russian industry. Currently, the domestic consumers are buying energy resources from Gasprom at a price set by the government – 40 USD per one thousand cubic meters. In our opinion a price level of 60 USD per one thousand cubic meters is perfectly achievable by the year 2010. On top of this, a number of industrial sectors are already buying gas at 80 USD (e.g. RAO “UES of Russia” - Russian Joint Stock Company - Unified Energy System of Russia).

As a result the Russian energy production companies would receive better revenues to invest in new export projects, and the competition for the EU steel and chemical industry would be reduced.

We cannot but wonder, however, why the same arguments are not applied to the issue of gas prices to Ukraine: here are the subsidies for the Ukrainian chemical and steel industry: the consumption of Ukraine is 70 bmc per year as compared to Poland where it is only 14 bmc.

Another important topic in our dialogue has become the potential of Russian energy supplies to the Asian-Pacific region and the attempts to block them. Such attempts are by all means indirect. The motivation behind them is on the surface, though. In the first place, the EU has an objective interest in maintaining the Euro-dependence of the Russian energy sector which at this moment is physically unable to sell the same gas anywhere else but to Europe. Secondly, in the West, and most of all in the US, there is an interest in strategically curbing the growing economies of China, India and the other countries from the Asia-Pacific. The issue of the energy deficits in those economies, which constitute a “global factory” in the world’s division of labour, remains a key factor for controlling their development.
India, China, Japan and the other Asian – Pacific countries have a serious interest in obtaining Russian energy supplies and are willing to invest in the respective infrastructure. The Chinese – something very important to us – are ready to exchange assets: such a merger would give us an opportunity to jointly and effectively explore the gas fields not only in Eastern Siberia. I need to point out, that the Chinese are actively seeking involvement in the Caspian region, in particular by way of buying out second-rate outsider companies mostly in Kazakhstan and Azerbaijan. The Chinese National Oil Company has recently approached Gasprom with a proposal to acquire the assets of the insolvent YUKOS.

Thus, even if we do not supply energy resources to the Asian-Pacific region, the Asian-Pacific countries will establish a presence in Central Asia anyway. And then the oil from the biggest Kazakh field Kashagan would go East, and not to Europe. In this case many of the global plans would need to be reconsidered. The broadly publicized Baku-Tbilisi-Ceyhan pipeline would only make sense, if it transports Kazakh oil. But would the unpredictable Caucuses direction be a priority for Kazakh export? N.A. Nazarbaev would hardly choose the doubtful political games over the clear economic profit. We should not forget the environmental factor as well: every environmental organization in the world is opposing the transportation of oil via the Caucuses with the American Greenpeace leading the pack, whereas the transit projects through Central Asia do not trigger off the same allergic reaction on their part.

In this respect I need to also touch upon the attempts to establish a non-Russian energy supply infrastructure to the EU in the post-Soviet area. This is one of the goals around which regional alliances like GUAM revolve. I will stress here that we support all types of projects provided that they are based in reality- even the Baku-Tbilisi-Ceyhan (BTC) pipeline. I think that many of the people present here have paid attention to the fact that recently some pro-
posals have been made to Russian companies to take active part in exploiting the pipeline.

At the same time, I need to remind you that Russia has ample experience in bringing down transit costs to a minimum: in February the construction of the Baltic Pipeline System (BPS) would be completed and thus via the Leningrad district 65 million tons of oil will be transported to farther foreign countries. The first two lines gave us an opportunity to completely withdraw from the ports of Ventspils, Porvoo, Muuga and Butinge, whose monopoly position in the oil export since Soviet times made it possible for them to charge 5 USD more then the others. The operation of the BPS resulted in revenue losses for the Baltic countries, since 25% of their budgets used to be formed based on revenues from transit of Russian oil. BPS will also allow us to reduce the total amount of supplies along the Druzhba pipeline through the territory of Ukraine. Taking into consideration the eventual completion of the North-European gas pipeline we can be hopeful that in the next five years Russia will have fully reorganized its export schemes: new transit routes and terminals, a transition to gas condensation. It is clear that it is the transit – countries that are actively trying to oppose the construction of the North-European gas pipeline: many of them are accustomed to receiving revenues from re-export of energy resources (Byelorussia and Poland are carrying out re-exportation, and Ukraine is involved in unsanctioned gas theft which former Ukrainian PM Ehanurov publicly admitted this winter).

Russia and Europe are doomed to cooperation. It is nice that this unquestionable fact is widely accepted in many European capitals. As far as Russia is concerned, even during the fiercest battles between the Pro-Western and Pro-Conservative proponents of Russia’s development, even the latter shared the opinion of A.S. Homyakov who wrote “Do you know, ladies and gentlemen, what Europe is? It is something intimidating and sacred.” There is something sacred, indeed.
My opinion is that we could be happy with the outcome of today’s conference. It formed part of our intensive energy dialogue and our hard work on establishing a Russia-EU alliance which is beneficial for both parties. Obviously such an alliance should be based on mutual benefit, interdependence and interrelated development prospects. Only such an approach would reflect the standard of European modernization.

**Liviu Muresan:**
"Discovering Black Sea Region for the EU Energy Security Strategy"

Dr. Liviu Muresan is Executive President of EURISC (European Institute for Risk, Security and Communication Management) in Bucharest

To look at the Black Sea Area and its problematic in 2006 we think that it is necessary to refer to three main events in the area or those which had affected it.

First of all, The Black Sea Forum (June 2006) in Bucharest, Romania, has demonstrated both the strengths and weaknesses not only of the organizers but also of the region itself.¹ The Forum intends to hold in years to come summits at the highest level and in rotation format to organize the event, each year, in another country from the region. The results already achieved - the increased potential of cooperation, the interest of having new approaches, stability, security and development of the region - were partially overshadowed by some disturbing signals coming from Russia and Turkey. (V. Socor, June 6, 2006).

