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safe energy for the future

CEEP Central Europe Energy Partners REPORT

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Pragmatic formula for growth

CEEP REPORT (CR): *Investors often want you, not only in the Czech Republic, but also in the UK, for instance, to guarantee power purchasing prices. This refers to Temelín, too. However, the Czech Government says that such a guarantee should be a short-term one. Do you agree with this?*
Václav Bartuška (VB): The Government has not provided any statement on the guaranteed power prices, yet. I do not anticipate any direct guarantees to be offered by the State to ČEZ for the potential development of Temelín 3+4.

CR: *You often claim that Temelín will not be developed to export power but to replace the coal-fired power plants...and perhaps to reduce the share of coal and gas, as it would mean too high a level of dependency on other countries?*
VB: No problem with coal, we have it in the country. However, we also have air and we want it to be cleaner.

CR: *Meanwhile, as Germany lives in the shadow of Fukushima, a scenario reaching far beyond the extension of Temelín, is apparently current. It is a scenario that even envisages the development of more than ten nuclear units by 2050. What is your belief that such a direction is right actually based on?*
VB: Our strategy is totally official and public: to increase the share of nuclear energy in the current energy-mix from the current 30 to 50 %. That means that another two units will be added to the existing six units.

Václav Bartuška

CR: *Are the members of the public in the Czech Republic afraid of the risks associated with the development of other reactors?*
VB: For the time being, Czechs in general support nuclear energy; the long-term support has been about 70 %. I think, though, that as we become richer, our willingness to tolerate any risks will keep dropping, as in the case of our neighbours.

CR: *In October 2011, in an interview, you said that "solutions proposed by environmentalists are nothing but placebo". Do you still believe that renewable energy sources will cover no more than 10 – 15 % of the demand in future, although Central Europe, in particular, experiences a dynamic development of renewable energy sources?*
VB: I keep claiming the same point all the time: the share of the renewable energy sources that makes economic sense for the Czech Republic is approximately 10-15 % of the total power generated. Of course, we could go to up to 100 %, but we would go bankrupt. Now, we spend some CZK 40 billion per year on the photovoltaic industry which generates some 1.5 % of total energy output. The question does not read what percentage of renewable energy sources we want to have, but how much of them make sense without excessive subsidies. The situation will change from the moment when we can conserve lots of energy; but for the time being, we are not able to do so, and we will not be able to do so for several decades to come.

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Pragmatic formula for growth

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CR: *How has the launching of the GAZELA gas pipeline affected the perception of the Czech Republic as a transit country for Russian gas? Some time ago, you said that we would always be a 'B category' customer for Russia. Do you still believe that?*
VB: Russia has two types of customers - group A and group B. Group A includes only one country – Germany. The B group includes all others. Nothing has changed.

CR: *RWE plans to sell Czech gas pipelines. Are you worried that they could get in the hands of a less predictable partner? That means that the new owner might wish to dictate some conditions to the Czech State?*
VB: The sale of Net4Gas has just been completed. We are satisfied with the entire operation. RWE has shown a very transparent and 'square-deal' approach to the Czech Government. Unfortunately, I cannot say the same for other Czech energy sector investors. For instance, PKN Orlen did not warn us at all that they were planning to close down the Pardubice refinery (July 2012). Any long-term co-operation cannot look like this situation at all.

CR: *What do you think, should the State keep a control of shares in gas pipeline operating companies?*
VB: I tried to arrange to have at least a part of the transit gas pipelines returned under the control of the State, but I did not succeed. I consider the sale to a credible buyer without our participation, as the second best solution.

CR: *What should be the role of the State in relation to the strategic infrastructure: e.g. oil pipelines, power distribution networks? What is the approach of the free market to the concept of the control share packages kept by the State in such entities within the structure of the State?*
VB: I believe we should keep 100 % shares in the power transmission system (ČEPS) and oil pipelines (MERO) and product pipelines (ČEPRO). I don't care about the opinion of the so-called free market. Europe has entered a dangerous period of time and everyone is playing his own game.

CR: *As far as the power distribution system, ČEPS, Mero, and Čepro are concerned, in the media, we can find information that it would be beneficial for these companies to sell at least a part of the State's shares... Can the quoting of such a company at a stock exchange, being brought to the public's attention, make such a company transparent and make its 'supervision' easier?*
VB: No.

CR: *We have previously read that you would support the participation of the State in such companies, as the operator of the gas pipeline Net4Gas is. Do you think that the Czech State would be better positioned to achieve its strategic objectives? Would it facilitate, for instance, the development of the gas pipeline Stork?*
VB: Look, it is nice when the government formulates a strategy and ways how to implement it, but it must have an actual force to push its intentions through. Sometimes, it is good to have a direct share, in other cases it is enough to set rules for private companies. The connection of Stork (launched in 2011) was developed as a response to the gas crisis in January 2009: all of sudden, those who opposed the interconnection of the Czech and Polish market understood it would be good to have a tool to address emergency situations.

