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REPORT

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FOR CEEP REPORT MR. ELMAR BROK, MEP, TALKS TO MAREK ORZECZOWSKI

Today, Energy is stronger than Military Power



Elmar BROK

Marek Orzechowski (MO): How important is energy for the foreign policy of the European Union?

Elmar Brok (EB): When we speak today about energy, we speak, in fact, about energy security. There is no more important element of foreign policy in the world than energy. This is now the crucial component behind policy-making. Secure access to resources played, of course, an important role in the past, but today, energy is much stronger than military power. Therefore, I am sure that the foreign policy of the Union is duty-bound to mitigate the visible differences, and also ensure the reduction of our dependence on external energy suppliers. This can be achieved through the expansion of renewable energy sources and wise energy strategy, which should figure as an important component of the foreign and security policy of the EU.

MO: We, in Europe, are very dependent on outside suppliers – does this have an effect on the power position of the EU?

EB: We do not have enough resources - that is true; so, this has for us two consequences. Our foreign partners try to play us off against each

Today, Energy is stronger than Military Power

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other, which sometimes works, sometimes not. Secondly, it is obvious that we need more co-operation and co-ordination between Member States. There must not be any competitive battles between Member States, because the security of energy is in our common interests, and this must be a priority for all. We must not forget that our friend, the USA, soon loses its focus on those regions in which it previously had vested interests. The United States will no longer be dependent on oil and gas imports, and this fact will mark serious changes in the field of energy. The shale gas revolution in the USA, in fact, the energy revolution, will have a profound impact on geostrategic conditions. These changes directly affect our security interests, and Europe's future energy policy. The message is clear: the US shale gas revolution clearly holds, for the EU, security-related consequences. The second message is 'crystal clear' – we really need a common position, a common energy policy.

MO: Some will say that we do not need to look to the Middle-East for gas, when, on our doorsteps, we already have Gazprom. How we can reduce the present dependence on Gazprom?

EB: It must be clear that the European Commission conducts fairly joint energy projects, and that they are also supported. Intervention, when common interests are violated, may well be

necessary. Energy used as a political tool is out of the question, and we reject this: we have the free market. However, our companies must not forget that they, too, are obliged to respect our common energy security and political interests. In this context, the European Commission also must ensure that there is no competition for the 'favours' of Gazprom between Member States. It is also clear that the expansion of renewable energy will make us more independent. We must not lose sight of the consumer in all of this.

MO: Of course, but isn't the Union's present policy on shale gas counter-productive?

EB: We are not the United States. Europe will never be completely independent. Look at any map. Towns next to cities, thousands of villages, a network of connecting paths, a sea of infrastructure, densely-populated regions, etc. Shale gas extraction initially means fracking, in such urbanised areas. So, it is very difficult for us to use the available technology. As long as we have fracking, then certain problems will exist: therefore, we must be careful.

MO: Is climate change now playing a role in shaping the foreign policy of the Union?

EB: Climate change is, in fact, a security risk. The long-term ef-

fects on climate change, or other threats to the environment, are clearly geostrategic questions. The architecture of energy security also needed to include an international treaty limiting CO₂ emissions worldwide. These are absolutely new aspects in today's world. It is not only just about energy security; it is also about ensuring the peaceful development of the world.

MO: 'Energiewende' in Germany – is it a good model for others to follow?

EB: This is a very complicated undertaking. From my point of view, we should, in Germany, discuss the questions connected to 'Energiewende', more from the aspect of energy security. The 'Energiewende' is seen in Germany, above all, as a purely eco-political measure, and not enough consideration is given to the equally relevant economic and industrial policy aspects. Yet, these are the most important factors. ☪

Elmar BROK

Member of the European Parliament since 1980. Member of the EPP and EPP foreign affairs coordinator. Foreign policy spokesman for the EPP Group in the EP and representative at Intergovernmental Conferences on the Amsterdam Treaty, Nice Treaty, Lisbon Treaty and the EU Constitution. Long-term Chairman of Foreign Affairs Committee of EP

Europe, overburdened by regulation, is at a high risk of blackouts



Krzysztof Zamasz

By Krzysztof Zamasz

As the debate on the EU 2030 climate and energy targets heats up in the final stretch, leading up to the next European Council meeting of Heads of State, political manoeuvrings and

intensive lobbying are guiding the discussion away from environmental policy, and thrusting it towards fuel switching policy. The European Commission itself, cannot come to a consensus of whether Member States will accept an augmented Climate Package, whilst facing the reality of economic recession and massive unemployment. As the 2009 climate directives have only recently begun to function, with some Member States not having yet fully transposed them, we have already witnessed turmoil in the energy sector. Some claim that Europe's power sector has become "uninvestable", while others express the urgency to reform subsidies for renewables. High prices in electricity bills brought down the government of Bulgaria last year, while the same problem has led UK politicians to conflicts with utilities, in the wake of rising fuel poverty. In a power sector crisis of its own, Hungary has embarked upon the nationalisation of foreign utilities.

Coping with the many problems across the sector is becoming increasingly complicated. Adding to the disorder, the Commission opened in-depth investigations last month, to examine

the surcharge for the financing of renewable energy sources in Germany, and UK plans to subsidise the construction of a new nuclear power plant at Hinkley Point. At the same time, the Commission has forced through a controversial 'backloading' market intervention in the European Trading Scheme (ETS), via an unprecedented legislative process. It is hard to imagine that Member States will agree to accept more forthcoming EU regulatory burdens on the already struggling power sector in a stagnating economy. By way of contrast, the Commission should relieve Member States from any further climate and energy policy proposals, and allow them to first rebuild the security of supply, that is urgently needed in a globally-competitive playing field.

