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REPORT

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CEEP Energy Summit: '29+1' in Bucharest

Since 2012, Central Europe Energy Partners has been organising annual gatherings of the 29 most important Central European energy sector companies with the EU's Commissioner for Energy, Günther Oettinger.

The meetings take place in Central European capitals, and are a unique chance for the EU's top representatives and energy and energy-intensive sector businessmen from 11 countries in the region, to ask open questions and express their interests directly to the leading figure behind the EU's energy policy, as well as to share their insights and ideas. Moreover, this forum also offers them an exceptional opportunity to voice their concerns and interests on key energy issues impacting upon Central Europe, including energy security, supply diversification, and the safeguarding of economic competitiveness – whilst meeting ambitious

energy and climate policy objectives – along with the establishment of a fully integrated, pan-European internal energy market.

This year's '29+1' Summit took place in Bucharest, the capital of Romania, on the 24th and 25th of April, 2014, under the patronage of Victor Ponta, the Prime Minister of Romania. Răzvan Nicolescu, Minister Delegate for Energy of Romania, also took part. The aim was to discuss the changes in new Member States since they had joined the EU in 2004. Another focus for debate was the new course and challenges for the next decade for Central European economies and their energy and energy-intensive industries, within the framework of the developing Internal Energy Market and the 2030 Energy and Climate Policy Roadmap, as well as the new initiative of the Polish Prime Minister regarding the Energy Union.

GÜNTER VERHEUGEN, FORMER
EU-COMMISSIONER FOR ENLARGEMENT,
TALKS TO MAREK ORZECHOWSKI



Enlargement 2004: Ten years later.

What have we learnt? What do we still need?

Marek Orzechowski (MO): The 'Big-Bang' Enlargement of the EU in 2004. Why did it come to Enlargement? What was the western perspective of it?

Günter Verheugen (GV): After the fall of the iron curtain and the collapse of the Soviet Union, suddenly, and – telling the truth – unexpectedly, a window

CEEP Energy Summit: '29+1' in Bucharest

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On the 24th of April, 2014, the Prime Minister of Romania, Mr. Victor Ponta hosted a dinner with the participation of Mr. Günther Oettinger and the '29+1' Summit participants. Mr. Ponta in his speech, underlined the necessity of closer co-operation between Central European countries, on energy issues at the EU forum. He also supported the concept of the Energy Union, proposed by Mr. Donald Tusk, the Polish Prime Minister.

The opening remarks were delivered by Prof. Dr. Friedbert Pflüger, Director at the European Centre for Energy and Resource Security, King's College, London. Paweł Olechnowicz, Chairman of the Board of Directors of Central Europe Energy Partners, introduced the forum, which was followed by a welcoming speech from Mr. Răzvan Nicolescu, Minister Delegate for Energy of Romania. Then, a panel discussion and a question and answer session with Mr. Günther Oettinger followed.

Against a background of demanding challenges in terms of energy security, sustainability, and competitiveness in the region, as



Participants of CEEP's Energy Summit: '29+1', Bucharest, the 25th of April, 2014

well as in the entire EU, this forum is a unique opportunity for listening carefully to the needs of the Central and Eastern European business

community. DG-Energy published a communication on energy prices and costs on January the 22nd, 2014. This will be the basis of our dis-

cussions between the leaders of energy companies from Central Europe and Günther Oettinger", Prof. Dr. Friedbert Pflüger asserted.