¹ Muresan Liviu „Black Sea – No longer ignored” Romanian Journal for International and Regional Affairs, EURISC - IRSI 1 – 2/2006, pag. 69 - 75
But, beside any disappointments, the Black Sea Forum succeeded to underline the need for dialogue in the region, the chance of launching common projects and send signals to Brussels, Washington and other capitals that the Black Sea Area needs to be consistently included in the main future strategies for this fuzzy contact line between Europe and Asia.

Second, the opening of BTC pipeline has the potential not only of an economic success but also that of a political new imputuous of “geo-economics in action”. Turkey, as a key player, through its unique geographic position and as an architect of new regional cooperation initiatives and structures has proved its potential as future EU member. Together with the recently settled NABUCCO project, Turkey assumed an important role in contributing to the energy security of the European oil and gas addicted countries. Last but not least, the third event could be considered the G8 Summit in Sankt Petersburg with energy security as a priority on the agenda. Even if the Black Sea Area was not explicitly part of the agenda, the region has the chance to consider the G8 Summit as a crucial moment in prioritizing the link between energy and security.

Sankt Petersburg is the Russian city where in 1917 there was launched the Great Socialist October Revolution which had a major impact on the international political environment. After nine decades, Sankt Petersburg brought in the international attention to the evolution of the energy problematic as the Great Energy Revolution.

Russia, using the position and the potential of its resources, is playing the card of an energy superpower and is a robust global player which has overpassed the almost two decades of depending on Western aid.

**Black Sea – The Challenges of the Hub Position**

From the perspective of the evolutions in the last two decades and having in view the potential for future developments, the Black Sea
Area can be seen as the crossing of four different geopolitical axes.

The first one, with the energy as a priority, is the Caspian Sea – Black Sea – Mediterranean Sea. It draws a line between two areas with a variety of resources, transport facilities, processing and using of energy resources which present remarkable challenges and opportunities. The area south of the axis stretches from Algeria, Tunisia, Libya, Egypt, Near East, Middle East to Iraq, Iran, Afghanistan and Pakistan. The area north of the axis comprises Kazakhstan, Ukraine and Russia, Azerbaijan, the Caucasus, Moldova, Bulgaria, Greece, the Western Balkans and Central Europe.

Especially south of the axis, some countries hold an excessive percentage of oil-related activities in the GDP – over 50%. This brings about a certain chaos – over 20% unemployment rate, excessive demographic growth – the youth under 25 forms more than 55% of the total population, corruption – see Transparency International, Islamist strikes, a general state of siege. The usage of nuclear technologies, chemical and biological weapons and long-range ballistic missiles differs from area to area. The risk of a NBC terrorist attack from, or in, the region remains considerable both north and south of the axis.

The dynamic of the regions crossed by this geopolitical axis is under influence of the dynamics of the interests of three global players: Russia, the United States and the European Union. Russia experienced dramatic changes from a world superpower in the bipolar system to a large country with more problems than solutions, a subject of concern about its capacity to recover without foreign aid. And eventually, Russia reinvented itself and now, with an unexpected comeback, is setting the rules in the energy security of numerous countries.

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2 Liviu Muresan – „Energie si securitate” in Lumea Magazin, December 1997;
The new Russia is not expecting a “second class integration” in NATO and the EU, but is now one of the benchmarks for the change of both NATO and the EU.

…”The long term vision should not be about membership per se because to raise such a question on the basis of current circumstances leads inevitably to the conclusion that at present membership is unthinkable. The EU (and NATO) will change; Russia will change; and the precise nature of the relationship – whether membership or some other arrangements - will need to be defined against these future circumstances.” 4

The second big player in that region could be considered the United States, who are justifying their presence by civil military institutions based on the assumption of the responsibility towards a number of countries abandoned after World War II to the communist system and the need to make that part of the world “safe, democratic and secure as the continent’s western half.” 5

Much more realistic seems to be EU’s vision: “…not expecting to succeed to transform the Wider Black Sea Area like it succeeded to do first in Central and then in the South East Europe”. The future German Presidency to the EU in the first semester 2007 will be the moment of truth in the discovery of this new geopolitical axis, not only for Germany itself but also for the interest of the Union. We don’t see reasons for concern regarding a “cloning” of the German-Russian-Baltic partnership in this region.

The second example is the East – West axis based on the legendary Silk Road and now formalized through “a new vehicle” for regional cooperation: the Shanghai Cooperation Organization

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5 Ronald D. Asmus, Konstantin Dimitrov and Joerg Forbrig – A New Euro-Atlantic Strategy for the Black Sea Region”, page 115)
It is the most representative initiative from China to the Black Sea. Starting from common goals of fighting together terrorism and organized crime, these have evolved to wider security objectives with some signals against the US presence in Central Asia. What is interesting to discover is that the presence of China through SCO at the Black Sea is bringing that country at the third “neighbourhood” with the United States. We consider that the first neighbourhood US-China is in the Pacific area and the second in the space where China is now next to USA and Russia.

The third geopolitical potential axis could be described as the West to East corridor of the European Union: the Rhine – Main – Danube – Black Sea axis. The slow development of this axis, until now, could be explained by the lack of interest of Germany and Austria. But the future German EU Presidency in 2007 could be a new chance for the development of this complex water transportation system

The fourth axis is the North – South connection between Baltic Sea and Black Sea. It was used as an example of “internal corridor” of transfer of democratic experiences, regional cooperation a. o. The new European Neighbourhood Policy has the potential of not only securing the Eastern border of the European Union from Poland in the North to Romania and Bulgaria in the South. It could be a generator of new regional cooperation initiatives, common projects (like critical infrastructures, a. o.) with not yet EU members. It is offering also multiple opportunities for EU programmes, initiatives dedicated to the countries in the Eastern part of the Old Continent.