OVERBURDENED BY CLIMATE POLICY

It's worth re-examining how we arrived at this tentative point. The main tenets of the 2008 EU Climate and Energy Policy were based on the premises of the successful implementation of the Kyoto Protocol to the United Nations

Framework Convention on Climate Change (UNFCCC), and the commitment to raising the share of energy consumption produced from renewable resources. Before the final deal was struck on the structural reform of the 2003 ETS Directive (2003/87/EC) in December 2008, - a significant part of the controversial Climate Package (2009/29/EC) - many argued in favour of a carbon tax. In hindsight, the carbon tax, despite being another fiscal burden, would have been, at the very least, a predictable element for energy investments. The '20-20-20' targets were eventually adopted with a whole spectrum of accompanying rules, entangled in complicated bureaucracy, - comprehensible only to its authors, - including regulatory glitches which could be used, as in the case of the auction time profile regulation, euphemistically called 'backloading', to tamper with the carbon market. No other commodity market has endured such a political experiment in the history of trade.

The Kyoto Protocol to the UNFCCC, an environmental treaty, - 'Kyoto' to most followers - has not led the world to a greener future. The most

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important parties to the agreement were not interested in enforcing it. The United States never ratified the document. Australia stalled with ratification until 2008. Canada eventually withdrew from the agreement. China, the world's largest greenhouse gas emitter, was not bound to reduce its emissions under the treaty. In fact, the only significant reductions in CO₂ emissions, as the Protocol was being observed, were recorded by the Post-Communist Central European States. These reductions were attributed to the shutdown of heavy industry, and a major decline in industrial output with extreme social costs of economic transformation. At the expiration date of the Kyoto Protocol in December 2012, only the Member States of the European Economic Area were interested in extending the treaty. Even with significant CO₂ reductions by the EU and EFTA countries, the overall effect will be minimal, as the Kyoto second commitment period (KP-2) applies to only about 12% of global emissions. Canada, Japan, and Russia, explicitly indicated that they would not take on further Kyoto tar-

gets. Since then, the Australian government has proceeded to abolish its carbon tax from the 1st of July, 2014. Wishful thinkers, along with the EU's Climate Commissioner, profess that a 2015 global UN agreement will force the world's major polluters to join Europe in CO₂ reductions, but the conclusions of the last UNFCCC meeting in Warsaw, cast continuing doubts about the contentious UN process, designed to fight global warming since 1992. The United States have hinted that they are in favour of voluntary measures rather than a future binding agreement, which suggests that, once more, they will not endorse any binding international law. Furthermore, parties to the UNFCCC, agreed only to propose "intended nationally-determined contributions by 2015". That is well short of the global agreement rhetoric of "binding targets" that we so often hear from politicians in Brussels.

Setting aside the UN jargon, Jose Manuel Barroso, the President of the Commission, has now signalled that a renewables target in Europe can be sacrificed in favour of another ETS

Directive reform, with the possible adoption of a 30-40% CO₂ reduction target for 2030. While the reformed ETS Directive amending the 2003/87/EC version was published on the 23rd of April, 2009, and formally implemented, with the start of the third phase beginning just a year ago, it is curious that the Commission feels it necessary to further augment CO₂ reductions, at a time when the continent is in dire economic straits. The Commission may, at its own discretion, risk another blow to the EU's democratic deficit, by publishing another ETS legislative proposal to adjust the supply of carbon permits on the market. Such a move would create further chaos in the sector, and possibly speed up the threat of blackouts across Europe.

CAN CAPACITY REMUNERATION MECHANISMS SAVE POLAND FROM BLACKOUTS?

For a long time, most of Central and Eastern Europe (CEE) have faced substantial overcapacities of power generation plants. Since the

beginning of Poland's transition, there has never been any risk of rolling blackouts, and virtually everyone has forgotten what they looked like in decades past. As prices of electricity have been reasonable and supplies have been secure, the power sector seems now to be largely overlooked in the daily life of contemporary society. Can it be like that forever? Can we really forget about the existence of the power sector?

For several years, it seemed possible. Most of the CEE governments jumped on the bandwagon of liberalisation. They followed a model initiated by the British electricity market that was the first to privatise its power sector and let investors run the business. In a market economy, however, one of the key objectives of investors is to maximise profits. Hence, one cannot imagine a private investor running a business, without expecting reasonable return on equity. Nevertheless, the liberalisation of electricity markets resulted in a significant increase in the risk of operation. As income from electricity sales is no longer secured (the

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Long-Term Contracts are no longer allowed), it is far harder to receive loans for any kind of capital-intensive investments. If we look at the whole power sector of a Central European country, such as Poland, we will see that the sector is really underinvested. A recent report on the security of supplies by the Ministry of the Economy, has unveiled a whole range of issues with the problem. If we do not anticipate and react to it, there will be 95 MW in 2015, 803 MW in 2016, and 1101 MW in 2017, of available capacity, missing in winter peak hours.