NEW PROPOSAL COMMUNICATION FROM THE EUROPEAN COMMISSION ON ENERGY PRICES AND COSTS

"As representatives of energy and energy-intensive companies from Central Europe, we welcomed the opportunities provided by the '29+1' Summit in Bucharest, in which we considered the ambitious plans for Europe's 2030 climate and energy goals, presented by the Commission on the 22nd of January, 2014", declared Paweł Olechnowicz. He went on to add that following the Conclusions of the European Council Summit held on March the 20th and 21st, 2014, we are convinced of the need for a thorough and intensive public debate to review and assess the possible impact of the proposed set of policies on the European economy, including the development of industry, competitiveness, and social impacts (e.g. unemployment, energy poverty, social exclusion). He stressed that a switch to a ze-

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ro-carbon economy is neither economical nor justified from the energy-security perspective, whereas EU policy must allow Member States to exempt energy-intensive industries from national decarbonisation surcharges. Moreover, we are witnessing the Transatlantic Trade and Investment Partnership (TTIP) between the USA and the EU being negotiated, which could have a very strong influence on our energy and energy-intensive industry sectors, he suggested.

According to Mr. Olechnowicz, 2014 has already proven to be a challenging year for the EU's energy sector, full of profound changes and re-emerging threats, especially in Central Europe. He pointed out that there was a need for a thorough debate and readjustment of EU energy and energy security policy, energy solidarity, and effective expansion of a true European Energy Community to secure growth and competitiveness for our economies and welfare for our societies.

“WE NEED TO BRING BACK THE VITALITY OF NATIONAL, EUROPEAN ECONOMIES”

The main conclusions to be drawn from Mr. Oettinger's speech were that previous years have shown that the EU needs a well-developed industry in order to bring back the vitality of national, European economies. EU members have to organise national resources for the purpose of re-establishing industries. The truth is that, at this moment, many Member States and industry fear that a strong climate and energy policy will be bad for their economies, especially given that most industries depend on energy efficiency legislation. Nowadays, industry has to catch up with climate policy, even though this requires a very high level of investment. So, one of the challenges for governments is to create an appropriate environment for the development of industry. Legislation has to help to remove legal, economic, and social barriers to investments in new technologies.

The participants at the Summit exchanged views with Günther Oettinger, and considered the major aspects, which were afterwards officially reflected in the 'Bucharest Memorandum', supported by the Central European energy companies and participants of the

Summit, that will be helpful for both the Commission and the energy agenda of the forthcoming Italian EU Presidency, as it underlines the importance of particular energy priorities, to be of utmost importance in the further deliberations of the EU Council, European Parliament, and the Commission.

At the end of the Energy Summit, Mr. Paweł Olechnowicz handed to Commissioner Oettinger and Minister Delegate, Nicolescu, copies of the 'Bucharest Memorandum'.



Jakub Przyborowicz
an energy expert, based in Brussels Senior Specialist in Central Europe Energy Partners

ENERGY ECHO

What about Nabucco pipeline?

A Memorandum of Understanding for the implementation of the Austrian section of the South Stream project was recently signed in Moscow between Gazprom OAO CEO, Alexey Miller, and OMV CEO, Gerhard Roiss. It is planned that all permits necessary for construction will be obtained by the end of 2015, whilst the first gas deliveries are expected in 2017. The construction of the Austrian section will have a capacity of up to 32 bcm/a year, and will finish in Baumgarten – with the gas coming from the Bulgarian Black Sea coast, crossing Serbia, Hungary, and ending up in Austria.

Enlargement 2004: Ten years later. What have we learnt? What do we still need?

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of opportunity presented itself: the opportunity to transform European integration, which had been up till then a Western European monopoly, into a fully European project. The young democracies in Eastern and Central Europe did not hesitate; they wanted to be part of a United Europe. From the Western perspective, it was a strategic priority to make the transformation in these countries irreversible. Accession to the EU was obviously the best way to achieve this, projecting peace, stability, and prosperity. Nevertheless, in the hindsight, I must admit that it was a kind of miracle. How could it happen? Finally, it was a combination of the strong commitment of the societies in Eastern and Central Europe to fulfil all the conditions, and the courage of the EU's leaders, at this time, to accept a historic responsibility for their decisions.

MO: Ten years later. What have we learnt?

GV: Ten years after the so-called 'Big Bang', we have learnt that the fears and uncertainties on both sides were unfounded. We have learnt that we can do something really big, if we really want it. Also, we should have learnt (but I am afraid we haven't) that the idea of European Unity belongs to all Europeans, wherever they live.

