

Introductory Remarks by John Roberts

These are not easy times for Greece; they are not easy times for anybody. You have difficult neighbours and suddenly in Europe we discover we have difficult neighbours to the west.

So I am going to try to put some of this into some kind of general context. The first thing I want to say is that on the whole it looks as if the core supply problem is not too bad. I will state that I am basically talking here about gas. Europe has got plentiful sources of gas and it has done a fair amount of diversification. There are plenty of LNG receiving terminals and that means Europe can be flexible to a much greater degree now than even five or 10 years ago. But there are problems.

The first problem concerns gas as such. Something very odd happened in 2015 – that was the year in which, according to one analyst, for the first time, the increase in primary energy demand throughout the world was totally met by non-fossil fuels: nuclear, hydro, solar and wind accounted for all the increase.¹ In other words, consumption of fossil fuels fell.

Now there was an expectation that 2016 would seem much the same. It didn't. In 2016, only half the increase came from non-fossil fuels. But that's to miss the point and in both cases the figures are tiny – the amount of growth being less than 1%. The point is where does investment go? And it shows that increasingly investment in incremental energy capacity is not going into fossil fuels. In particular, it is going into wind and solar.

Now given that fossil fuels still command more than four-fifths of the world's market and given the still relatively slow pace – one might think – of non-fossil fuel

¹ Doomed by renewables, Kingsmill Bond. Presentation at Workshop at Oxford institute for Energy Studies, October 2016. Author's note.

development, that is an awfully big market for fossil fuels for the next 20 to 30 to 40 years. It is a market that would be fought over.

The question for gas is whether it rises to the challenge? Gas is not in competition with renewables. Gas is in competition with coal and increasingly in the transportation sector with oil. But if gas is going to compete with those, then it has to cover its back by making the point that it is complimentary not competitive to renewables. It is only just beginning to make that case.

There is a reason why people are nervous about gas; in fact, there are several reasons. In Europe it's not too long since the disruptions of 2006 and 2009. The dominance of one supplier in particular, Russia, remains a cause of nervousness. Even though the old equation of Russia being a reliable supplier to, as it were, Western Europe and an unreliable supplier, as it were, to the former Soviet world is increasingly becoming a thing of the past. Then you see the geo-political dimension of this. If there is one country that is pivotal to Russia's determination to develop gas exports to Europe on its own terms; it is Germany. Russia has put an awful lot of effort into ensuring good Russian and German relations which is only right and proper. But this is where life gets very peculiar... because who else wants to have good relations with Russia or at least Russia's leader? President Trump.

But President Trump represents – if that is the right word – a country that is on the verge of producing as much as a 100 bcm of LNG for export by 2021. Some of that will go to Europe – much of it of course will go to Asia – but it will be competing with Russia. Moreover, you have the paradox that while Trump has done everything he possibly can to make it clear that he does not wish to do anything that might damage a prospective good relationship between himself and Mr Putin; in fact he is doing exactly that – though he doesn't yet know it himself. Why? Because he has completely and totally antagonised Madame Merkel in Germany. The idea that Germany now no longer describes the United States as a friend – its chief friend, indeed – but as its chief partner is highly indicative of the complete nervousness that not only Germany but France and much of Western Europe, including possibly Britain, have about the Trump Administration at the moment. Why do I dwell on this? Because we have a vacuum in Washington; a lack of clear direction that makes it very

unclear as to what will be the pressures the United States will bring to bear in connection with three core energy elements: One, the export of LNG; Two, the continued substitution of gas for coal within US markets and, Three, the role of renewables in the United States, which employ far more people than coal. And if you have uncertainty there, you have a major degree of uncertainty concerning the direction of global energy issues for the next four or five years.

Where do we go from where? We have energy security problems of a rather different nature now to what we had five or 10 years ago. We don't think we really do have an energy security problem with Russia because in an era of low prices, Russia needs to export all the energy it can so therefore Europe is the beneficiary.

We do have an energy security problem – I put to you – in Turkey. This is not a classic investment issue concerning the safety or security on commercial grounds of investments in Turkish energy. The TANAP project, the whole Southern Gas Corridor (SGC), is speeding ahead. There is no reason to suppose the SGC will not be completed in time, although there may be some slight problems in Italy. No, I am far more worried about something much bigger than that – which is namely, what is the security of Turkey itself in social and political terms?