However, is it only a question of secure income from electricity sales? One could say that the market economy ensures that inefficient producers should be out of business. In other words, the power sector cannot expect certainty, as with other normally functioning sectors of the economy. At first sight, that kind of reasoning could be perceived as logical thinking, but the specific nature of the power sector is substantially different from other industries. First of all, demand for electricity is highly inelastic. As most electricity consumers are not



exposed to price changes, they simply do not react. Consequently, virtually everyone who is willing to pay expects to be provided with electricity, and that is what a market of 'standard' goods or services should do in setting the market's clearing price (the intersection of demand and supply curves). If there is not sufficient capacity, and international transmission capacities are too low, it is simply impossible for power generators to meet demand. On top of that, electricity storage is available to a very limited extent, and is not of much help. Consequently, there is no other option, but to invest in new generation capacities, which is a complex course, as such investments are: (a) long-term and (b) capital-intensive processes. In order to make it more profitable, higher prices would be needed (the scarcity rent), which is in total contradiction to what we are observing in the market now. Namely, prices are plummeting to the level of short-run marginal costs. This unattractive price development can be perceived as one of the key contributors to the underinvestment of the power sector. In addition to this, when an increased share of re-

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newables finds its place in the technology-mix, this problem will be intensified. In the end, windy and sunny days will result in negative wholesale prices, as is already being observed in Germany.

RELIABILITY OR LOW PRICES

Negative prices and the long-run reliability of the power generation system do not go hand-in-hand. The lower the prices, then the lower the incentives will be to invest in conventional technologies, which offer both flexible and secure power generation. One cannot expect that relying solely on renewable capacities can ensure safe supplies under unfavourable weather conditions. If we confront the problem of low electricity prices, with the forthcoming, substantial decommissioning of obsolete units (also resulting from the Industrial Emissions Directive - 2010/75/EU), sooner or later, we will face the problem of a supply and demand mismatch. Several European countries had expected such difficulties and they

designed and introduced appropriate mechanisms. Spain introduced capacity payments in 1998, and re-designed the system that has also been in place in Portugal, since 2007. Currently, both old and new capacities are remunerated, although there is a substantial difference in payments, depending on whether it is a newer unit or an old one. France is finalising the introduction of a decentralised capacity market, with particular attention being paid to Demand Side Response options. Surprisingly, there were no solutions of that kind introduced in the UK, a country that has always been at the forefront of electricity liberalisation reforms. Only now, when the problem of generation adequacy has become urgent, the introduced Electricity Market Reforms have included the contract for difference and a centralised capacity market.

Similar capacity instruments are currently under discussion in Poland. Since there have been very few investments in new power generation units in recent years, and the decommissioning of several units operating in the system

is expected in the near future, incentives are needed to ensure a sufficient level of investment. There are many mechanisms that could be potentially considered for introduction in Poland. Both capacity payments and contracts for difference would ensure stable income that would significantly influence the willingness to invest, hence guaranteeing an appropriate level of capacities. In such a scenario, however, the probability that the European Commission would launch a probe into such deals is very high. The planned Hinkley Point C nuclear power plant is a case in point. Other options worth considering are: the decentralised (as proposed in France), or centralised (as in the UK) capacity markets. Those mechanisms could be successfully introduced, and should meet the main objective to provide a stable stream of funds for new investments.

Ultimately, the question should not be whether to introduce a capacity remuneration mechanism in Poland, but which one to select, in order to fulfil the goals of the energy policy of any country, which are to ensure safe and

stable supplies of energy carriers at affordable prices. If properly designed and carefully introduced, a capacity remuneration mechanism can stimulate new investments in the power generation sector, and ensure the investments that are so urgently needed. Whilst many countries are dealing with the dilemma of underinvestment in capacity, it is crucial that the executive branch of the European Union refrains from proposing any further regulatory burdens in the electricity generation sector, as it ultimately drives both industrial output and economic growth. 

Krzysztof Zamasz
President of ENEA S.A., PhD in Economics,
Assistant Professor



ENEA is one of the leaders in the Polish power market. It ranks amongst the largest Polish power companies, and amongst the strongest brands.

Opportunities and challenges for Eastern Mediterranean natural gas



Heiko Ammermann

Yvonne Ruf

By Heiko Ammermann and Yvonne Ruf

Hypothesis 1: The natural gas reserves are strategically significant for the Eastern Mediterranean region and the development of the European energy market

As approximately 1.4 tcm of proven reserves of natural gas in the Eastern Mediterranean Levant Basin shows, the region can become a new supplier of natural gas for the Eastern Mediterranean region and beyond. Whereas the amount of proven reserves does not make the Eastern Mediterranean region a systemic

game changer of natural gas suppliers (when you consider roughly 8.3 tcm proven and probable reserves in the Caspian Sea region), it bears significant potential for increased energy security, economic growth, and co-operation in the Eastern Mediterranean. Israel is expected to both cover its domestic consumption and export over 380 bcm in the next 20 years, and the proven reserves in Cyprus are worth approximately 20 times the country's current GDP. Exports in the near future are expected to be driven mainly by Israel and Cyprus, with roughly 20 bcm annually, from both countries by 2020. For the European energy markets, Eastern Mediterranean gas offers a strategically important alternative source of supply from Russian and Azeri gas. The latter is expected to reach the European Union, via the Southern Gas Corridor, through the Trans Adriatic Pipeline (TAP) from 2019 onwards.

Hypothesis 2: Demand for Eastern Mediterranean natural gas will be driven mainly by soaring consumption in Turkey

Whereas natural gas import growth into the EU

will be fairly sluggish, the most probable consumers of Eastern Mediterranean gas may be regionally-based ones: for instance, Turkey's natural gas consumption has been soaring, with 6% growth per annum in recent years. If it continues at about this pace, domestic consumption will go beyond 60 bcm in 2020. Alternative sources to the current total imports of approx. 43 bcm, as well as the 6 bcm that have been earmarked from the Southern Gas Corridor, from 2019 onwards, will need to be identified. This projected import development could put Turkey's status as a transit country for Azeri gas, through the Southern Gas Corridor, into question. In this light, Eastern Mediterranean natural gas can be considered a strategically-important, complementary energy source that strengthens the Southern Gas Corridor as a transit route for Azeri gas to Central and Western Europe. However, it remains to be seen whether the Eastern Mediterranean gas will hold such a strategic role for Turkey, considering other suppliers waiting in line to export to Turkey, such as Azerbaijan, Iran, and Iraq.