MO: The 2004 expansion of the EU bloc brought dramatic im-

provements to the democratic structures of the concerned countries, along with unprecedented economic reforms. So, what went wrong? Why has the momentum for enlargement slowed down?

GV: Basically our expectations became true. The enlargement is not to be blamed for the present crisis in the EU. The crisis has its origins in some of the 'old' Member States. It is true that the East-West division, in our minds, has not yet been fully abolished, and that much remains to be done. In some of the 'new' Member States, we have still problems with political culture, but we have similar problems elsewhere. It is deplorable that, within a couple of years, the momentum for enlargement is dwindling. The enlargement strategy became a scapegoat for the political and economic crisis, very convenient for some leaders, but totally wrong.

MO: What you would have done differently?

GV: I would have pushed much harder for more flexibility. The transposition of the so-called 'acquis' was organised in an excessively dogmatic way. Europe is too diverse for a 'one-size-fits-all' approach. We should accept more national and regional responsibilities, if that factor does not jeopardize the basic functioning of the Union.

MO: Are the Eastern and Central European Member States fully democratic?

GV: The Eastern and Central European Member States are stable democracies. In the Eastern neighbourhood, the transformation is not yet completed. Generally, we should not forget that democracy needs time to become mature. We should not forget that the first German democracy (after World War I) was destroyed within 14 years. It is one thing to have democratic procedures and institutions in the statute book, and it is another thing to change the mentality of people. Nevertheless, I do not see any risk of democracy failing in one of the new Member States.

MO: What is now the biggest threat to Europe - policy or the economy?

GV: We cannot make such a distinction. Political and economic strength reinforce each other. The political weakness of today's EU hampers economic recovery, and the economic weaknesses fuel dissatisfaction and scepticism. The biggest threat for Europe is that too many people question the fundamental fact that not a single European nation, if it stands alone, can cope with the challenges of the 21st century.

Enlargement 2004: Ten years later. What have we learnt? What do we still need?

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MO: However, some countries no longer feel great enthusiasm towards EU Membership. Can this be dangerous for Europe?

GV: I see the risk of disintegration if we cannot maintain broad public support for the continuation of the European project in individual Member States. We need to address the weaknesses and deficiencies in a far more decisive way. This is not only a matter for policy-making at the supra-national level. National leaders must set an example, whilst striving for a strong reform agenda and for the spirit of European solidarity.

MO: Is it possible to establish a true energy union?

GV: Only up to a point. I would certainly not recommend abolishing the principle that the energy-mix of each EU Member State is a national responsibility. However, we can (and must) create a fully integrated internal market for energy, so that we can better co-ordinate our environmental and climate change policies with our economic needs. We can considerably improve the security of supply, and we can strengthen our efforts to have technologies in place, which would allow us to use all our natural resources in the future.

MO: Does the door to the EU remain open?

GV: According to the EU treaty – yes: according to the political climate right now - unfortunately not. The general mood in the EU is not in favour of new accessions. The whole dynamics of deepening and widening have been interrupted. I do not expect any new members during the present decade; we might even end up with less. However, this is not the end of the European story: new opportunities will come. 

Günter Verheugen

A Professor, and a German politician, who served as European Commissioner for Enlargement from 1999 to 2004, and is widely perceived as the 'driving force' behind the EU's enlargement in recent years. 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 the position of Honorary Professor at the European University Viadrina in Frankfurt (Oder) and is a Non-Executive Managing Director of the European Experience Company (EEC). He is an author of a number of books and essays on European and other issues.

ENERGY ECHO

Fracking winning?

The Green Party is calling for a ban on hydraulic fracking, the European Conservatives are calling for the opposite. The shale gas picture in Europe looks quite diverse with countries such as the United Kingdom, Denmark, Poland and Romania pursuing exploration projects, whilst France and Bulgaria have banned this possibility for the time being.