It is difficult to understand the gap between the realities of the

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6 See also [http://www.sectsco.org/news_detail.asp?id=1118&LanguageID=2](http://www.sectsco.org/news_detail.asp?id=1118&LanguageID=2) (SCO Deputy Secretary-General Political Serik Naryssov with the Executive President of the Eurisc Foundation Liviu Muresan and the Director of the EURISC - Romanian Institute of International Studies Ambassador Nicolae Ecobescu 17 October 2006)  
7 See also Muresan, Liviu Partnership for Future Romanian Journal of International Affairs, IRLS 1-2/1995, p. 96
Wider Black Sea Region, different regional initiatives, like BSEC (Black Sea Economic Cooperation) and the EU initiatives in the Eastern part of the Old Continent like the ENP (European Neighbourhood Policy).

So in the moment of the begin of the German Presidency of EU and G8 the potential of Black Sea region, as Eastern border of Europe is still insufficient understood by Brussels. An initiative on Critical Infrastructures integrated concept could be instrumental for the strategic development in the Black Sea Region and can take advantage by the progress already made. A future European Energy Policy Strategy must include the problematic of critical infrastructures from potential of cooperation to the need of increased protection both at national and international level. Russia already discovered the potential of this critical infrastructure their use for their value and their vulnerabilities. The energy transit countries have a role not enough understood in the field of energy security. The world has changed much since the concept of “energy security” emerged in the 1970’s. But agreeing on its importance is not the same as agreeing on what it means” according to Daniel Yergin (Wall Street Journal July 11, 2006).

In this context, the NATO Secretary-General Jaap de Hoop Scheffer expressed, in a meeting with the Romanian President, Traian Basescu, that he subject of energy security would be discussed at the next NATO Summit on November 28-29 in Riga. De Hoop Scheffer described “the free flow of energy” as “an important element in NATO’s strategic concept” and said “I would like, very much, to see the heads of state and government in Riga making a declaration that NATO is going to look for this added value [in energy security discussions].”

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8 See also Gheorghe, Adrian Prof. Dr., Old Dominion University, Norfolk Muresan, Liviu, Energy Security - Romanian Perspective for the International Environment, CICIR, Beijing, October 15, 2006
9 NATO Chief Says Alliance Could Improve Energy Security Nov 17, 2006 (Romania Report according to RFE/RL and Nine o’Clock)
An initiative with important potential is the concept of cooperation among the transit countries.\textsuperscript{10} “The transit countries should explore common challenges with regard to the transit of Russian energy and also should explore paths of cooperation and unified action when negotiating with Russia. As long as the transit countries remain isolated in their negotiations with Russia they are vulnerable to Russia regional hegemonic”

\textbf{Giorgi Burduli:}

\textit{„The Energy Policy of Georgia“}

Giorgi Burduli is a former Ambassador of Georgia and now Senior Adviser with GIOC (Georgian International Oil Corporation)

There could be no doubt that energy security maintains its place on the top of the agenda of not only new, developing democracies but of the great number of countries including some of the major international players. No democracy is possible without providing basic economical needs and energy is the core element of them. Current developments in the world energy market provide basis and need to foster efforts towards greater energy security. This is a concern not only for small and emerging states like Georgia, but for strong and powerful EU as well. Governed by increasing demand and strong market structure, European states can import gas by pipelines from multiple sources. It is notable that Georgia, due to its location and strategic aspirations naturally blends into the major scheme of secure energy supply concept by providing full array of transit capabilities and at the same time benefiting its own energy security and independence strategy. Projects of regional significance may play a critical role in realiza-

tion of these goals. As you know Turkey, Azerbaijan and Georgia jointly carry out several initiatives and each of them can already be characterized as ‘success stories’. The commencement of the Baku-Tbilisi-Ceyhan (BTC) export oil pipeline in the current year and the scheduled completion of the construction of the Baku-Tbilisi-Erzerum gas pipeline are among the most important changes in the aspect of Energy security of the region.

Truth be said - Recent developments in the energy supply market and so called “winter events” have highlighted long-neglected, but now mounting issues of energy security of European Union states and their partners. Development of a common energy-supply policy or at least of a common energy security strategy has become a focal concern. Picture is clear for not only a country like Georgia – formerly deprived of major energy resources for its own consumption, but for the states of EU as well, which are gradually acknowledging that the energy security policy can only be built on constructive expansion of supply sources, with possible direct access via the Black Sea region to the eastern Caspian as a major objective, and on ensuring international, multilateral control of energy transport systems in Europe.

After attaining a key position in interregional geopolitics and now following the evident growth of energy demand - the implementation of Baku-Tbilisi-Ceyhan and South Caucasian pipelines is of great importance for Georgia. In addition to bringing about substantial benefits to the country in forms of revenues to the budget, as well as general economic benefits to the local population, these pipeline projects have great strategic significance.

The importance of SCP construction progress for Georgia is hard to underestimate. Project is at its full pace and is scheduled for completion at the end of this year. Based on the recent experience, Georgia has a strong interest in the timely implementation of Baku-Tbilisi-Erzerum gas pipeline. By operating the SCP at full
load, Georgia not only gains significant input in the process of diversification of its gas supply resources, but also contributes to the overall strategic energy security of the region. Therefore, it is of particular significance to see major Caspian states become more involved with the East-West Energy Transportation Corridor Projects. Kazakhstan has long expressed its willingness to join - agreements have been prepared between Kazakhstan and Azerbaijan on technicalities, barge and other forms of transportation of Kazakh oil from Aktau to the BTC pipeline. Joining the BTC will not only be profitable and beneficial for participating countries, but will also serve the goal of further enhancement of the function of the existing energy transportation routes by linking Caspian and Black Sea regions with each other.

A trans-Caspian seabed pipeline “would ensure Europe’s energy security and protect it from Russian monopoly,” – President of Azerbaijan Mr. I. Aliyev remarked. “Europe has understood that it is naive to place all its hopes on Russian gas. The events of recent months, when Russia has in effect demonstrated its status as a monopolist, indicate that prices will rise further.” Thus, the timing is now ripe for starting the negotiations” (AP, Turan, Trend, Ekho [Baku], March 29).