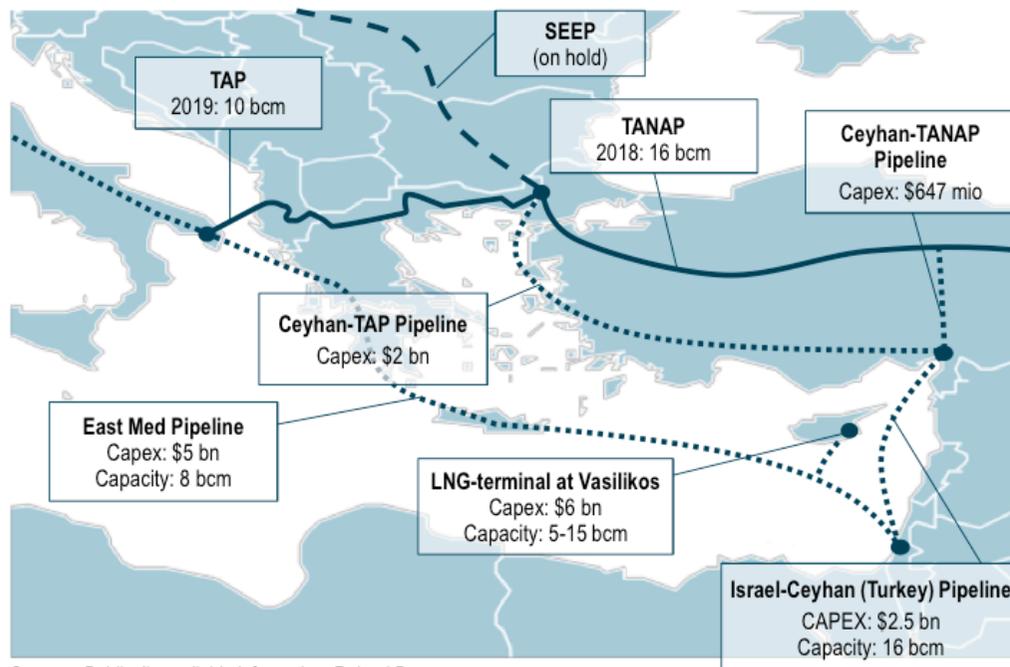
Hypothesis 3: Export infrastructure options need to be carefully evaluated – supplying neighbouring countries directly, seems economically to be the most viable

Currently, several export infrastructure options for Eastern Mediterranean natural gas are being discussed: the most prominent one being a LNG terminal at Vasilikos, Cyprus, for which negotiations are ongoing between Cyprus and its partners Noble, ENI, Kogas and Total. Furthermore, a direct pipeline, linking Israel with Ceyhan on the Turkish coast, is under discussion, and the EU has listed the Eastern Mediterranean pipeline as a strategically important Project of Common Interest.

Export infrastructure options need to be carefully evaluated, taking export markets, technological feasibility, required investment, and natural gas prices, as well as regulatory stability into account. The LNG terminal at Vasilikos is expected to be comparatively high in capex, but provides flexibility in the choice of export destinations, which can be an argument, taking into account considerably higher import

Opportunities and challenges for Eastern Mediterranean natural gas

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Sources: Publicly available information, Roland Berger

Figure 1: Selected export infrastructure options for the East Med. region

prices in Asia. A pipeline linking Israel and Ceyhan is an option, with comparatively low capex

and high profit margins – the most direct, and probably the most viable possibility, economi-

cally. From Ceyhan, gas could be fed into the existing Turkish pipeline network, to meet domestic Turkish consumption. Feeding into the Southern Gas Corridor via the Trans Anatolian Natural Gas Pipeline (TANAP), and/or especially into TAP, remains a questionable option in the near future. This is also due to the exemption from the Third Party Access principle granted to TAP in May, 2013. Current export expectations for Israel (12 bcm), and Cyprus (7 bcm), in 2020, suggest that realising both options, the LNG terminal (5-15 bcm), as well as the Israel-Turkey pipeline (10-16 bcm), can be feasible. The Eastern Mediterranean gas pipeline is, though, currently an economic question mark, due to the technological complexity of crossing the deep seabed of the Mediterranean.

Hypothesis 4: A stable, regional political and regulatory framework needs to be established to reap the potential benefits of natural gas

Political issues, impacting on the options for monetizing on natural gas, need to be resolved, and a stable, regulatory framework established, in order to provide a conducive, investment climate for export infrastructure,

and the realisation of the expected economic benefits. This includes settling ongoing EEZ disputes between, for example, Turkey and Cyprus. Signing a joint regional Memorandum of Understanding for supporting specific export infrastructure projects could be perceived as a sign of regional stability and co-operation, and attract international investors, as well as accelerate the detailed conceptualisation of projects on the table. It could also strengthen the region's bargaining power, vis-à-vis current supplier-states such as Russia, Azerbaijan, and Iran. If a regional stance is taken, Eastern Mediterranean natural gas can become a catalyst for deeper economic co-operation and integration of the region and, thus, improve its overall economic competitiveness. 