The reason I pose this question is that if it were not for the fact that the casualty rate in Iraq and Syria in the wars against ISIS was so great, we would be paying far more attention to the fact that the homes of around 400,000 people have been destroyed in south-east Turkey in the current resumption of war between the PKK and the Turkish State. We would be far more worried about the thousands of lost lives, no matter how you calculate it, whether you use Government figures, the opposition figures or neutral figures from International Crisis Group. All these figures are heavy, much heavier than anything that we have seen elsewhere in Europe, such as Britain's own war against the IRA.

So we have a serious issue, I think, and the reason why it particularly concerns energy is that every time there has been a real intensification of conflict between the PKK and the Turkish State energy pipelines have been a casualty. I am also worried about deliveries by sea. In part or really totally this is not because of the threat of

interruption at sea, it's a question of upstream; we have had a massive slump and a very significant recovery in Algeria as a result of internal unrest. A slump that caused Algerian exports to Italy to collapse almost totally before they began recovery two years ago.

And now we have the situation in Qatar. We have no idea what is going to happen. Logically, it is a storm in a tea cup – it should be sorted out. But then logically, the new Crown Prince of Saudi Arabia should be realising that his war in the Yemen is bleeding Saudi Arabia just as much as it bleeds Yemen and is fracturing relations with the UAE because it is UAE soldiers who are dying for Saudi Arabia in Yemen. So we have a very nervous and difficult situation that is increasingly unpredictable.

What happens next? Well obviously in this kind of situation you need backup. There are two forms of backup: one, increase interconnections – if you can't get supply from A, you get it from B – and that is what Europe has been moving towards. If you look at the projects of common interest that are actually likely to be developed in Europe; in four or five years' time we should be in a pretty strong position. The problem is we are in 2017 not 2022. We haven't got there yet. We are still short of core elements of infrastructure that have yet to start. We need, for security purposes, not only such elements as an LNG regasification plant at Krk Island for Croatia but also a full connection of that system into the system that serves the Polish LNG regasification system at Świnoujście in order that there is flexibility in terms of supply in Central Europe. Because if there is one thing that we can count on as being reasonably stable, it is the good news that Norwegian production remains incredibly high and shows no sign of tailing off significantly for the next 15 to 20 years.

What else do we need to think about? Flexibility in developing floating, storage and regasification units – that would apply to Krk. Significantly, what is the best example we have of how quickly this can be done? People cite Lithuania. The real one to cite is Aliaga in Turkey, just over the other side of the Aegean. Done in a matter of months and now a second purpose-built unit is almost certainly about to be ordered also at Aliaga.

It is interesting that the Turks themselves should be thinking about the need for increased supplies of LNG. To my mind this shows two things. One, that they themselves don't want to place all their eggs in one basket with regard to Russia and TurkStream. Two, that they are sufficiently confident about their own economy that gas prices are not a problem for them and that they will continue to import increased amounts of gas as and when their economy requires it. But note that the Turkish economy is not doing so well. Gas demand has been stagnant and, as I said, there is a background question mark, at least, on the country's long term stability.

What else do I really want to say? Not very much; just that I think this is a rather more delicate and dangerous situation than we normally imagine. We've got a lot of projects underway. I am sure that there will be a proper presentation concerning TAP (later in this workshop) and we also have, I understand, progress on the interconnector between Greece and Bulgaria.

But there is still more to be done in the Balkans as such. These are still the last big island of gas dependency on a single supplier. There is some progress in terms of the Brua system that would connect Bulgaria, Romania, Hungary and Austria but – and it is a very big but – its capacity is limited and it doesn't really do much in an emergency given that limited capacity. What's more, although it is helpful, its primary purpose of course is not really to serve as an interconnector; it is to serve as a conduit for Romanian offshore gas to reach Central Europe.

If there is one thing that has to be done – and I'll end it here – it is something that is so blindingly obvious and yet we don't really want to think about it. It is the reversal of the Soviet-era pipelines. It is taking the Trans-Balkan pipeline and it is taking the Brotherhood pipeline and making them reversible on a large scale. That of course means bringing Ukraine into the equation. And there you have the ultimate energy conundrum: how can you have a reformed Ukrainian Naftogaz – which you do – if you do not also have a reformed Ukrainian government, which you do not?

Thank you.