The trans-Caspian gas pipeline from Turkmenistan and Kazakhstan via the South Caucasus to European markets is also advantageous for the above mentioned countries for project’s value is immense for diversifying supplies and restraining prices. Urging Turkmenistan and Kazakhstan to become part of the project without waiting for approval from other Caspian countries -- an allusion to Russia and Tehran –President I. Aliyev noted that any impediments to a seabed pipeline are political, not technical ones.

By various estimates, the construction costs are within the range of $4-5 billion for a pipeline with an annual capacity of 30 billion cubic meters that would run from the eastern Caspian shore, across
the seabed to Azerbaijan, and further via Georgia into Turkey. With Turkey as a transit corridor, the gas could be piped to European Union member countries in southern and central Europe. Georgia is firmly advocating the originally U.S.-led project, while Turkey had some difficulties launching the negotiation process and Turkmenistan feels reluctant. Although, following the recent political developments, Turkmenistan has showed willingness to support the initiative.

In order to ensure the energy security of the region as well as the whole EU at large, the regional energy transportation concept has to be updated in the following way:

There is a need of a complete revamp of Turkey’s function within International transport projects: from the function of being country-consumer it should arrive to the function of primary transportation hub and channel-way of energy supply resources in the region. Along with that, Georgia should step in as fully pledged partner in the energy corridor concept, while maximizing supply diversification means for its own use. At the same time, opportunity should be extended to its full potential to facilitate the association of Kazakhstan with energy transit initiatives. In addition, the massive input from Azerbaijan’s Shah-Deniz gas field into the proposed pipeline via Turkey to Europe will facilitate the inclusion of anticipated offshore field’s yield of 20 billion cubic meters annually, almost twice the earlier projection, and finally and hopefully - the integration of the new Caspian gas pipeline with the Nabucco project (Turkey-Bulgaria-Romania-Hungary-Austria) by connecting the two planned lines near Erzurum in eastern Turkey.

It should be noted that there will be an obvious obstacle to the proposed project due to Russia’s position whose existing energy policy counts on permanent access to cheap Central Asian gas, especially after locking itself in quite ambitious energy deals with China and Germany. The development of a gas export route that
evades Russia would likely require Russia to pay higher prices for Central Asian energy. Thus, it should well be expected that Moscow energy giants will work at their best to prevent a trans-Caspian pipeline from getting off the drawing board.

At present, Russia enjoys a controlling interest over export routes for Central Asian energy. The Caspian Pipeline Consortium (CPC) route, connects oil fields in western Kazakhstan with the Russian port of Novorossiysk. Gas from Kazakhstan, Turkmenistan and Uzbekistan is similarly channelled through Russia. One or more pipelines stretching along the Caspian seabed would effectively break a Russian monopoly over export routes between Central Asia’s key energy producers – Kazakhstan and Turkmenistan – and Western markets.

Kazakhstan’s interest in BTC participation has been spurred in part by Moscow’s recent attempts to increase its grip on the Caspian Pipeline Consortium, which in addition to the Russian and Kazakh governments includes major Western energy conglomerates. Over 30 million tons of Kazakhstan oil was pumped via the CPC pipeline in 2005. A planned expansion could increase capacity to roughly 67 million tons within a few years. However, disputes among the shareholders over transit fees charged by Russia and the consortium’s structure threaten to delay the pipeline’s expansion.

To come back to Georgia’s energy security itself, of course, one should underline its immediate dependence on Russia’s approaches and policy in general. This is especially relevant at present when we are facing the most acute crises in two countries’ relations. Though Russia never refrained from using various levers of economical, political or military character to “punish” Georgia” for even her attempts to conduct independent political course. It seems timely to remind you of Russia imposing a unilateral visa regime, delivering Russian citizenship to the population of Abkhazian and South Ossetian secessionist regions of Georgia, cutting gas supply and neglecting agreements on military withdrawal.
But these events could hardly be compared with the anti-Georgian hysteria which we are witnessing today. The arrest of four Russian GRU officers provoked an unprecedented wave of accusations, insults and sanctions not only against Georgian state and government officials but also ordinary Georgian citizens residing at present in Russia. Anti-Georgian campaign includes total transportation blockade, deportation and persecution of ethnic Georgians, boycott of Georgian products and goods, expulsion of Georgian students from schools and universities, aggressive and brutal appeals in Duma and mass-media, threats to recognize the independence or incorporate into Russian Federation the breakaway regions of Abkhazia and South Ossetia. And as a result and logical final of this hysteria a number of murdered Georgian nationals. Noteworthy that participants of this campaign including highest officials like President, Ministers of Foreign Affairs and Defence are speaking in a language unusual and not quite ordinary for a civilized world. It could be easily predicted with practically no chance to make a mistake that as a part of an anti-Georgian campaign the cutting of gas and electricity supply will follow – at least such threats (alongside with more aggressive, purely militaristic demands) are quite often heard, in spite of the fact that fulfilment of such scenarios will inevitably put under pressure Russia’s friendly country in South Caucasus – Armenia.

Since 1991, or after the dissolution of the Soviet Union and Socialist block as a whole, the energy lever has been used for putting political or economic pressure on Estonia, Lithuania, Latvia, Ukraine, Belarus, Moldova, Georgia that subsequently affected most of Europe. The number of incidents, i.e. cut-offs, take-overs, coercive price policy, blackmail or threats, is over fifty in total (of which about forty are cut-offs). On numerous occasions during the 1990s and early 2000s, cut-offs coincided with special events, such as elections, bilateral negotiations or Russian bombardment of Georgian territory, occasionally under pretext of non-payments. During 2002 and 2003, there were also numerous cut-offs of elec-
tricity. A number of these were related to accidents, bad weather or lack of maintenance, but on more occasions, the reason was sabotage. Also the gas pipelines from Russia were targeted for sabotage on the Russian side of the border.