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Shale Gas and the Transatlantic Chemicals Sector



Ian Brzeziński

By Ian Brzeziński

The global chemical industry is a \$3 trillion business, one heavily reliant upon oil and natural gas as sources of energy and feedstock. Its recent growth, estimated to be 2.2% in 2013, is rooted in the global economic recovery,

Asia's steady growth, and the revolution in unconventional oil and gas. This last factor has not only contributed significantly to the uneven performance of the chemical sectors in Europe, which contracted by 1.4% in 2012, but also to the contrasting performance of the United States, which is experiencing a dramatic resurgence.

THE US SHALE GAS REVOLUTION

The revival of the U.S. chemical industry, particularly its petrochemical sector, is rooted in America's shale gas revolution,

which precipitated a significant drop in the price of U.S. natural gas and natural gas liquids. In 2011, the price of ethane in the United States plummeted from 91 cents to 26 cents per gallon. The price of natural gas in North America has fallen by two thirds since 2008, and today, it is a third to a quarter of that in Europe and Asia.

This has significantly enhanced the competitiveness of the U.S. chemical sector, which has ramped up production and experienced a surge in capital investment. According to the American Chemical Council (ACC), the growth rate of U.S. chemical production grew from 0.1% in 2012, to 1.6% in 2013, and is likely to be 2.5% in 2014, and 3.5% in 2015. The industry's annual sales, estimated to be about \$800 billion in 2013, will hit \$1 trillion by 2018. The ACC estimates that U.S. chemical exports will increase by 45% over the next five years.

According to the report, "over 135 new chemical production projects (valued at over \$90 billion altogether) have been announced." Half of those projects are driven by non-US companies. The Council predicts that capital investment will "increase more than 8% per year, on average, through to 2016, and that "by 2018, U.S. capital spending by the chemical industry, will reach \$61.2 billion" - more than double the level of spending in 2010.

Capital investment underpins this production growth. The ACC reported that capital spending in the US chemical sector increased by 14.9% in 2011, and 16.9% in 2012, and grew by another 10.0% in 2013, to \$42.4 billion. This followed a decade of zero capacity growth.

Andrew Liveris, CEO of DOW Chemical, told the Financial Times, that investing in energy-intensive industries in the United States is a "slam dunk", adding that "low cost shale gas: that's a real big opportunity that you can't miss." His opinion is shared by ExxonMobile Chemical, Chevron Phillips 66, and Lyondell Basell, companies who are investing more in the U.S. chemical sector. Their enthusiasm is shared by Asian and Middle-Eastern companies, including Formosa Plastics of Taiwan and Sabic of Saudi Arabia, who are exploring opportunities in North America. SASOL, a South African oil company, has plans to invest \$20 billion in the U.S. petrochemical sector. Much of this investment in the U.S. is aimed at servicing overseas markets.

IMPLICATIONS FOR EUROPE

These developments have been a mixed bag for Europe's chemical industry. North America's energy boom has helped control the upward spiral of feedstock and energy prices, but the new competitiveness of the North American chemical industry has

Shale Gas and the Transatlantic Chemicals Sector

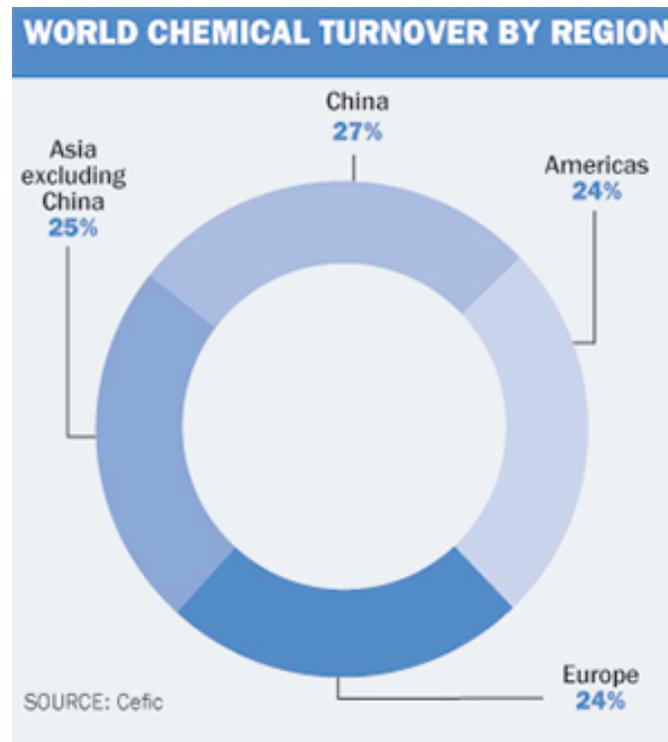
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increased pressure on its European counterpart in two ways: a steady increase of the supply of American petrochemicals, particularly ethylene derivatives, such as polyethylene and PVC, is presenting a greater challenge in European and other markets; and secondly, the United States' declining demand for chemical imports, is forcing other chemical industries to shift their efforts to other markets. The Financial Times reports that Europe is being sandwiched by U.S. exports and Middle-Eastern producers, who also benefit from cheap feedstock and energy, and are being displaced from the US market.

These trends are contributing to, if not exacerbating, a contraction in Europe's chemical industry, which has been announcing job cuts and plant closures. TATA Chemicals is shutting down a soda ash plant in the UK, and Germany's Laxness plans to lay-off 1,000 employees by 2015, as are other European chemical firms. Paul Hodges, Chairman of International EChem, a consultancy, described the situation as a "fight to the death... between US and European producers."