CR: *Should the Czech State seek to acquire shares in refineries?*
VB: No.

CR: *Do you agree with the merger of the State-owned companies of Čepro and Mero, and, as the next step, the purchase of shares in refineries?*
VB: No.

CR: *From time to time, the Czech media come up with the old vision of an alliance of Čepro and the Slovak Slovnaft. What do you think about such a proposal?*
VB: This idea must have come from the head of

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Pragmatic formula for growth

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a 'genius'. It would kill at once the Czech refineries and State-owned oil pipeline, Mero.

CR: *What do you think about the effects of the acquisition of shares in the oil pipeline TAL by Mero?*
VB: Since 1996, we have been the biggest client of TAL, who had no shares in them. Starting from the autumn of 2012, we have had a share. Thanks to this, we can better monitor the operations of the pipeline. It was an unambiguously right step to take.

CR: *Does the transit using the old 'Druzhba' pipeline have any future chance, taking into account the surprising information on the reconstruction, outages and problems with filling as we can hear from Russia?*
VB: It is always better to have two oil pipelines than just a single one. Only the oil pipeline from the West, IKL, is paramount for the Czech Republic, but I would not reprobate the Druzhba pipeline, either.

CR: *We have heard some speculation that the Druzhba pipeline drying out is, or often may be, a signal reflecting on-going negotiations that are vital for Russia: for instance, those on the Temelín power plant extension. Do you think there could be some political links?*
VB: I do not speculate. Anyhow, Rosatom, the Russian bidder taking part in the Temelín tender, is sure to be very unhappy that since April 2012, we have been receiving only a fraction of the former crude oil imports via the Druzhba pipeline.

CR: *Is the EU able to show solidarity in the energy sector?*
VB: Not as the EU-27, as it would mean feeling solidarity with those who have done nothing for their own security. The title of the first text I wrote on this topic six years ago, was 'Responsibility first, only then solidarity'. I insist on it.

CR: *We would like to know your opinion on the discussion concerning the issue of 'backloading'.*
VB: I consider the fight against CO_2 a relic of another era, when Europe believed it had unlimited funds and considered itself an example for the rest of the world. Now, good heavens, I hope we can see that our continent faces enormous problems – a part of the EU has, in fact, gone bankrupt, although no one calls it this, and the world does not feel like perceiving us as leaders. We have to be frank with ourselves and say what we want: to blather and grow poor, or be pragmatic and try to set our economy in order.

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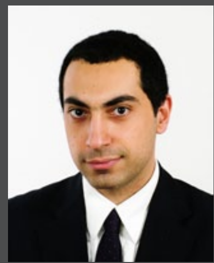
ENERGY AT THE REICHSTAG


Arash Duero

By Arash Duero

The 35th Energy Dialogue at the Reichstag, at the invitation of Prof. Dr. Friedbert Pflüger, Janusz Reiter and Central Europe Energy Partners (CEEP), discussed the shale gas revolution in the US and the fracking debate in Germany on March 15th, 2013.

Dr. Frank Umbach, Associate Director of the European Centre for Energy and Resource Security (EUCERS), and Mr. Henning Deters, CEO of Gelsenwasser AG, addressed the current fracking debate in Germany. Dr. Umbach started the discussion by providing the participants a broad overview of the economic and environmental benefits of the US shale gas revolution, including increased industrial competitiveness, new jobs, and a drop of CO_2 levels to a 20-year low. Asserting that favorable federal regulation in the US played a key role in facilitating the shale boom, he criticized Germany's lack of similar openness to the issue. In particular, Dr. Umbach pointed out that scientific evaluations that have been undertaken in Germany only have had the objective of identifying the potential risks of fracking without also considering "best practice" and safer exploitation methods to minimize potential dangers associated with hydraulic fracturing.

Mr. Deters, who represented one of Germany's largest drinking water companies, stated that he was essentially not against a general ban on fracking activities in the country as long as they do not take place in regions which harbor drinking water reservoirs. He also underscored the importance of transparency, cooperation and continuous monitoring in order to guarantee that water reservoirs are not contaminated, stressing that there can be no compromise when it comes to drinking water safety and the health of consumers. Mr. Deters emphasized that trust and transparency are also necessary regarding the chemicals used in fracking, claiming that companies should report the types of chemicals used in order to minimize the risk of water contamination.

THE NEXT MEETING WILL BE HELD ON APRIL 24TH, 2013.