BUCHAREST MEMORANDUM

April the 25th, 2014.



Paweł Olechnowicz

By Paweł Olechnowicz

As representatives of energy and energy-intensive companies from Central Europe, we welcomed the opportunities provided by the '29+1' Summit in Bucharest, Romania, in which we considered the ambitious plans for Europe's 2030 climate and energy goals, presented by the Commission on the 22nd of January, 2014. Bearing in mind the Conclusions of

the European Council Summit held on March the 20th and 21st, 2014, we are convinced of the need for a thorough and intensive public debate to review and assess the possible impact of the proposed set of policies on the European economy, including the development of industry, competitiveness, as well as social impacts (e.g. unemployment, energy poverty, social exclusion). Moreover, we are witnessing the Transatlantic Trade and Investment Partnership (TTIP between the USA and the EU being negotiated, which could have a very strong influence on our energy and energy-intensive industry sectors.

The participants at the Summit entered into a comprehensive exchange of findings and views with the EU's Commissioner for Energy, Mr. Günther Oettinger, and consider the following to be of utmost importance in the further deliberations of the EU Council, European Parliament, and the Commission:

1. Energy constitutes an irreplaceable, critical backbone of our civilisation. Only a balanced

and harmonised approach to energy, climate, and economic policies will help Europe to both sustain development and guarantee growth. If the EU believes in a strong and competitive Europe, Member States should be encouraged to exploit the most economical and readily available indigenous sources of energy such as fossil fuels and RES, as the 'one-size-fits-all' approach to energy policy has proven to be counter-productive.

2. CO₂ emission reduction targets should take into account the costs of such actions for the economies of all of the Member States separately (e.g. loss of competitiveness, increases in the price of energy, lower growth levels) and for societies (e.g. more expensive energy, loss of jobs).

3. Investments in Central Europe's energy sector by 2020 should amount to approximately Euro 400 billion. There is strong confidence in the EU's ability to find solutions in the budget and that financial institutions will favourably consider the provision of additional funding.

4. New technologies should all be fully mature and commercially viable before law demands their implementation. That is why CCS technology, for instance, should not be imposed on producers until it is commercially and economically acceptable.

5. Lack of long-term ROI hits industry very hard. The EU should view capacity mechanisms and contracts for market differences favourably in order to enhance investments in the energy sector.

6. The ETS gives the EU the possibility to circumvent market forces and impose unjustifiable obligations (e.g. backloading). Modifying the ETS into a CO₂ emissions system with fuel specific benchmarks (individual categories for coal, gas, lignite-based technologies) will prove to be a more efficient and cost-effective mechanism to reduce emissions.

7. Fossil fuel elimination from the EU's energy-mix is neither economical nor justified from the energy security perspective, as these are valuable assets supporting the EU's competitive-

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ness. Technological progress enables the EU to increase energy efficiency, and at the same time, decrease CO₂ emissions.

8. Environmental and Energy Aid Guidelines must allow Member States to exempt energy-intensive industries from national decarbonisation surcharges - such as taxes, levies, grid levies, and other costs relating to the support of low carbon generation. The exemptions would play an essential role in maintaining the competitiveness of European industry on a global scale and preventing broader domestic price hikes in goods and services due to eventual “ripple effects”, given the strong intertwinement of energy-intensive industries with other sectors of the economy.

9. Climate policy – experience of the recent financial and economic crisis in Europe clearly enhances the need to re-

define EU climate policy as a global issue and harmonise it with the social and economic policies of the Union. It is important to bear in mind that average EU



CO₂ emissions per capita amount to 7.5 tonnes while, in many other countries, they exceed 17 tonnes, including the USA.

10. The price of energy in the EU keeps on rising vis-à-vis our global competitors.

At the same time, in the current macro-economic environment, the sustainable contribution of a globally competitive European industry to the growth of our GDP still remains an anchor for continued economic development and rising prosperity.

