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**THE SOFIA ENERGY SUMMIT'S CONTRIBUTION TO DEVELOPING THE
CONTEXT OF REGIONAL ENERGY CO-OPERATION**

Statement at the Third Energy Dialogue organized by the Greek Institute IENE, Thessaloniki,
The Hyatt Regency Hotel, 18 – 19 June, 2009

Mr. Chairman,
Distinguished colleagues,
Ladies and Gentlemen,

In a minute I am going to share with you my thoughts on the outcome of the Natural Gas for Europe Summit, held in Sofia on 24 and 25 April 2009. In the meantime I should like to remark that had I, in my capacity of Coordinator of the Sofia event, had the chance to attend one of the earlier editions of the Thessaloniki Energy Dialogue, the Sofia Summit – a successful conference in its own right – would have gained another degree of excellence through learning from the Greek experience.

It is my pleasure at the outset to sincerely congratulate and to thank Mr. Kostis Stambolis, IENE's Vice Chairman and Executive Director, for the elaborate preparations and the warm hospitality we all feel and enjoy.

Ladies and Gentlemen,

Until a year ago Government officials, NGO representatives and company executives substantiated their interest in energy security with, primarily, the threatening reality of finite hydrocarbon resources in a booming global economy. Today, we are faced with the deepest financial crisis the world has ever seen and with an unprecedented economic downturn but we are still concerned with problematic energy matters. This comes to show that in a globalised world energy has turned into an omnipresent strategic issue that demands priority treatment and a higher measure of responsible management and regulation. I should add that in times of crisis the regional context acquires additional importance, since the economics of recovery tend to favour local solutions.

South East Europe is a region of specific strategic features and has to cope with challenges that are qualitatively different from other European regions. Regional

co-operation in our case is absolutely necessary for both historic and structural reasons. The establishment of an integrated energy market in South East Europe, which will, by definition, be connected to the more mature markets of Central and Western Europe, is key because it will help realize not only the Energy Community for SEE, but will also advance the European perspective of the Western Balkan countries. Energy market integration in SEE entails genuine European integration effects and under the present circumstances far exceeds the integration value of any other joint regional policies.

This view has been corroborated by the outcome of the Sofia Summit whose full title is “Natural gas for Europe: security and partnership”. The Sofia Energy Summit should also be seen as a composite and multi-faceted event. It involved a productive parallel Business Forum, as well as a number of closed circle expert meetings and consultations. The preparation of the Summit took about a year. We drew many conclusions and learnt many lessons – and we did indeed develop the regional context. The Sofia event should be seen as a link of the chain of energy conferences organized in the first half of 2009 in respectively Budapest, Sofia and Prague. The three fora were relatively well coordinated and were meant to express the notion of speaking with one EU voice at three different places.

While the Sofia Summit addressed primarily the gas supply issue, it exposed convincingly also the importance of regional and trans-regional energy co-operation. The summit participants underlined in a final Declaration that “South East Europe has a strategic location, linking producers - Russia, countries in Central Asia, the Caspian Sea region, the Middle East and North Africa, the transit countries of the Black Sea region and the Caucasus, with the European energy markets”.

This general premise has yet to find concrete implementation in the energy relations among interested countries along the full chain of traditional and new producer countries, transit countries and European consumer countries. The Thessaloniki Energy Dialogue can be very productive in this regard by providing professional insight and ideas based on its international expertise.

So far as Bulgaria is concerned, we suggest that the development of advanced regional energy cooperation takes into account the following considerations:

First, the relative geo-political advantages for trans-border transfer of energy resources that one or another SEE country has as a potential should not be any more viewed as solely a national privilege. Bulgaria, for example, has an important role to play in both the political and the technical and market realization of the big gas infrastructure projects in South East Europe and the

Black Sea-Caspian Sea region. Henceforth however my country could win if it builds its energy policy in close cooperation with, in the first place, its immediate neighbours who have identical geo-strategic advantages and similar economic interests. It is time that we all in SEE begin to grasp our national ambitions and interests in the energy field chiefly as a form of sub-regional, regional and trans-regional cooperation. It is now necessary to find unifying goals and approaches for the establishment of an integrated and liquid regional energy market as part and parcel of a pan-European energy space. The Energy Community principles and European energy law, in particular the Third Liberalisation Package, should be our guiding light.