Cyprus - the unresolved crisis

Günter Verheugen

Petra Erler

By Günter Verheugen and Petra Erler

The Euro zone is loaded with a lot of 'unique cases', as we have learnt in the Cyprus case now. Indeed, the situation in Cyprus is unlike any other, and in economic and financial terms, far more dramatic than the case of Greece. To 'bail out' Cyprus requires the amount of 17 billion Euros, which seems rather small, given the large amounts mobilised for the European rescue operation for banks previously. The problem is that the required money for Cyprus is equivalent to almost 100% of Cyprus's GDP and - if fully provided - the country's gross debt ratio would jump up to more than 140%, an amount that the IMF considers unsustainable, and would prevent ESM support. This may have been behind the reasoning for insisting that Cyprus should raise the necessary money partly by 'internal means'. As demonstrated in the Greek case, however, privatisation does not deliver a 'quick fix'. Consequently, other avenues had to be explored. The first agreement on how to rescue the Cypriot situation included a tax on bank deposits, which brought the crisis back to the euro zone.

Almost one week later, another solution was found, foreseeing the restructuring of the Cypriot part of the banking system of Cyprus, and capital controls for the next six-months. Deposits up to 100,000 Euros will not be touched: whether the larger deposits of the second largest Cypriot bank, Laiki, will be completely abandoned or not, remains unclear. All participants at the negotiations agreed that the new deal was better than the old one and the German Finance Minister declared that he had wished such a deal from the beginning.

First, we need to take a look back: From the outset there were differences between Cyprus and the Troika (Commission, ECB, IMF) over the details of the 'bail out' agreement, and it needed 7 months and a newly-elected President of Cyprus, until a very detailed arrangement - 29 pages long - was ultimately agreed in January, 2013. Now, in light of the March 25th decisions, this MOU will have to be redrafted by the beginning of April.
Reports about the first Troika mission to Cyprus in July, 2012, reveal that all participants appeared to have been taken by surprise by the size of the problem. That is perplexing, as the Commission had delivered an in-depth report on the imbalances in Cyprus, a couple of months earlier, in May, 2012. On this basis, the ECOFIN Council in June, 2012, concluded that these imbalances were not 'excessive' and therefore assumed that Cyprus would achieve a balanced budget in 2014. Obviously the warning of the Governor of the Central Bank in Cyprus, who saw the country sliding into a debt crisis as far back as July 2011, had not been heard. Subsequently, at the end of June, 2012, Cyprus asked for European financial assistance.

Shortly after the Cyprus application, however, the island's image, which was rather good beforehand, and only overshadowed by the frozen conflict, changed for the worse. Now, Cyprus was portrayed as an economic catastrophe with unhealthy economic structures, systemic problems in the financial sector, and was accused of being a safe haven for black Russian money. The judgement on Cyprus, when entering the Euro zone, had been completely different, and the European Commission confirming this at the time, offered Cyprus deep integration within the European financial system. Also, the ECB rated the inflow of private savings into Cyprus as rather positive in those days.

Indeed, the situation in Cyprus detoriated after joining the Euro zone, hugely inflating consumption in Cyprus (as also happened in the Greek case) and leading to high levels of private and corporate debt. Combined with wage increases, the competiveness of Cyprus duly lost ground.

Cyprus is, however, much more than a 'banking paradise'. Nearly 17% of its GDP stems from industrial production, whilst agriculture delivers only 2.4 %, despite employing 8% of the work force. Its energy situation was severely affected by the demolition of its largest power plant in 2011, losing nearly 40% of its energy production in the process. Moreover, 32% of

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total bank assets in Cyprus are from EU (16 branches or subsidiaries) and non-EU banks (19 branches or subsidiaries).

Cyprus was severely hit by the Greek crisis in 2011. Greece is the main trading partner and also the banking system is closely interlinked with the Greek financial system. Laiki alone had losses of 3.6 billion Euros in 2011.

Obviously, the EU's judgement in June 2012 was not correct. So, it was perhaps easier to portray the country in a negative way, rather than ask the question: - how could such a collective misjudgement happen? - despite all the new EU rules established since the outbreak of the Euro zone crisis. There had never been any official concern that Cyprus was not complying with EU rules against money laundering. The Commission has never launched an infringement procedure. Also, the experts from the Council of Europe did not ring the 'alarm bells' in 2011.

The image of Cyprus became the victim of public reluctance to 'bail out' further countries in some Member States. Politicians, led by Germany, were questioning Cyprus as being 'systemically relevant'. The German government had to fear the opposition's veto and a negative impact on the forthcoming German elections, so it would have preferred to let the island down. After all, why rescue 'black Russian money'?

Both the Commission and the ECB were arguing against this German position, and finally, Germany's government had to adjust, while the German opposition made tough statements on the perceived weaknesses of Cyprus. Now, what to tell the electorate at home?