European industry is responding to these challenges through consolidation, technology, and specialisation. Solvay, a PVC producer based in Belgium, is integrating its assets with Switzerland's INEOS, a manufacturer of chemical and oil products, with sales of \$45 billion.

The emphasis on speciality products is not new in the European chemical industry. European chemical companies chose



to follow this course, years ago, in response to growing competition from Asian commodity producers, but it has become

more urgent. Axel Heitmann, CEO of Germany's Lanxess, says: "We're more focused than ever on technology and innovation, because high-end products are less cyclical and less affected by pricing pressure."

Meanwhile, some firms are directing their investments to North America, to leverage the benefits of the shale gas revolution. BASF is reconfiguring its naphtha cracker in the U.S. to run on ethane. Linde, a German industrial gas company, is investing \$200M in Texas, to build a syngas plant. Yara, a Norwegian firm, is teaming up with BASF to build a large ammonia plant on the Gulf Coast.

While some remain optimistic about the long-term prospects of the European chemical sector, it will remain disadvantaged, until Europe addresses the challenge posed by its high energy prices. Leveraging the enormous potential of Europe's shale gas reserves, would be the most immediate way to equalise the cost of the feedstock and energy, and return the industry to a path of confident, long-term growth. ☺

Ian Brzezinski
 Senior Fellow with the Atlantic Council's Brent Scowcroft Center on International Security

AN UPDATE ON THE EU'S 2030 ENERGY AND CLIMATE TARGETS

On the 22nd of January, the European Commission is expected to publish a proposal for the EU's climate and energy policy, up to 2030. We can already see that this will probably be a continuation of the EU's highly-ambitious goals, regarding reductions of CO₂ emissions, within the perspective of climate policy. After the votes in the European Parliament on the 9th of January, it can be readily observed that the climate protagonists still dominate the prevailing view to go ahead with the reduction of carbon dioxide, with major objectives in the field of renewable energy sources. We repeatedly underline the point that the climate issue, which is a global problem, cannot be resolved simply through the decisions of the European bodies, when major polluters have a strong presence in other continents. The European Parliament failed to reject this 'climate-obsessed' thinking. Although the most radical ideas promoting even higher climate policy targets

were resisted, the general trend in Europe has been to support the leading, proposed changes. There is no indication that the views of the European Commission have changed in the last two weeks, although some hope arises from further discussions within the European Parliament, which indicate that the number of opponents of the current proposed rates have increased.

It comes as some consolation, therefore, that CEEP's position will be strengthened by the following three new companies from the European energy intensive and technology industries:

1. ArcelorMittal Poland (belonging to the ArcelorMittal global steel producer);
2. KGHM Polska Miedź S.A. (global producer of copper and silver);
3. Air Liquide Global, E&C Solutions, Poland S.A. (global engineering company)



ArcelorMittal Poland (previously Mittal Steel Poland) is the largest steel producer in Poland (belonging to the global steel producer of ArcelorMittal), employ-

ing more than 11,000 people in six plants located in Silesia, Małopolska, and Opolskie province. Thanks to investments of PLN 4.8 bn, between the years 2004 and 2013, ArcelorMittal Poland has become one of the most modern steel producers in Europe. The company is also noted for being one of the largest Polish exporters and producers of coke in Europe. The production capacity in Poland reaches approximately 5 million tonnes per year. ArcelorMittal is very much engaged in energy efficiency technologies and CO₂ emissions.

We are delighted to announce that ArcelorMittal Poland has become a new member of Central Europe Energy Partners.

More information: <http://poland.arcelormittal.com/en.html>

Within the last 40 years, they have managed to reduce CO₂ emissions by 50%, and investments in new furnaces has led to further savings in energy, and CO₂ emissions decreases. The EU's plans concerning new approaches to ETS and CO₂ emissions for the perspective till 2035, and up to 2050, require a realistic approach. CEEP is a very suitable and proper platform to promote and present ArcelorMittal's interests.

More information:

<http://poland.arcelormittal.com/en.html>



On the 1st of January, 2014, KGHM Polska Miedź S.A. became a new member of CEEP. KGHM Polska Miedź S.A. is a global producer of copper and silver, with over 50 years of experience (incorporated in 1961). Its' objective is to join the group of large global copper producers with an annual output of about 700,000 tons of copper, whilst respecting business ethics and environmental protection, and displaying a high degree

of corporate social responsibility. Its' employment figures total 18,629 people, with '000 Euro 4,968,575 in yearly sales.

All of its assets are located in three continents. The company has development projects in Poland, Canada, Chile, and Greenland. KGHM Polska Miedź S.A. has technologically-advanced mining and smelting operations, and is a producer of electric energy, mainly for its own needs.. As a global company, its' important priorities include incentives concerning environmental protection and sustainabil-

ity with their mining activities. CEEP is an important platform on the EU level, which is able to represent the energy and environmental positions of this sector of industrial activity. Since the 12th of September, 1991, KGHM Polska Miedź S.A. has been a joint-stock company, whilst, from July, 1997, the shares of the company have been listed on the Warsaw Stock Exchange, and its' GDRs (Global Depositary Receipts) have been listed on the London Stock Exchange.