Second, placing the imperative of an integrated regional market at the centre of national energy policy will, within a short period of time, lead to the emergence of genuine competition rules in the whole region. Functioning regional energy exchanges and platforms will follow soon. The integrated character of the regional energy market will place each one of the big international energy projects in a new light. This is of particular practical relevance because ours is the only region in Europe where the contemplated international projects are potentially in competition or are thought to be mutually exclusive. One of the important conclusions of the Sofia Energy Summit was that the Southern Corridor, a strategic EU undertaking, should not be seen or executed as a hostile exercise in regard to traditional suppliers, in this case Russia and the South Stream project. For the same token, Russia should be expected not to hinder, directly or indirectly, the Nabucco project or the Southern Corridor as a whole. The new trans-national projects in our region should stimulate the emergence of diversified suppliers, sources and routes for gas deliveries – and all of this should be in conformity with market rules and principles and the requirements of the European regulators. We need more pragmatism and market thinking and less geopolitical designs.

Third, a peculiar feature of the region we live in is that an EU-based market and regulatory framework has to be created simultaneously with the establishment of a new technological base and the modernisation of the existing one. The investment needs are colossal. In times of economic crisis the only winning strategy is to pool efforts. Cooperation is necessary for acquiring new energy assets in accordance with the chosen national energy mix, for participating in trans-border projects to transfer oil, gas and electricity and for joint investment undertakings in nuclear energy. The President of Bulgaria, Mr. Georgi Parvanov, has declared that my country is open to such direct cooperation at both political and corporate level.

Fourth, the January gas crisis has shown that South East Europe is vulnerable to interruptions of natural gas deliveries. As a whole the EU proved inadequately

prepared for preventing and managing such crises. Coordination among EU Member States was not sufficient. Countries in Central and Western Europe fared much better than the ones in the East. The analysis of the situation indicates that in comprehensive terms this vulnerability has largely remained unattended because of two “narrow places” – lack of North-South system interconnections and a state of disconnection and inadequacy of energy networks in South East Europe. The system interconnection projects between Bulgaria and Greece and between Bulgaria and Romania, which received backing from the European Recovery Plan, will partially overcome these short-comings but it will not be enough. Similar inter-connectors are necessary between some of the other countries in SEE and Central Europe. The same goes for gas storage, including strategic gas storage facilities and other auxiliary infrastructure. The key message here is that these measures have to be taken at company level and should employ market mechanisms. The role of the political factor and the government institutions is relatively smaller. It should cover the space of strategic planning and regional cooperation. On this issue the Sofia Summit Declaration stipulates that “sound energy policies should stimulate an enhanced private sector role”. New transparency rules are necessary too, to address basic energy data – for both competition purposes and for managing crises better.

Fifth, the energy market in SEE has not reached the level of liquidity and integration characteristic of the markets in Central, and particularly in Western Europe. A number of the energy companies in this part of Europe are in a process of restructuring. They are also in a process of learning European energy law. They are faced with significant investment risks. Summing up, one could say that SEE needs special attention at both inter-governmental and company level. For this reason, an appropriate solution would be to establish a tri-partite consultation mechanism, involving national companies, governments and the European Commission, to be entrusted with the task of tackling regional cooperation issues. SEE should not however be seen other than as an integral part of the EU politically, economically, socially and in terms of European values and principles.

Sixth, moving from a national to a regional model of managing energy will probably require much more political will than is presently detected in the governments concerned. However, the current circumstances, particularly in view of the financial and economic crisis, demand of us to try and make the first steps in this direction. It is natural for such steps to initially cover the conceptual sphere. The following idea comes to mind: the countries in SEE could start a process of information sharing, discussion and coordination of their national energy strategies – at the beginning at the expert level, and later at the political level. The rationale of such an exchange will be to accelerate the establishment of an integrated regional market, to rationalize costs for new power generation

facilities and system inter-connectors, and to share experiences in assimilating the rules and practices of the Third Liberalisation Package.

Mr. Chairman,
Ladies and Gentlemen,

May I finish with one of the main lessons learnt from the Sofia Energy Summit, namely: ideas and proposals for energy co-operation could pass the scrutiny of public approval only if they are intended to increase the prosperity and well being of the citizens of our countries and regions.

Thank you for your attention.