'For starters', a contribution by Cyprus to the 'bail out' would provide a good argument and downsizing the requested amount would surely also be welcomed by the public. The statement of the Chief of the Euro zone group on the 14th March, promising a substantial reduction in the requested amount of 17 billion, showed that others were thinking along the same lines. Who, however, was the 'spiritus rector' of the fatal idea of a tax on bank deposits in Cyprus, which finally led the Cyprus Parliament to reject the whole 'bail out' deal? The German Finance Minister generally favoured a tax on deposits, but not, as he said, on the small ones; however, he agreed to that solution as did everyone. After the Euro zone meeting, all but one, found warm words for the deal reached on March the 15th, for this 'systemically relevant' country. Only the Finance Minister of Cyprus was visibly sad.
The inclusion of small private savings triggered a massive crisis of confidence. Seldom have so many actors condemned the decision of March the 15th. As so often happens, the 'blame game' started immediately. The ECB rejected being the author and addressed responsibility firmly on the Cypriot side. The Cypriot press, however, had already reported in early March, that such an idea had been suggested "by our partners in the EU". ECOFIN had to react, and they quickly re-arranged the deal on March the 18th, leaving Cyprus the option to exempt the smallest deposits (finally up to 100,000 €): however, it continued to insist on a contribution from Cyprus of 5.8 billion Euros

Two facts quickly became 'crystal clear': The Commission and the Ecofin Council of last June had failed to judge the situation of Cyprus properly, and secondly, neither the Ecofin, nor the ECB, the IMF, even the methodical Commission, foresaw the trouble they were causing, when originally agreeing to tax all deposits in Cyprus.

The Cypriot Parliament refused this partial private expropriation as contrary to the Constitu-

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tion of Cyprus. The declaration of the ECB, to provide Cyprus with liquidity, 'within its rules' and be more precise with a time limit ending on Monday the 25th, was both a signal of hope and of urgency. Under this pressure, the final deal was cut, and, for the first time in the crisis, the EU no longer subsidised a bank rescue by public money, but wound down a bank, Laiki. Since the Cyprus banking system relies more on deposits than on trading papers, the primary spill-over effect on the EU banking system seems to have been negligible.

The decision of ECOFIN on March the 15th had a serious impact on the public image of the EU: it was perceived as grabbing private savings, not respecting private property, dictating the rules, and deciding about the rescue in the light of internal political quarrels. Unfortunately, Germany has been seen as the leader of such attitudes. Another serious side effect is the strengthened role of Russia. A close partner of Cyprus for some years, Cyprus first requested her support before turning to the EU, which is already an enlightening story in itself. The harsh Russian reaction after the Euro zone decision(s) may have further consequences, which are not yet clear, but the EU`s standing is definitely weakened. Never before has a Commission President travelled so quickly to Russia, as J.M. Barroso did, following the Cyprus Finance Minister on his begging mission to Russia. The Russian decision not to step into the Cyprus 'bail out' was a clever move. They need a stable Euro given their reserves, but going alone would put all the burdens on Russia. Perhaps the Russians understood better than the Europeans that Cyprus is not yet rescued, and that more drama is still to come. So, then they could blame the EU from the outside.

The final deal of March 25th started another experiment – since its longer-term consequences are not yet fully clear. First, it can be assumed that the larger deposits at the second largest bank of Cyprus, Laiki, are not only in the (now former) hands of foreigners, but also were of Cypriot origin, notably from enterprises, which may go bankrupt. Together with the implementation of the other parts of the MoU, which are putting heavy duties on Cyprus, its economy will continue to spiral downwards. Secondly, Cyprus will have to operate restrictions on the free movement of capital to prevent an immediate outflow of capital, but cannot do so forever (they must be proportionate and limited in time). Since the economy of Cyprus will further melt down, it is difficult to judge whether capital will remain on the island, once these restrictions are abolished. Any new inflow of capital from private sources to Cyprus is, however, highly unlikely.

The psychological consequences of the new approach are still 'in the dark'. From now on, bank deposits in the EU shall never be regarded as 100 percent secure anymore. It may turn out that private investments will be inspired by this ("better to have debts, than large bank savings"). It may also well be that people and enterprises will increasingly turn to banks or shares deemed 'safe', which would be to the benefit of a small number of countries, including Germany. Finally, the Cyprus issue reveals the EU`s understanding of solidarity. There was a strong attempt to let the country down. Fortunately, politics did not give in to that, since it would have been disastrous for the whole euro zone. However, winding down a bank, as decided for Cyprus, would never have occurred if German or French banks had not feared dramatic losses. So, the full burden was placed on Cyprus. Last not least, the style and political quality of the crisis management in the Euro zone by the Troika and the Ecofin, demonstrates the need for a large-scale improvement, not through new EU rules, but through more political insight and mutual respect, and more knowledge and understanding of the underlying economics.