In November 2005 after announcement that Gazprom was to raise gas prices for Georgia from 63 to 110 US Dollars due to Gazprom new demands, Russia indicated that it might cut gas supply altogether. The threat came just before the meeting of the CIS Energy Council in Tbilisi where Georgia subsequently and without any reservations accepted all of Russia’s conditions for entering the CIS united energy market. By doing so, Russia guaranteed gas supplies to Georgia. It is somewhat ironic that after these guarantees, energy exports to Georgia came to a halt in January 2006 when the Kavkasioni electricity transmission lines and the pipelines transporting gas from Russia were destroyed in the Russian Republic of North Ossetia. It was unclear who was behind the sabotage, but President Saakashvili accused Russia of deliberately trying to blackmail Georgia to hand over its energy-related infrastructure. Returning to the topic of incidents it appears that they are equally divided on the Yeltsin and Putin eras, but the number of cut-offs have decreased by half during Putin. This doesn’t necessarily mean that President Putin’s administration is more modest and less aggressive towards so called “near abroad”. On the contrary, Russia’s present rulers are more flexible in a negative sense of this word, exploring variety of tools and methods to guarantee the influence over “naughty” neighbours (the most fresh example – a couple of days ago Russian Duma ratified with a big majority of votes an agreement with Georgia concerning withdrawal of Russian military bases from Georgian territory - a long sought decision ignored by Russian government for quite a time. Alongside with this both executive and legislative branches of power are continuing to attack Georgia on all fronts).

“Beyond doubt, Russia’s coercive energy policy should be under-
stood in a long-term geopolitical and strategic context under which political, economic and market drivers coexist. Russia has strategic priorities to keep its influence over the CIS and its energy policy is one of the means used for this reason. The strategic underpinning explains why “marketisation” essentially only occurs when it is politically suitable and against politically suitable objects and for politically suitable reasons. When it is not politically approved of, marketisation rarely occurs.” This is a quotation from a research paper titled “Russia’s Energy Policy”, conducted by a team of Swedish scholars and it is difficult not to agree with their assessments and conclusions.

However Russian behaviour in the present crises goes beyond civilized norms and creates very dangerous precedent. It vividly illustrates the changes that took place in foreign as well as in internal policy of Russia. It seems that power over energy sector (as well as in other fields) is continuously concentrated to the Kremlin and its loyal appointees in the corporate sector and within state structures. Formal powers have also been given to the security services, e.g. the FSB.

Let me once more turn to the research work of Swedish scholars, who admit that the power concentration and Putin’s “vertical of power” have created a mirage of stability. Unpredictability however exits both at a structural level and in policy which results in conflicting trends that undermine the political and economic stability. This in combination with Russia’s perceptions, intentions, capabilities, track record, lack of democracy, and (lack of) rule of law aggravates the problems of dependence on Russian energy. The negative political and democratic trends in combination with Russia’s structural instability and unpredictability in policy however underscore that the magnitude of uncertainties are much higher than it first appears.

The picture drawn by our colleagues doesn’t look (or sound) optimistic enough but this is reality and we are learning to live with it.
It is quite obvious that Russia’s strategic ambition is to utilise its energy policy as a sword and a shield in its security policy. Russia has substantial power to influence situation developing in her spheres of interests but quite often this power is used in an obstructionist manner, to correct or punish unwanted actions.

In Georgia’s case Russian energy lever is used very actively and sometimes quite cynically though it is not the only one at Russia’s disposal vis-à-vis Georgia. (I don’t think this forum is an appropriate place to discuss, say, the so called “frozen conflicts” in which Russia appears to play a unique, triple role – as a facilitator, as a peacekeeper and the last but not least - a side). Formally Russia has never put under doubt Georgia’s territorial integrity but her practical steps especially in recent times indicate quite the contrary. Russian political elite appears more sincere in the issues of crucial choices made by Georgian government. And in this respect Georgia’s aspiration to NATO membership seems to be the main irritator to the whole spectrum of Russian political establishment. Thus it becomes clear that the arrest of Russian officers was just an excuse and direct reaction of Russia on NATO Council decision to present Georgia an ID.

Georgia has small reserves of hydrocarbons, but its strategic leverage on the energy market is underpinned by its geopolitical location and importance as a transit country, e.g. for gas from Russia to Armenia and oil and gas from Caspian basin to Western markets. Beyond any doubt my country will fully take advantage of these factors being in permanent search for diversified sources of energy supply (one cannot exclude even possibility of exploring the nuclear power).

We have enough political will and are ready to implement it in practical deeds.

Thank you.
Fasil Ahmedov:
„State and Perspectives of the Development of the Azeri Energy Market“

Fasil Ahmedov is Chief Consultant of the State Oil Company of Azerbaijan Republic (SOCAR), Ministry of Industry and Energy of the Republic of Azerbaijan

Dear participants in the conference,
Ladies and Gentlemen,

I deem it necessary to point out the great interest and positive assessment of the Ministry of Industry and Energy of the Republic of Azerbaijan for today’s conference which is a key event for the energy business in the Caspian and Black Sea regions. Such conferences play a significant role in the development and strengthening of business ties, regional cooperation and global economic integration.

As is known, the social – economic development of a given country is to a great extent determined by the state of its key strategic industry – the energy sector as a whole and the oil and gas industry in particular. As of the 20th century oil and gas have become strategic resources of the world’s economy and are expected to remain such in the 21st century.

The Caspian region by force of its geographic location and large reserves of hydrocarbons plays a significant role in the world economy.

The oil and gas industry is a key sector of the Azeri economy. Taking into account the growing demand for energy resources on the world market Azerbaijan initiated its new long-term oil and gas strategy on September 20th, 1994 when the “Contract of the Century” was signed for the exploration of the Azeri-Cirak-Gunesli field in conjunction with prominent foreign oil companies from leading countries. The strategy would ensure Azerbaijan’s own energy security as well as to the extent possible guarantee energy supplies to other regions of the planet. The
period since 1994 has been characterized by an improved capacity to extract oil and gas, more electricity generation and better transporting capabilities as well as increased investment in the energy sector.

