

INSTITUTE OF ENERGY FOR SOUTH EAST EUROPE

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I.N. Desypris, Chairman

Ladies and Gentlemen

It is my honor and pleasure to welcome you to this Conference.

I am sure that it is appreciated by all involved in any economic activity that the energy sector is the only sector which can efficiently absorb investments.

However I am also sure the energy specialists present in this Conference shall agree with me that priority investments currently need to be directed to electricity interconnections and gas transport pipelines.

Europe needs to invest hundreds of billions of euros in new energy networks and renewable energy production. Most of this money will have to come from "the market", but financial experts agree that, left to their own devices, banks and energy companies are neither able nor willing to do all that needs to be done. They say that a strong inflow from additional sources, such as dedicated investment funds and public institutions, will be indispensable. The European

Commission has already started preparing a "tool box" that will contain "innovative market-based solutions" intended to seduce investors. But private investors warn that if the EU is to achieve its ambitions with regard to climate and the internal market, the EU and member state governments will have to take a much more active role. 'A strong regulatory push is required'.

For example, the German public's rejection of nuclear power in the wake of "Fukushima" has at least had one positive consequence for the electricity sector: it has led to increasing awareness among the German public that their country needs to invest in high-voltage power lines if it wants to achieve its ambitions in renewable energy. Although this does not mean that public opposition to transmission lines will magically disappear, it is likely to change the nature of the debate in Germany.

Germany is not the only country in Europe faced with the necessity of large investments in both energy infrastructure and generation capacity, particularly of renewable energy. As the European Commission noted in its "Infrastructure Package" (Communication on "Energy Infrastructure Priorities for 2010 and beyond"), which came out in November last year, one trillion euros must be invested in the EU's energy system (infrastructure and generation) between now and 2020. That is, if the EU is to meet its climate targets and to ensure security of supply as well as a well-functioning integrated internal energy market.

Where is the money going to come from for these huge investments?
In its Infrastructure Package, the Commission says that it is confident

that “the market” will deliver most of the investments. It even notes optimistically that ‘the policy and legislative measures the EU has adopted since 2009 have provided a powerful and sound foundation for European infrastructure planning.’

Nevertheless, despite this powerful and sound foundation, the Commission expects that there will be a “gap” of € 100 billion in energy infrastructure investments that will not be taken up by the market over the coming decade. This shortfall is caused by ‘delays in permitting’, ‘difficult access to finance’ and ‘lack of adequate risk mitigating instruments’. Even if the EU and the Member States manage to solve the first problem – the project delays – by improving the various permitting processes, there will still be an investment gap of €60 billion, the Commission notes.

And this is just the shortfall for investments in infrastructure. Investments in renewable energy generation also face a gap, of some €35 billion per year, according to various studies.

So, this turns out to be a very difficult task. As noted above, public acceptance has turned out to be a huge problem for the energy industry in Europe. Public opinion is increasingly turning against any kind of energy project, from carbon dioxide storage to new networks, wind farms, coal-fired and nuclear power stations.

Public discussions on energy tend to be ill-informed and superficial. They are full of contradictory opinions on a host of different matters,

debates full of populist viewpoints, which do not really assist people to weigh costs and benefits.

In our region victims of this situation have been various important projects, which are delayed extensively producing a serious damage to regional energy integrity.

It is obvious that the level of energy debate must be drastically improved.

On this account I am very pleased that our Institute of Energy has presented its Energy Study for our Region and that the World Energy Council shall be presenting its study on the energy scenarios to 2050.

And I believe that the importance of gas that goes along with the prospective decarbonisation shall be underlined.

And to this end, to bring gas to our wider region we have to talk about gas pipelines.

We all know the background of the concept of South Corridor. Various events have compelled the European Union (EU) to reconsider the wisdom of being dependent for over 40 percent of their gas imports from one external supplier. The so-called “fourth” or “southern” gas corridor connecting the Caspian and Gulf regions and the Middle East to Europe, has been identified by the European Commission as Natural

Gas (NG) Route Number 3 in the framework of the Trans-European energy networks (TEN-E).

Much attention has been given to the prospects for realizing the Nabucco project, which would entail the construction of a dedicated pipeline through Turkish territory to carry 31 bcm. However, the Interconnector Turkey-Greece (ITG) is already in place and is carrying small volumes of gas to Greece via Turkey from the Azeri Shah Deniz gas field in the Caspian Sea. This gas reaches Turkey along the 20 bcm/y capacity South Caucasus Pipeline (SCP) (also known as the Baku-Tbilisi-Erzurum gas pipeline). Plans are well-developed to connect the ITG to Italy by forming the Interconnector Turkey-Greece-Italy (ITGI).

At the same time the Trans-Adriatic Pipeline project (TAP) is also developing fast, given StatoilHydro's interest. In February 2008 it was announced that StatoilHydro had formed a joint venture with the Swiss-based EGL to work on the TAP, and 2010 Eon Ruhrgas joined the Consortium. StatoilHydro also has a 25.5 percent stake in the Shah Deniz consortium and in the SCP. In order to be realized, both the IGTI and the TAP would probably depend on incremental expansions to the Turkish gas pipeline network. They are also competing for the same quantity of gas, so their final "judge" shall be the producing consortium.

At the same time Gazprom is lobbying for the realization of the South Stream project which would bypass Turkey and would connect the Russian gas network with central and southern Europe. Regional discrepancies in Regulatory regimes and issues relating to the third energy package and third party access have to be faced with the Commission of EU.

Ladies and Gentlemen there are major common issues in the energy sector which need to be addressed either bilaterally or regionally. The common address by the European Union on carbon dioxide reduction issues, the continuous utilization of solid fuels and the future need to reduce carbon emissions, the need for more gas and where it comes from, the flow of electricity produced, the power and gas back up stations and storages, and where it is more economical to be stationed, are some of the issues which have to be faced as soon as possible.

Governments, policymakers, regulators, banks, investors and the energy specialists of the associated countries have to actively cooperate to balance needs and set priorities.

I am sure that this Conference shall address these issues and enhance the experts' dialogue.