Günter Verheugen
professor, a German politician, who served as European Commissioner for Enlargement from 1999 to 2004 and then as European Commissioner for Enterprise and Industry from 2004 to 2010. He was also one of five vice-presidents of the 27-member Barroso Commission (Barroso I). Currently, he holds a position of honorary Professor at the European University Viadrina in Frankfurt (Oder) and is a Non-Executive Managing Director of European Experience Company (EEC). He is an author of number of books and essays on European and other issues.

Petra Erler
doctor, a Managing Director of the European Experience Company (EEC). After German unification she worked first as assistant of a member of the Federal Parliament than as Head of department for European affairs at the Representation of the State of Brandenburg at the federal government. In 1999 she joined the European Commission as a member of the cabinet of Commissioner Verheugen and continued during the second term of Vice President Verheugen in the Commission, responsible for enterprise and industry. She held the position of a Head of his cabinet from 2006 to 2010.

US LNG Export Debate:
A Tale of Two Hearings

Ian Brzezinski

By Ian Brzezinski

An intense debate has emerged in the United States over whether or not to restrict the export of its increasingly plentiful gas supplies. The Department of Energy is now reviewing some two dozen applications from companies seeking to export liquefied natural gas (LNG). The issue has split both lawmakers and their industrial constituents.

The fracking of shale gas has been a lifeline to the U.S. economy. It has revitalized its energy sector and provides U.S. manufactures a new competitive edge via unprecedented amounts of inexpensive gas. Gas in the U.S. costs a third of that in Europe and quarter of that in Japan.

To date, the Energy Department has only licensed Cheniere Energy Partners Sabine Pass Plant in Louisiana to export LNG to countries with which the US does not have a free-trade agreement, including Europe. According to the Department, if it were to approve all the LNG applications seeking similar market access, they would allow the export of 26 billion cubic feet of U.S. gas per day.

Two recent hearings held by Senate and the House of Representatives examined the economic and environmental implications of LNG exports. The first was a February 12th session of the Senate Energy and Natural Resources Committee. The Chairman, Ron Wyden, a Democrat from Oregon, recognized the economic and environmental benefits of natural gas, but emphasized the need to address the risks fracking poses to aquifers and the atmosphere. He called for policies that ensure the export of LNG will not undercut the stimulus cheap gas has provided the U.S. manufacturing sector.

In the hearing, the Chief Executive Officer of DOW Chemical, Andrew Liveris, testified that "unchecked LNG export licensing can cause demand shocks, and the resulting price volatility can have substantial adverse impacts on U.S. manufacturing and competitiveness." He advocates limiting U.S. LNG exports to 5-6 billion cubic feet a day.

DOW and other large industrial companies including ALCOA, Celanese, Eastman, Huntsman and NUCOR, established America's Energy Advantage, an association that seeks to "encourage the federal government to move cautiously on permitting natural gas exports in order to measure impact on price, security and jobs." The Industrial Energy Consumers of America (IECA) wrote the Energy Department warning that unfettered LNG exports would jeopardize some $95B in planned investments into the U.S. manufacturing base.

On March 19th, Congressman James Lankford, a Republican from Oklahoma and Chairman of the House Subcommittee on Energy Policy, Health Care and Entitlements, convened his committee in part to press the White House to expedite the review of the LNG export permits. He warned that delay jeopardizes the ability of U.S. companies to capture contracts in the rapidly evolving global LNG market.

Advocates of unfettered LNG exports include the American Petroleum Institute and National Foreign Trade Council, the Emergency Committee for American Trade, and the National Association of Manufacturers (NAM). They point to the economic growth that shale gas has generated and cite studies by the Brookings Institution, Deloitte Market Point LLC, and NERA Economic Consulting that project LNG exports will have a marginal impact on the price of domestically produced natural gas. The NERA study was commissioned by the Department of Energy.

These associations also assert that the restriction of LNG exports would violate principals of free trade, damage the credibility of the U.S. as an advocate of free trade, and invite reciprocal actions

US LNG Export Debate: A Tale of Two Hearings

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by other exporters of natural resources. According to Gary Hufbauer of the Peterson Institute for International Economics, a restriction of LNG exports to sustain low gas prices would be a form of industrial subsidization that violates global trade rules. Former WTO Appellate Judge Jim Bacchus told Reuters "one of the biggest recent WTO cases was one that the U.S. brought against China's qualitative restrictions on exports of raw materials. The United States won that case on the basis of Article XI of the GATT."

In his testimony before the House Subcommittee on Energy, Acting Assistant Secretary of Energy for Fossil Energy Christopher Smith reflected the Obama's administration determination to act deliberately, if not cautiously, on the export licenses. He declined to say when the Department will make determinations regarding the LNG applications, but reiterated that they will be addressed on a case by case basis.

