

New Routes of Transportation of Energy Carriers to Europe.

First of all I would like to thank the Centre for Progressive Policy Research and its President Yannis Papantoniou for the opportunity to speak in such representative audience and to share some thoughts concerning the development of new infrastructure for transportation of energy carriers to South-East Europe.

For obvious reasons, I will concentrate on Russian gas and oil supplies to the region. To begin with I would like to point out that such projects as Bourgas-Alexandroupolis oil pipeline and “South Stream” gas pipeline do not represent - as it is often deemed - a “political plot” of Moscow aimed at a takeover of Europe.

We do not impose these pipelines to anybody. They are merely commercial projects – result of mutual understanding of participating countries that we need to strengthen the energy security in Europe by diversifying ways of energy transportation.

I would like to provide an explanation.

Many analysts suppose that by the year 2020 Europe will need additional gas volume equivalent to 200 bcm per year, taking into consideration growing consumption and demand as well as the fact that gas production in Europe (with the exception of Russia) is decreasing.

Another example: at present through the Turkish Straits tankers deliver 110 mln. tones of oil and 45 mln.tones of oil products from the Black sea basin to international market. That is the limit, and it will be impossible to guarantee safe passing for those tankers if this limit is exceeded.

Taking into account the expansion of the Caspian pipeline consortium (CPC) and the growing export of oil from Kazakhstan, Black Sea within 2-3 years period will receive additionally 50 mln.tones of oil, which will be impossible to transfer through the Straits.

Here should be added that the capacity of the existing infrastructure has been fully exhausted. Its deterioration and moreover – economic, as well as political problems in the transit-countries noticeably increase risks.

Ukrainian gas transportation system is considerably worn out and needs modernization. As it is known, last March the European Commission and the Government of Ukraine signed the Joint Declaration on modernization of the Ukrainian gas transportation system. However, up to now no practical steps have been taken to this end. By the way, we were surprised that this Agreement was reached behind Russia's back which is in fact the only gas exporter through Ukraine. Moreover, we indicated repeatedly that we were ready to provide technical and financial support for modernization of gas transportation system in this country.

With the main purpose to overcome those interconnected and overlapping problems such projects as South Stream and Burgas-Alexandropolis were planned and - I hope – would be realized.

South Stream gas pipeline project with the leading role of Italian ENI and Russian Gazprom is designed for transportation of 63 bcm of gas per year and its realization should begin approximately at the end of 2010. At present time Intergovernmental agreements with most countries willing to participate in this project, namely Bulgaria, Greece, Serbia, Hungary were signed. Negotiations with Slovenia and Austria are close to an end. Recently Turkey has given its consent to create offshore section of the pipeline running within its exclusive economic zone.

Those Intergovernmental agreements provide for establishing joint project companies which will undertake feasibility studies and, in case the project is technically and commercially viable, will proceed with further planning, constructing and operating the pipeline in territories of participating countries.

That kind of agreement was signed with Greece on April 29, 2008. In accordance with this agreement Gazprom and the Greek company DESFA are going to set up a joint venture on a parity basis. The relevant basic agreement between these two companies was signed on May 15, 2009 in Sochi.

Some words about our cooperation with Greece in natural gas sector.

Russian gas came to Greece at the end of 1996 when the main pipeline Kulata-Athens was put into operation. During last thirteen years about 30 billion

cubic meters of gas were supplied to Greece from Russia through gas transportation system running via Ukraine, Romania and Bulgaria. Since then this system in Greece has developed greatly. With the participation of Russian companies branch pipelines to Thessalonica, Keratsini, Lavrion, Volos and Alexandroupolis were built. Other branch pipelines to Evia and Ptolemaida are planned to be constructed. Local gas networks are now developing in Athens, Thessalonica and Larisa.

Some years ago we reached the upper limit of 3,0 bcm of annual supplies of Russian gas to Greece through existing pipeline. It's impossible to pump more using the old infrastructure. In case of necessity - and naturally of Greek government's willingness - additional quantities of Russian gas could be supplied through South stream gas pipeline.

I would also like to dwell on the project of Trans-Balkan oil pipeline Burgas-Alexandroupolis.

As it is known, discussion about this project initiated by the Greek side started in 1994 under the PASOK government. Later - in the period of 2005-2008 - during the New Democracy governing, this project got official legalization. I hope that in 2011 or 2012 the first oil quantities will start being pumped through the new pipeline.

Now the implementation of the TBP project with initial capacity of 35 million tons of crude oil has entered the final stage. The trilateral Agreement between Russia, Greece and Bulgaria was signed in March 2007. This agreement is a result of the good will shown by the three countries to create an alternative transportation route for Caspian oil to the international markets. The shareholders reached an agreement in 2008 to register in the Netherlands an International Project Company (IPC) "Trans-Balkan pipeline" where the Russian shareholder owns 51%, the Greek shareholders own 24,5% and the Bulgarian - 24,5%. Taking into consideration that the Russian companies have to secure necessary quantities of oil to fill the pipeline, I suppose such division of shares is justified. Greek and Bulgarian branches of the IPC and its office in Moscow were established in 2008.

At the same time a number of oil producing companies from other countries shows permanent interest in TBP. The possibility for new shareholders to join the IPC is on the agenda and such theoretical development does not contradict with the trilateral Agreement.

We assume that the construction of the pipeline will commence in the fourth quarter of the next year. This schedule requires the unconditional support of all States-Participants of this project. In particular, the Law proclaiming TBP a project of national importance is expected to be adopted in Greece, the IPC has conveyed for the consideration of the Greek authorities the draft "Host State Agreement". But at present the project implementation to a great extent depends on the Bulgarian government which has not said its steadfast "Yes".

OJSC "Transneft" (the leader of the Russian Joint Venture-shareholder of the IPC) has initiated necessary steps aimed at forming oil flows along the entire transit route. In particular, on October 23, 2009 the IPC "Trans-Balkan pipeline", OJSC "Transneft", Sovcomflot and the Novorossiysk Shipping Company signed an Agreement of Intent which will guarantee uninterrupted and stable transportation of crude oil along the route from the port of Novorossiysk to the port of Burgas.

Talking about possible competition with the Samsun-Ceyhan oil pipeline, I would like to underline that these two projects are different with relation to their sources. Samsun- Ceyhan oil pipeline will be filled, as I understand, by the existing oil flows redirected from the Black Sea Straits.

In respect of the ecological factor of the TBP project, being frequently discussed in Greece lately, it is necessary to underline that the IPC "Trans-Balkan pipeline" enlisted the services of leading world engineering companies with best experience in the field of environment protection to design and build the pipeline. Company intends to use the most up-to-date equipment and the latest technical solutions for constant eco-monitoring applied at thousands other similar pipelines. This will reduce the risks to a minimum. But nobody could give 1000%

guarantees. Such guarantee could be issued only by the Lord but no such precedent has ever been registered.

By the way, the representatives of NGOs, local authorities, mass media and other interested parties from Burgas and Alexandroupolis got acquainted this May with the modern, safe and ecological-friendly facilities of the Caspian Pipeline Consortium in Novorossiisk. Public presentations of the TBP project with special emphasis on environmental issues were held in the municipalities of the Evros prefecture at the end of April. They proved positive attitude towards the project on the side of local residents.

I am convinced that the implementation of the South Stream and the TBP projects will bolster the energy security in Europe. The construction and the operation of these pipelines will attract to the participating countries additional foreign investments, create new jobs, secure inflow of considerable amounts as transit fees to the budgets and contribute to the economic development of the regions which the pipelines will be routed through.