More information: <http://www.kghm.pl/index.dhtml?&lang=en>



Air Liquide Global E&C Solutions Poland S.A., as a new member of the Association, starting from the 1st of January, 2014. The world business unit of the Air Liquide Group, in charge of Engineering and Construction, is recognised as a technology partner of choice for the design, engineering, and construction of leading-edge processing facilities and related infrastructures worldwide, employing nearly 50,000 employees, and with net profit (Group share) at Euro 1,609 million. The company provides clean and sustainable energy for

its' customers. It does this, thanks to flexible staff who are capable of constantly applying themselves to necessary changes and demands, and through cutting-edge innovation applied to proprietary technology.

Looking back on decades of operational expertise within its role as a world leader in gases for industry, health, and the environment, Air Liquide Global E&C Solutions develops creative, safe, and competitive solutions for its' customers. Since the acquisition of Lurgi in 2007, the company's technology portfolio has grown considerably. Air Liquide has not only got access to BAT, but is an active inventor of new technologies. The technology portfolio, today, includes more than 1,600 patents.

The firm's global capabilities are organised within a network of 15 engineering centres, 3 manufacturing workshops, as well as sales and business offices, and representatives spread around virtually all continents, with a strong local footprint to serve their clients. The company's technologies fulfill all the requirements of the EU (as for example, IED requirements), and they are very familiar with what is possible, and what is not possible, based on state-of-the-art developments. Bolstered by such support, CEEP will be able to better represent the positions of their members at the EU level.

More information:

<http://www.engineering-solutions.airliquide.com/>

ENERGY DIALOGUE AT THE REICHSTAG



Arash Duero

By Arash Duero

The 43rd Energy Dialogue at the Reichstag - at the invitation of Prof. Dr. Friedbert Pflüger, Janusz Reiter and Central Europe Energy Partners (CEEP) – discussed on the 6th of December, 2013,

in Berlin, the challenges facing Germany in managing large-scale infrastructure projects. Stefan Schaible, Partner and Deputy CEO of Roland

Berger, Germany, stated that the EU, in general, needs to maintain and modernise its' ageing infrastructure, particularly in Central and Eastern Europe. He pointed out that the condition of European infrastructure is "poor" by international standards, and warned that any delays in upgrading ongoing projects would have a detrimental impact on investor confidence, and result in higher capital costs. As for Germany and the large-scale infrastructure required for the country's energy transition, Mr. Schaible identified a number of wide-ranging challenges. These

included regulatory burdens, market distortions resulting from subsidies for renewable energy, inadequate incentives to incorporate private sector investment, as well as a so-called 'silo-effect', essentially meaning that there are significant communication difficulties between various operating teams in any given project. To facilitate infrastructure development, he suggested phasing-out or restructuring of subsidies to keep market distortions to a minimum and, to allow capital investments to be allocated more efficiently. Moreover, Mr. Schaible underscored the importance of integrating all stakeholders at an early stage of a project, and harmonising varying interests, to ensure that it would be successful.

Henning Kothe, Project Director at Nord Stream, basically agreed with Mr. Schaible's statements, and added that he believes that Germany still has the capability to complete large-scale projects successfully, despite a number of recent and well-publicised setbacks. He cited the Nord Stream offshore pipeline project as a prime example, which only took five years to complete, despite daunting challenges. These included obtaining inter-governmental agreements, alleviating environmental concerns from both governments and NGOs, as well as

addressing public acceptance issues. Mr. Kothe identified three key factors that contributed to the success of the project. The first was the internal structure of the newly-established company, which provided the employees with a clearly defined goal. In his opinion, establishing a clear goal for the employees, was one of the best risk management tools for the project, as it motivated workers, and reduced the number of distractions and parallel tasks that could cause them to lose focus. Secondly, Nord Stream's shareholders gave the management team full responsibility and allowed for a high degree of flexibility. Hence, no changes were made to the established goals of the project, which greatly contributed to its timely completion. Thirdly, Mr. Kothe stated that gaining public acceptance was imperative, and even more relevant for the completion of the project than addressing environmental concerns. To achieve this, a proactive communication strategy was developed at the very start of the project and fully integrated with technical aspects. 

Arash Duero

Consultant Energy, Pflüger International Consulting GmbH



Dear Readers,

We would like to inform you that CEEP will be a Media Partner in the '9th Annual World Bio Markets 2014 Conference'.

This event will be held from the 4th to the 6th of March, 2014, in Amsterdam, the Netherlands.

'World Bio Markets 2014' offers a fully integrated look at the vast opportunities open to bio-based industry stakeholders, within the end user markets of:

- Renewable Transport Fuels,
- Bio-based Chemicals,
- Bio-based Products.

Green Power Conferences – the organiser and 'driving force' behind the '9th Annual World Bio Markets 2014', is the market leader in renewable energy conferences. Since 2003, over 22,000 delegates have attended more than 200 conferences, exhibitions, workshops, and training courses, providing strategic business intelligence to the renewable energy and sustainability industries. Green Power's expertise lies in producing high-quality, interactive events that provide ample networking opportunities for delegates, sponsors, and partners.

Please visit the following website for more information: www.worldbiomarkets.com



Dear Readers,

Dr. Friedbert Pflüger, Director of EUCERS and Janusz Reiter, President of the Centre for International Relations; and Central Europe Energy Partners (CEEP), are organising the '44th ENERGIEGESPRÄCH – Am Reichstag', which will be held on the 31st of January, 2014, at 1:00 p.m.

During the debate, Mr. Joachim Rumstadt, Chairman of the Management Board, STEAG GmbH, and Mr. Ralf Christoffers, MdL Minister of the Economy and European Affairs of the State of Brandenburg, will deliver keynote speeches.

The panel discussion will focus on the key topic: 'No energy transition without coal?'