It is unlikely the Obama administration will impose a ceiling on LNG exports. To do so would risk triggering trade disputes and be counter-cultural to the free-market capitalism that defines the United States. Nor is the Obama administration likely to provide blanket approval to all LNG applications. Most likely, it will proceed slowly with its license request reviews, addressing each individually while seeking an approach that will both sustain the growth of the gas industry and enable it to closely monitor the economic impact of LNG exports. Nonetheless, it is important for the Obama administration to clearly articulate the policy objectives, principals, and metrics that guide its leverage over this important and growing export industry.

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leads the Brzezinski Group, LLC, a strategic advisory services company, and is a Senior Fellow at the Atlantic Council in Washington D.C. He served as Deputy Assistant Secretary of Defense for Europe and NATO Policy from 2001-2005.

METHANE HYDRATES – JAPAN ACHIEVES A WORLD FIRST!

By Peter Whiley

Japan has become the first nation in the world to extract natural gas from frozen methane hydrates off its central coast. Researchers claim it could provide an alternative energy source for the land of the Rising Sun, which presently imports all its energy needs.

Methane hydrates, or clathrates, are a type of frozen 'cage' of molecules of methane and water, and piloted experiments in recent years, using methane hydrates found under land ice, have shown that methane can be extracted from the deposits.

Source: www.wikimedia.org

Offshore deposits appear to have the estimated potential for a vast amount of methane - (1.1 tn. cubic meters, according to a Japanese study) - and a survey of the gas field is being conducted by the state-owned Japan Oil, Gas and Metals National Corporation (JOGMEC). In the production tests, that are expected to continue for about two weeks, a depressurisation method was used to turn the methane hydrates into methane gas. As with all projects, it seems, there are some environmental concerns, and in this case, this is due to the instability of the underwater geology containing the methane. However, government officials have expressed their aim to establish methane hydrate production technologies for practical use within 5 years.

As this ground-breaking news provides the promise of more than a decade's supply for Japan's total gas consumption, for a country that relies 100% on imports, other countries may step up their searches for methane hydrates. China, the USA, and Canada, have also been looking at ways of exploiting methane hydrate deposits.

In the rapidly-changing world of energy, another vast, untapped resource has made a dramatic entrance, and one which may well rescue Japan's ailing economy. Prime Minister Abe's view may well be expressed as: 'a strong energy source is the way to a strong economy'.

First glance on the recent Green paper of the European Commission:

A 2030 framework for climate and energy policies' and European industrial policy

By Petra Erler

'Strengthening the industrial base' is a confirmed priority of the EU`s growth and job strategy. Given the urgent need to restore growth and jobs in the EU, the European Council has called for an 'integrated approach' to industrial policy, as suggested by the Commission in its related Communication in 2012. In this Communication, the Commission pointed to the dramatic energy price gap between the EU and its competitors, and concluded: "The impact on the price of energy in Europe should be carefully considered when defining future energy policies." So, an interesting question arises from the follow-up to this conclusion. There is no doubt that the forthcoming 2030 framework for climate and energy policies will be decisive in terms of creating a coherent policy, matching environmental, energy, and industrial needs. Therefore, the Commission was well advised to launch an early consultation process. However, in substance, the Commission considerations reveal a shocking level of policy inconsistencies.

The Commission does not provide the public with any analysis of whether or not the current ETS has had an impact on European industry or its delocalisation, which was considered a major threat when the system was designed. It does not deal with the substantial energy price gap between the EU and its global competitors. Instead this price gap, currently at 27%, has been predicted to increase even further: "Energy prices are projected to increase in the period up to 2030, with or without significant decarbonisation of the energy system. This is in large part due to investments in the energy system that would be necessary in any case." So, was J. M. Barroso wrong in his State of the Union speech, when he urged for policy changes to bring energy prices down? I do not think so, but it seems as if the Commission has not yet managed to build up, internally, the coherent policy it called for only half a year earlier. Would price increases have a further negative impact on European industries, and drive them out of Europe? Would that lead to energy poverty in the EU? The Commission is, unfortunately, helpless on the subject, with a bundle of questions in the consultation-mix, combined with the firm conviction that price increases will happen anyway. I could not find any comprehensive reflections of the Commission, on how to match the climate and energy policies up to 2030, with the need to strengthen our industrial base. The view that renewable energy technologies would 'do the trick' falls too short, since there are also other industries which we need to keep in Europe.

The Commission also does not discuss in detail the question of how to combine an internationally-ambitious climate change and energy policy with the very fragile economic and social situation of the EU. Of course, the Commission recognises the different capacities of Member States and problems with increasing the necessary investments, but leaves us in no doubt, that its main goal is to fix a 40% GHG reduction target for 2030. Moreover, the Commission suggests agreeing upon the European position, well before finalisation of the international climate change negotiations, hopefully in 2015, as if they have not learned that their policies fail. The EU pushes too quickly ahead, without taking into consideration the interests and the willingness of others. So, why does the Commission not follow up on this lesson? Perhaps, because the focal point of the Commission's consultation paper is not about winning partners, driving economic and social prosperity hand-in-hand with environmental and energy goals, but is all about targets and targets, sub targets, sector targets, and all, preferably, legally fixed.

