

3d SEE Energy Dialogue

Thessaloniki, 18 June 2009

Introductory remarks

Slav Slavov- World Energy Council, London

On behalf of Mr. Johannes Teysen, the Vice-Chair of WEC- Europe, and of the WEC Secretary-General Mr. Christoph Frei, we would like to thank IENE for inviting WEC to take part in this growing in importance regional event.

The need to ensure secure and reliable energy supplies at affordable and stable prices is imperative for Europe and in particular for South East Europe. Europe as well SEE are depending today nearly 60% on energy imports and its dependence is rising up with annual rate of 1,5 %. The vulnerability of South Eastern Europe was confirmed by the recent gas crisis and still monthly treats again the normal functioning of the regional market as well local economy. The current mono-connection of gas networks as well the lack of investments in electricity generation over last 20 years are being the major factors which seriously treat the region. The gas- pipeline supplies become some kind of political tool in deciding supply routes, choosing your partners and preserving national interests. These trends and factors have pushed, once again, the issue of the European energy security to the top echelon of the public and policy agenda.

The World Energy Council and in particular Group Europe is very much aware of the regional energy situation and provides timely its support to regional and national policy making, from energy industry point of view. Early this year, WEC and EC has an intensive exchange of views on two burning topics, namely: (a) the January` gas crisis, how to face it in future; and (b) on the current financial crisis on investments in the energy sector.

The lessons learned from the gas crisis are manifold and each deserved to be deeply analysed and treated appropriately. At EU-level, a number of new binding mechanisms need to be urgently developed and the Commission is working on it. The weakness of the internal gas infrastructure deserved urgent consideration: the missing internal links (for example: between Greece and Bulgaria, between Romania and Bulgaria, between Romania and Hungary) might be effective and less cost and solve temporary situation offering a reverse flow option. The same concerned gas storages and hubs, some of them having strategic role in the future to play. A selfish protectionism performed by a few governments in Europe on domestic reserves or storage capacities should not be tolerated. A sound commercial agreement taking into account security of supply aspects would be more effective. Crisis emergency plans are needed at regional level, and finally this crisis should help to accelerate diversification of the supplying routes and sources internal in a short term, strategic in medium and long-term. Unfortunately and up to date, they have taken so much and so long time to be just argued. But first step is to see what we can do in our house before going further and far way.

Regarding the current financial crisis, in our consultations with European Commission, we came to the conclusion that:

- The current slowdown of global economy is putting a strong pressure on energy demand in a short term but it could be expected to pick back up in 2010-2011. The residential power demand is unlikely to fall significantly while power demand for industry could fall up to 10% in most of the European industries. However, power demand is holding up better than oil and gas demand, under these circumstances;
- The decline of energy demand would not necessary involve price reductions on utility customers as consumer pricing are politically sensitive, especially under the present situation of low fossil fuel prices;
- As regards investments, we should recognise that investments in energy remained still relatively stable in comparison with other sector of economies. In some cases, delays and cancellation of projects have occurred but once demand would start growing, investments should come back up. Not enough investments to supply chain would likely lead to reconsider the extension of life cycle of supply capacity. Investments to R&D would likely decrease, including those to consumption capacities while those to environmental improvements were expected to remain stable. New strategic projects, for example CCS or some renewables could be affected seriously.

The SEE energy market is expecting very much to receive more natural gas from existing and new gas suppliers. It will ensure future demand increases, diversify the current energy mix and improve the regional environment. In this context, the South Stream and Nabucco Projects are being seen as promising but competitive alternatives, much more in their upstream and less in downstream. The Russian decision of May last, to double South Stream`s capacity is a clear demonstration to it.

Since last year, geopolitics around Caspian and Black Sea gas pipelines and potential suppliers including those of Central Asia benchmark important signs and trends among which the following:

- Turkmenistan, Uzbekistan and Kazakhstan have declined to sign the Nabucco Common Declaration (Prague, 8th May 2009);
- A number of new MoU have been signed for exporting gas from this region to China, India/Pakistan and through Iran, with an intention to Persian Golf Countries; the signal is that Asian markets become more attractive that European one;
- Increasing gas supplies from Central Asian countries to Russia and creating of new supply routes to Russia;
- Russian intention to hold the monopoly in supplying gas from east to Europe;
- Further intention to create a Gas cartel similar to that of OPEC.

I hope, all these aspects will be more clarified by the present dialogue and I wish you a full success.