As of today there have been 25 oil contracts signed with 35 companies representing 15 countries, including USA, Great Britain, Russia, Norway, Turkey, France, Italy, Iran, etc., which expressed interest in the oil and gas fields and the promising structures of Azerbaijan. The volume of investment under these contracts amounts to more than 70 billion USD. At present more than 18 billion USD in foreign investment has been made in the development of the gas and oil industry of Azerbaijan.

Currently, active work is being done on the main gas and oil projects in the sector:

- Completion works of Phase 2 of the development of the Azeri-Cirak-Gunesli fields. At present the platforms of Central Azeri and Western and Eastern Azeri have been deployed, and the underwater oil and gas pipelines connecting the platforms with the Sangacal terminal have been completed. The Azeri-Cirak-Gunesli fields yield 1 billion tons of oil, natural gas amounting to 120 billion cubic meters and natural gas condensate of 8 million tons. The Shah-Deniz field has a proven yield of 1 trillion cubic meters of gas, and more than 150 million tons of gas condensate. The large-scale exploration of the Azeri-Cirak-Gunesli fields is expected to result in a total extraction of oil amounting to 50 million tons per year.

- The construction of the main export pipeline Baku-Tbilisi-Ceyhan was completed at the first half of this year and the pipeline started operation. It is 1768 km. long and has a capacity of 1 million barrels per day. On May 28th the first tanker of Azeri oil sailed off the Mediterranean port of Ceyhan in Turkey to Europe. Currently, the Baku-Tbilisi-Ceyhan pipeline transports approximately 70 thousand tons of oil per day.

- The preparation of the documentation between the Azeri and
Kazakh parties regarding the intergovernmental agreements and treaties on the key principles and conditions for transporting of up to 25 million tons of Kazakh oil on the Aktau-Baju route and further on along the Baku-Tbilisi-Ceyhan pipeline is now being completed. In this way the supply of Kazakh oil to the pipeline system will become a reality which is an important step towards the increased efficiency of the project.

- Intensive work is also being done on the development of the gas condensate field of Shah-Deniz. A state-of-the-art TPG-500 platform was deployed in the field combining drilling and pumping capabilities. Four initial wells have been drilled using an ISTI-GLAL floating drilling installation. The construction of a 26 inch seabed gas pipeline and 12 inch seabed gas condensate pipeline connecting the platform to the Sangacal gas terminal has been finished.

- The exploitation of the TPG-500 platform under this project is expected to result in 9.8 billion cubic meters of gas and 2 million tons of gas condensate during the first stage until 2009. Subsequently, the second phase of the project for the development of the Shah-Deniz field will start. The completion works of the 2nd stage are expected to take place by the end of 2011 and the gas yields are expected to grow to 9-12 billion cubic meters per year.

- The gas will be exported via the South Caucasus Pipeline along the Baku-Tbilisi-Erzurum route running some 915 km. and having a capacity of up to 20 billion cubic meters. At this point, preparation works are being carried out for the start of the operation of the pipeline.

- Apart from the above-mentioned pipelines, Azerbaijan is exploiting alternative transport options to supply oil to other countries, for instance the North route of Baku-Novorosiisk with capacity of more than 6 million tons per year, the West route of Baku-Supsa with capacity of more than 6 million tons per year as well as the Baku-Batumi railroad.

- And finally, from the point of view of securing its own energy supplies and meeting its commitments to other regions, Azerbaijan is considering the issue of expanding and modernizing the country’s
existing underground gas storage facilities by increasing their capacity to 3 billion cubic meters and building new facilities with storage volume of up to 10 billion cubic meters.

- Bearing in mind the growing demand for oil in the world, on February 15th 2005 the President of Azerbaijan approved a Government Program on Developing the Heat and Power Generation Sector in the Republic in the period 2005 – 2015 which makes it imperative to search for additional opportunities to increase the oil yield.

- An exploratory study and preparation works of the Garabag and Ashrafi fields are expected to take place in the period of 2006-2008 in accordance with this Program. Initial exploratory probes are planned for 2007-2008.

- The fields of Umid and Babek will also continue to be explored in 2007-2008. Preparation works are under way for the start of drilling in the Nakhchivan field. Also between 2005-2015 SOCAR plans to increase the volume of drilling and the number of gas and oil probes in other fields.

- In this way, by implementing all these projects in Azerbaijan the oil and gas yields are expected to grow respectively to 60 million tons and 20 billion cubic meters by 2010.

The electricity production system in Azerbaijan is among the oldest and most developed in the Southern Caucasus. The total potential capacity of the electricity generation facilities is 5750 MW/h including 4780 MW of thermal power stations and 970 MW of hydroelectric stations. The actual generation amounts to 4040 MW. The power lines are with a voltage of 0.4 to 500 kV and a total length of 110 000 km. including the main grid with a voltage of 110 to 500 kV and length of 6.8 thousand kilometres. The Azeri energy system is linked with the electricity transmission lines of the neighbouring systems. In 2005 electricity generation amounted to 22.35 billion kV/h of which 19.34kV/h electricity were produced by thermal power stations. Import of electricity amounted to 2.1 billion of kV/h and export – 0.9 kV/h.
In 2006 electricity generation is expected to amount to 23.9 billion kV/h of which 21.9 from thermal power plants. Import of electricity will be 2.45 billion kV/h and export – 1.45 kV/h. Natural gas is a key component in the energy mix of Azeri power generation. It constitutes 67% of the resources which is almost twice as much as the share of black oil. Currently, the development of energy production goes along the following lines:

- establishment of new facilities
- reconstruction, expansion and modernization of existing facilities
- creation of a favourable environment for export of electricity to neighbouring countries and ensuring the parallel operation of the energy systems of foreign countries
- reducing the negative impact on the environment
- development and exploitation of alternative sources of energy

A Memorandum on the realization of a project for alternative sources of energy was signed between the Asian Development Bank and the Ministry of Industry and Energy of Azerbaijan as an element of the implementation of the National Program on Renewable Energy Sources. Negotiations are under way with the World Bank and other financial institutions and investors for the implementation of pilot projects for wind power, and small hydroelectric plants. The forecasts regarding the growth of Azeri economy and the subsequent rise in electricity consumption show that in comparison to 2000 the demand of electricity is expected to increase by 1.5 times in 2010 and double in 2015 while at the same time the existing facilities will become obsolete.