The launched consultation process offers, however, an opportunity: to bring more insight and knowledge to the Commission, to study the economic effects caused by the ETS, and the needs of European industry in future climate and energy policy in detail, and to work out a truly integrated approach. Consequently, all notable industrial stakeholders should make full use of the openings the consultation offers. Furthermore, the Commission would be well- advised to carefully evaluate the results of the public consultation, to fully integrate industrial policy considerations, as well as the weak economic performance of the EU into the 2030 framework, and not to rush through any new proposals. Quality matters, as well as sufficient flexibility for the international negotiations. In my view, it would be, therefore, best to leave the final outline of the 2030 framework proposal to the next Commission in 2014, which would have to conduct the international climate change negotiations in 2015.

Gas Infrastructure is at the Forefront of Hungarian Energy Developments

By MVM Strategy Division

Security of supply is one of the corner-stones of both European and Hungarian (National) Energy strategy. For Hungary, on the one hand, being poor in indigenous sources of primary energy, whilst on the other hand, having high specific gas consumption, reliance on nuclear energy and diversifying gas supply sources, as well as supply routes, is a must. Besides these requirements, in order to enhance the liquidity of the regional energy market and to ensure reliable price signals for investors, we are also fundamentally interested in developing our cross-border power capacities, coupling our energy markets to our neighbours' ones, and taking part in the development of regionally-concentrated energy markets.

According to the Hungarian National Energy Strategy, the role of the State should be significant in solving these issues. Therefore, the State-owned MVM Hungarian Electricity Private Limited Company (MVM) was assigned to prepare and implement international co-operation, and the development activities necessary, to achieve these goals. In this article, we want to provide basic information on recent developments in the field of gas infrastructure projects or initiatives, all of them having an international character, along with a regional and European significance.

The projects are as follows: 'South Stream Hungary' which diversifies supply routes; the 'Hungarian-Slovakian Gas Interconnector' which is an important part of the regional 'North-South Gas Corridor'; the 'AGRI Project'; and a Croatian LNG Terminal initiative aiming at the diversification of both supply routes and supply sources.

Planned route of South Stream pipeline

Source: http://www.south-stream.info/en/maps/

South Stream Gas Pipeline

The South Stream project is aimed at strengthening European energy security of supply, by providing an alternative gas supply route to Central-Eastern Europe (and, as such, to the European Union) to import Russian gas.

It is expected to provide a capacity of 63 bcm natural gas per year through the Black Sea (offshore-section) and across Bulgaria, Serbia, Hungary and Slovenia to Northern Italy.

The construction of the 940 km long offshore section will be managed by South Stream Transport AG, and the pipeline will run from Russia through the Black Sea to Bulgaria, and its estimated cost is approximately EUR 10 billion.

The European onshore section will transport Russian gas through more than 1400 km from Bulgaria to Italy, not including the branch pipeline to Croatia.

Gas Infrastructure is at the Forefront of Hungarian Energy Developments

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The final investment decision was made in all countries participating in the project, as well as by the shareholders of the project company of the offshore section, by the final deadline of November the 15th, 2012.

In Hungary, the related Russian-Hungarian Inter-governmental Agreement was signed in 2008, and a joint venture company was established (currently 50%-50% co-owned by Gazprom and MVM) in order to realise the Hungarian part of the South Stream pipeline investment.

Hungarian-Slovakian Gas Interconnector
The Hungarian-Slovakian Gas Interconnector project was established in 2011, to connect the natural gas infrastructure between the two countries, in order to diversify gas supply sources and provide a link between European markets in the North-South direction. The project serves the national interests of both countries, and is supported by the EU.

The Hungarian Gas Transit Ltd. project company - established on the 1st January, 2012, is responsible for the construction and subsequent transmission system's operation of the 115 km reverse flow pipeline's Hungarian section (92 km). The pipeline's planned capacity is 5 bcm, and it will connect Vecsés (HU) and Velke Zlievce (SK). The project's Slovakian partner is Eustream a.s.

MVM holds 49,983% in the Hungarian Gas Transit Ltd., MFB Invest Ltd. being a strategic partner with a respective share in the company. Total investment cost is approximately EUR 160 million, which includes EUR 26.7 million EU funding. The engineering, procurement and construction (EPC) contract was signed in September, 2012, and that sets the key deadlines for the project, with commercial operation due on the 1st January, 2015.