Should you be interested in participating, please let us know before the 24th of January, sending an e-mail to:

pflueger@friedbert-pflueger.de



Dear Readers,

CEEP, as a Media Partner, invites you to take part in the '2nd Coaltrans Poland'.

This Conference will be held from the 19th to the 20th of March, 2014, in Sopot.

How does Polish coal compare with imported coal? How are Polish producers improving their cost position? What are the government's strategies to keep coal in the energy-mix and limit its' carbon emissions? What are the long term prospects for coal-fired power generation in Poland? These and many other questions will be asked during the two-day conference.

'Coaltrans Poland' provides an ideal forum to explore the new dynamics of the import and export markets, and to discuss significant, internal changes that the industry is going through.

Distinguished speakers at the '2nd

Coaltrans, Poland' include:

- Maciej Kaliski - Director of the Department of Mining, Ministry of Economy of Poland,
- Surojit Ghosh - Member of the Board, Country Manager, ArcelorMittal Poland (CEEP Member),
- Grzegorz Czornik - Deputy Chairman of the Board of Trade, Jastrzębska Spółka Węglowa S.A. (CEEP Member),
- Michał Hejman - Chairman of the Board, PG SILESIA,
- Piotr Matuszak - President of the Board of Management, KTK Polska Sp. Z.o.o

Our association will also be represented by Mr. Bogdan Janicki – Senior Advisor of CEEP, who will talk on the following topic: 'Coal in the EU - myths and reality'.

Registration form and more information can be found on:

<http://www.coaltrans.com/EventDetails/0/6746/2nd-Coaltrans-Poland.html>

Energy Bills for Gas and Electricity – Who Pays The Most In Europe?



By Peter Whiley

The Roland Berger Report: ‘What Price, Energy, Growth?’ which was published in 2013, largely concerned itself with a comparison of energy prices between the EU-11 and the EU-15, showing that the gap in wealth was not reflected in prices paid for energy. Now the BBC, with the Energy ‘Think-Tank’, Vaasaett, providing the data, has just published its own detailed survey into energy prices, which confirms what the Roland Berger report claimed. European capital cities were closely monitored to subsequently reveal that there are massive differences between what consumers from the Member States pay for household electricity and gas.

Helsinki is the cheapest of 23 European cities surveyed for electricity prices. Households in Berlin are the most expensive – as they pay two-and-a-half times as much, due to taxes and subsidies designed to boost renewable energy production. In fact, almost one-third of a Berliner’s electricity bill is comprised of energy taxes.

In the past month, prices have risen in 7 cities, but fallen in 9, particularly in Central Europe, with the Hungarian government reducing prices by 11%, and its Croatian counterpart by 6%. However, as can be seen from the data below, the Central European countries generally pay far more than their EU-15 counterparts for their energy, taking into consideration their GDP per capita, which ultimately raises questions of affordability and ‘energy poverty’.

On average across Europe, the actual energy price component, including the supplier’s profit margins, represents about 41% of a household’s electricity bill, while distribution represents 33%, and energy taxes – 16%, according to Vaasaett, who took exchange rates out of the equation, to make their data more accurate.

RESIDENTIAL ELECTRICITY PRICES INCL. TAXES IN CENTS (EURO)/KWH NOV. 2013:

European average is: 20.34 Cents

There are four countries from the CE region in the top six EU capitals (paying the highest rates). Berlin, as stated, comes top of the list with 28.49 cents, closely followed by Prague (Czech Rep.) with 28.27 cents. Bucharest (Romania) 26.51 cents; Bratislava (Slovakia) 25.69 cents; and Warsaw (Poland) in sixth place, with 24.44 cents, also pay some of the highest prices. Budapest (Hungary), despite recent price controls introduced by its government, still comes eighth, with 23.53 cents.

RESIDENTIAL GAS PRICES:

22 European capital cities were surveyed here, and Stockholm comes top by a large margin, with 15.29 cents, but only 33,000 households in Sweden buy gas.

Central European countries do not fare well, and according to the statistics, in cents, Belgrade comes third with 9.91; Warsaw is fifth with 8.55; Prague, sixth, with 8.53; Ljubljana (Slovenia), seventh, with 8.41; and Zagreb (Croatia) ninth, with 8.34.

Energy Bills for Gas and Electricity – Who Pays The Most In Europe?

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London is the second cheapest city with 5.75, a figure that starkly proves the main point behind the Roland Berger report, which suggests that the EU-15 get a far better deal on energy prices than the EU-11.

‘ENERGY POVERTY’:

In the UK, 6.5% of the population say they cannot afford to adequately warm their homes. However, in Bulgaria, 47% make the same claim (according to EU figures)! In Lithuania, the figure is 34%, so it clearly seems there is a serious problem in the CE region, which is hardly surprising when they are paying more for their energy. The average figure across the EU is 11%. Scandinavians, with less than 2%, have the least problems in this respect.

PEOPLE IN ARREARS WITH THEIR BILLS:

A similar picture emerges here, as with Energy Poverty, as one

clearly leads to the other. Again, Central Europe produces the most disturbing set of figures.

32% of Greeks are in arrears with their energy bills, whilst Bulgarians and Croatians both produce a figure of 28%, Romanians follow closely with 27%, and Latvians achieve a 23% figure. The figure in the UK, by the way, is 9%, and the average in Europe is 10%. Further anticipated price rises will greatly exacerbate the situation, but for the EU-15, there will not be a crisis, not yet. For the EU-11, one cannot say the same! 

(Based on a BBC article (12/12/2013) by Richard Anderson).

Peter Whiley,

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