The problem with the deficit of existing facilities will be solved by way of increasing production capacity through modernization of existing facilities and establishment of new ones. Such new facilities will be the modular thermal plants with a capacity of 460MW which will start operation in 2006; the Sumgait, North and Sangacal thermal plants with total capacity of 1240 MW to start operation in 2007-2009; the Ali-Bairamlin thermal plant with capacity of 800-900MW to start operation in 2007-2011; the Gobustan wind power
station with a capacity of 50 MW, etc.

The principle of separation of naturally monopolistic and potentially competitive sectors underpins the reforms that are currently being carried out in the energy branch. The monopoly sectors like electricity production, transmission and distribution will remain under government control, whereas competitive sectors like power production in small voltage plants and the purchase and sale of electricity will gradually be liberalized and regulated by market mechanisms.

All of the described projects come as a result of Azerbaijan’s policy of cooperation in the areas of energy and transport of Caspian hydrocarbons to the world markets both as part of the Black Sea Economic Development Organization, and in the framework of other international economic organizations. I strongly believe that the pipelines and other projects which are currently being implemented in Azerbaijan would contribute to the even better cooperation among our countries in the energy area.

In conclusion, we pay special attention to:

- the protection of environment;
- technical safety;
- establishment of alternative supply routes to other countries.

Taking into consideration the above, we are confident that we have ensured our energy security and we are optimistic with regards to meeting our commitments to supply hydrocarbon resources to other regions and countries.
I would like to once again congratulate the participants in this conference and wish you success in your future work.

Thank you for your attention.
Simeon Nikolov:

Simeon Nikolov, Deputy Minister of Defence of the Republic of Bulgaria

Esteemed Chair of the conference,
Ladies and gentlemen,

It is a pleasure for me to be invited and to take part in this esteemed conference. Allow me to extend my gratitude to the organizers from the regional office of the Friedrich Ebert Foundation and to share my strong belief in the timeliness of such forums, which provide an opportunity to discuss topical issues like the Black Sea cooperation and regional security. I am confident that this forum will not only react to the events, but will proactively launch new ideas. Ideas which will suggest key approaches for the development of modern and working mechanisms for turning the region from a barrier – perceived like this for its nature of a sea boundary - into a bridge to realizing the huge potential of cooperation. The word “huge” in this case is not exactly a rhetorical device since both geographically, and economically the Black Sea region along with the Caucuses, Central Asia and the Middle East does in fact provide huge opportunities which remain to be seized. I believe that by sharing our opinions we will be able to find common ideas and achieve common ground for our positions and approaches towards the most significant issues relating to cooperation in the area of security in the region.

I would like to mainly focus on the issues of cooperation in the area of political and especially military security as necessary prerequisites for energy supply and energy security. Of course, this approach does not mean that we could underestimate the other components of security in the Black Sea region – economic, energy, infrastructure, environmental, etc. Speaking about security as a precondition and a
basis, I would unfortunately need to point out that according to the experts’ forecasts security is not likely to improve in the next 10-15 years. On the contrary it is expected to deteriorate. This is of importance for energy supply as well.

I also need to clarify that in geopolitical terms our understanding of the Black Sea region includes the adjacent zones of the Mediterranean and the Caucasus, as well as non littoral countries (The Western Balkans, Moldova, Armenia, and Azerbaijan) or the so called broader Black Sea region. Recently a scientific publication by the Director of the Research Branch of the NATO Defence College Jean Dufourc endorsed the idea to add the Black Sea region to the four main sub regions of the Mediterranean based on its growing geo strategic significance and interrelation with neighbouring regions.

It is of key importance to embrace a wider definition of security which to include the entire array of issues – from establishment of democracy and implementation of reforms to illegal trafficking, terrorism, and proliferation of weapons of mass destruction.

The common definition of risks and threats shared by the six Black Sea countries within BLACKSEAFOR referring to asymmetric threats, organized crime and risks for the environment should now be followed by specific joint measures – political, military, border control, customs and other – in order to reduce the risks and guarantee a higher level of security.

It is this broader and more systemic approach towards all security components that can ensure the adequacy of assessment and the efficiency of the policy to be pursued.

In this context, ladies and gentlemen, according to the expert opinion the Black Sea region acquires its strategic character for both the Eurasian zone, and the world. As a result of the contemporary globalization processes the region becomes increasingly important. The crossroad geographic location, the strategic transport corridors, the intercontinental energy flows, the diverging interests and level of democratization of the participating countries, and last but not least
the considerable number of “frozen conflicts” represent the main determining factors for the place that the region holds in the world politics and economy.

In a sense the Black Sea region is being perceived as a border zone, but the changes currently under way are turning it from a border and a barrier into a highway, a zone for cooperation. This cooperation requires collective efforts for maintaining and increasing security and stability.

Given Bulgaria’s strategic priorities, its forthcoming EU membership and its membership in NATO we believe that the active involvement of the two alliances in maintaining security in the region is necessary. It is in the interest of both organizations, whose member Bulgaria is, to act in conjunction, with a clear aim and a long-term strategy. They have a new role determined by the need to actively address the threats to global security. Regardless of the emerging different interest groups across the region, three of the six Black Sea countries are NATO members. Russia and Ukraine have established cooperation mechanisms with the Alliance and are key partners in the Black Sea process, and Georgia has a clear position which unfortunately is upstaged by the Russian-American interests.