AGRI Project
As Hungary is highly interested in finding alternative gas sources and new transportation routes, it also supports the AGRI Project, besides Nabucco, South Stream, and both the Baltic and Croatian LNG terminals. The goal of the AGRI Project is to transport natural gas from Azerbaijan to Central and Southern European countries. A pipeline would connect the Sangachal terminal, Azerbaijan, with Kulevi port, Georgia, on the Black Sea where the construction of an LNG liquefaction plant is planned. The liquefied natural gas is planned to be transported to Konstanca port, Romania. After regasification, the already-existing Romanian pipeline system would be used to deliver natural gas to Romanian and Hungarian customers.

Hungary joined the Project on the 14th September, 2010, and MVM became a 25% shareholder in the AGRI Project Company on the 4th March, 2011. The other shareholders of the Project Company are the Romanian 'Romgaz', the Azerbaijani 'SOCAR', and the Georgian 'GOGC', each having an equal 25% share. The aim of the Project Company is to prepare a feasibility study for the Project. The expected deadline of the study is Q1, 2013.

The comprehensive study is meant to deeply assess the future natural gas demand of the target countries, potential locations of the LNG terminal, and related environmental issues. It contains extensive analyses on various technical solutions and related economic evaluation.

Once the study is ready, the shareholders of the AGRI Project Company will decide on the next steps.

Croatian LNG Terminal
Croatia's two government-owned energy companies, power board, Hrvatska Elektroprivreda (HEP) and gas transport operator, Plinacro, have formed the LNG Hrvatska consortium to build a liquefied natural gas (LNG) terminal in Omisalj on the northern Adriatic island of Krk. The capacity of the terminal in the first stage (by 2016) will be 5 billion cbm of gas per year. The LNG project is an alternative to a previously planned terminal at the same site, which was begun by the international Adria LNG consortium made up of Germany's E.ON-Ruhrgas, Austria's OMV, France's Total, and Slovenia's Geoplin. In line with its regional gas strategy, MVM is also interested in participating in the new Croatian LNG project. Its interest was officially confirmed by the Hungarian Government (Minister of State for Climate Change and Energy, Pal Kovacs) in May 2012. However, the Croatian project consortium postponed the final investment decision until 2013, due to falling gas demand on European markets amid the economic crisis.

ČEZ and Czech Coal sign notable coal supplies deal

By Mariusz Świerczyński

Power producer, CEZ, and mining company, Vrsanska Uhelna, (from the Czech Coal Group) have just concluded an agreement that will ensure coal supplies for Počerady power plant for at least the next 50 years. Due to the long-term nature of the contract and the fact that it will significantly stabilise the situation in the whole market, this development is a major boost, not only for the coal sector, but also for the electricity industry. This deal closes one of the most complex negotiations conducted within the world of Czech energy.

Mr. Daniel Beneš, President and CEO of CEZ, stressed that the agreement may last beyond 2060, that is why, in the current, volatile situation in the power sector, this is an important stabilising element - not only for both companies, but also for the whole region. This deal will create plenty of jobs, along with the associated development. At the same time, it opens opportunities for new, increased investment in the modernisation of the Počerady power plant, as well as the Vršany coal mine.

Mr. Vladimír Rouček, CEO of Vršanská Uhelná informed the media, that the signed agreement is good news for the whole region of North Bohemia, which has been inflicted with the highest unemployment rates in the Czech Republic. The agreement provides a long-term perspective for 1,300 employees directly in the Czech Coal Group, whilst another 3,200 people will have supplementary jobs in the services sector and with co-operating companies.

The first major modernisation of the Počerady power plant will be completed in 2016. It is also the first time when CEZ has agreed to sell to Czech Coal the above-mentioned power plant. The agreement establishes a second opportunity in 2024. The price is fixed in advance, because CEZ promised to sell some of its power plants, as part of an agreement with the European Commission.

Vršanská Uhelná plans to invest about 10 billion Czech crowns within the next ten years. This applies primarily to the so-called 'interlayer network' the 'hořanskim corridor', and a comprehensive re-construction of mining technologies. These works are a great opportunity for suppliers from the region, as well as from the Czech Republic, nationally.

For Czech Coal, the agreement provides permanent recognition and a supply of brown coal.

WE HAVE MOVED!

(New Premises for CEEP in Brussels)

Dear Members and friends of CEEP,

As from the 28th March, CEEP is now resident in new offices in Brussels. This reflects upon the organisation's steady growth since its incorporation in 2010, and the subsequent need for a bigger working space. Our membership is growing, and the amount of involvement with EU-related matters, such as debates, forums, consultation talks, summits, etc, and the matching rise in administrative duties. CEEP is firmly established now in the heart of the EU-dominated world, and to mark our progress, we felt that new, well-facilitated and bigger offices were a must. As always our members and friends, when in Brussels, are always welcome to drop-in on us, and use our facilities, and that opportunity is still open to you. We are located, not so far from the former offices, so we will still be close to the European Parliament.

Our new address is:

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