In this respect we support all actions aimed at ensuring a broad representation and participation of the European and Euro-Atlantic structures in the Black Sea region. We deem it reasonable that NATO and the EU should work out a coordinated or joint approach towards the stability and development of the countries in that region. The lack of such an approach is a constant issue which will become even more sensitive in the coming years.

The efforts of Bulgaria in the Black Sea region are focused on the creation of a risk-free environment or controlled risk environment based on the broad and active involvement of all stakeholder countries, support for the processes of democratization and strengthening security and stability as well as participation in the preparation and implementation in infrastructural projects observing the principles of equality.
The concrete steps taken by Bulgaria in this respect constitute our efforts to make a more comprehensive and systematic expert assessment of the security issues in the Black Sea region in modern times, to define clearly and in more specific terms Bulgaria’s national interest and to outline a series of measures and objectives aimed at protecting it. We need to be aware of the necessity to draft a Black Sea Region Strategy addressing all the key parameters: economy, politics, security and energy security.

Here I need to point put that Bulgaria’s aspiration is to find a balance between the global and regional approach in its foreign policy. It is true that in the past years, the strategic national interest of Bulgaria made it necessary to focus our main foreign policy efforts on the integration in NATO and the EU. NATO membership is already a fact, and the membership in the EU will become a reality as of January 1st, 2007. In other words Bulgaria has become a full-fledged member and an outer border of two of the most important political, military and economic factors in the world.

Looking for its place, weight and role in them Bulgaria would naturally need to intensify its efforts as a factor for the regional security, stability and cooperation in the Black Sea region and the SEE as a whole. This is why we believe that this is the right time to find new quality and impact of Bulgaria’s participation in strengthening regional security within the framework of the common European and Euro-Atlantic security.

In this sense the accession of Bulgaria and Romania into NATO and the EU made the Black Sea region part of the NATO zone of responsibility with all ensuing consequences. The increased significance of the Black Sea for the Euro-Atlantic security brings about the need for joint initiatives between partners and allies as pointed out in the Istanbul Communiqué of the NATO summit in 2004. Bulgaria has the political will, intellectual capacity, and alas limited financial resources and we hope the support of Brussels and Washington, and why not the support of the driving forces of EU security and defence
Germany and France, for future initiatives which along with the cooperation with Russia could result in an effective policy with regards to the Black Sea region as well.

Individually our countries have made a commitment to maintain modern and effective naval forces. This is where the real danger lies: in a situation of limited financial resources for modernization and underestimation of the fact that Bulgaria is a sea country, a fact which provides opportunities, but requires a serious engagement, we may soon end up with a symbolic naval force which does not reflect the national interest. We have to admit that Romania is to a certain extent ahead of us in the modernization of the naval forces and in another important area – control and defence of the Black Sea area. Bulgaria is, however, about to launch a project under the name of “Screen” for setting up a coastal radar system. For this project we rely on foreign financial assistance. The experience of leading European countries was used when establishing the marine units of the National Service for Border Control. The best practices of patrolling and control of the coastal border have been applied, including naval forces, coastal patrol and technical surveillance stations. The Black Sea Coordination and Information Centre serves as a link among the coastal patrols of the Black Sea countries at operative, technical, information and command levels. All of this, starting from the establishment of democratic rule and ending with military exercises, control and surveillance in the Black Sea has an inevitable impact on the security of energy supply and access to energy resources.

Taking the risk of repeating a well-known truth I will stress once again that the global threats and challenges to security require a global solution. The security and stability solutions for the Black Sea region should not be “capsulated” only within the efforts of the Black Sea countries and the existing regional military and technical options like the well-functioning Operative Group for Naval Co-operation in the Black Sea (BLACKSEAFOR). We need to admit that even within the framework of the existing structures there is no organization for exchange of information, and the one among the
above Centres is insufficient. Positions on the Black Sea Harmony initiative remain to be worked out in this respect. It is important to achieve better coordination between the Naval Forces while observing the key principle of international maritime law regarding the responsibilities of every littoral country over the water territories under its control.

In order to attain sustainable stability in the region and in order for the region to generate security especially in the northern and eastern direction, there are three crucial conditions in our opinion:

- Firstly, formulation of a broad approach to security in the region based on cooperation on all key issues – from the development of democratic processes and implementation of reforms in the partner countries to combat against illegal trafficking, terrorism and WMD proliferation;

- Secondly, commitment on the part of the key international players which may have a real contribution to solving the existing problems. It is in the interest not only of the countries in the region, but the entire Euro-Atlantic community, for the international community as represented by NATO, the EU and OSCE to formulate a common vision and a complex strategic approach to the issues of regional security. In this respect, I would like to point out that we perceive the Euro-Atlantic integration of the countries in the region as a strategic opportunity for achieving more stability, better security and prosperity. As a NATO member we are determined to continue to play an active role in promoting the integration process;

- Thirdly, intensifying the national efforts for priority strengthening of the security sectors as well as applying new forms of bilateral cooperation with the Black Sea countries for the faster, more efficient and more financially sound implementation of joint projects.
In conclusion, I would like to emphasize once again, as I have done on other occasions as well, that today the Black Sea region holds promising potential for development of tourism, transport, communications, energy connections of all types and other transnational projects. It is through expanding and strengthening Black Sea cooperation that we can expand the opportunities for the region and transform it into a key link, a bridge between the East and the West, a natural water “highway” between Europe and Asia. Increasing the level of military security in the region, which we work hard to achieve, will inevitably have a positive effect on the economic prosperity of the countries in the region. Economic prosperity is largely dependent on energy security – the topic that we discuss today.

Thank you for your attention.
Friedrich-Ebert-Stiftung
Regional Office Sofia

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BLACK SEA COOPERATION –
ENERGY SUPPLY AND ENERGY SECURITY

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