11. TTIP – the questions of disparities between the USA and EU should be solved, such as: free access to sources of energy (gas, crude oil, coal) and mineral resources, differences in energy prices and regulations, as for example REACH, and a levelling of CO₂ emissions per capita in both economies. ○

Paweł Olechnowicz
Chairman of the Board of Directors, CEEP

ENERGY ECHO

PCI financing opportunities

... The European Commission announced on the 12th of May, that the first call for proposals under the Connecting Europe Facility (CEF) is open, with 750 million euro available to fund projects mainly in the gas and electricity sectors. The Commission adopted an initial list of 248 Projects of Common Interest (PCIs) in October, 2013. These projects can receive financial support for the period: 2014-2020. Of the total number of PCIs, 132 projects concern electricity, and 107- gas; 13 projects deal with electricity storage, including liquefied natural gas (LNG) terminals; and two projects focus on smart grids. The others are based upon oil supply. These energy infrastructure projects are meant to increase interconnections between Member States, help complete the internal energy market, and encourage the integration of renewables into the grid. Whilst all selected PCIs will go through an accelerated planning and permit granting procedure, only some will be eligible for funding. To qualify, projects have to show significant benefits for the security of supply, solidarity, or technological innovation. Furthermore, the projects' business plans must show that they are reliant on EU funding. The grant money will be available to finance studies and construction work...

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Europe's energy challenges

By Grzegorz Siemionczyk in Bucharest, 'Rzeczpospolita'

By placing climate policy ahead of energy and industrial policies, the European Union is putting itself at risk of losing its competitiveness and facilitating its own deindustrialisation, according to the participants of the '29+1' energy summit in Bucharest.

The prices of energy in the EU and Brussels' climate goals, regarded as a threat to Europe's competitiveness and energy security, in relation to the ongoing crisis in Ukraine, were the main topics of discussion by company representatives from Central and Eastern Europe's energy sector and energy intensive firms with the EU's Energy Commissioner, Günther Oettinger.

A VOICE HEARD IN BRUSSELS

This year's meeting was organised for the third time by Central Europe Energy Partners, an international non-profit association set up in 2010 by an initiative involving five Polish companies led by Paweł Olechnowicz, the chief executive of Grupa LOTOS. The latest meeting was held in Bucharest under the auspices of Romania's Prime Minister, Victor Ponta, and the country's Minister Delegate for Energy, Razvan Nicolescu.

"Our region must be heard in Brussels. We need to speak out on the challenges ahead of us," Nicolescu said, referring to the reasons behind holding talks with the EU commissioner.



Energy Summit '29+1' in Bucharest (from left to right): Paweł Olechnowicz, Chairman of the Board of Directors, CEEP; Günther Oettinger, Commissioner for Energy, European Commission; Razvan Nicolescu, Minister Delegate for Energy, Romania.

Europe's energy challenges

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Oettinger emphasised, however, that CEEP's point of view is already familiar to Brussels and taken into consideration.

What are the most important challenges to be faced?

"We must decrease Central Europe's dependency on gas supplies from just one source, and also increase further our efforts to protect the environment, and stimulate the development of our industries to create new jobs," Olechnowicz told Rzeczpospolita.

In the 'Bucharest Memorandum', a document drafted as a summary of the main issues and concerns at the summit, the event's participants stated that the prices of energy in the EU are continuing to grow, and that this does not foster the competitiveness of various EU industrial sectors, which remains a very important factor in the development of numerous member states. This trend has a direct and negative impact on the economic growth of the entire EU, and also on the effects of the EU's cohesion policy, which is important to the societies of Central Europe. To combat these adverse effects, Brussels should "redefine its climate policy" to achieve an improved harmonisation between its goals and the economic and social objectives, according to the memorandum. This means that the EU should not aim to eliminate fossil fuels from its energy-mix,

recognising that this would further hurt the competitiveness of its industries and some countries' energy security. Instead, the EU should stimulate investments in more effective technological solutions which will allow for a decrease in CO₂ emissions.

UNREALISTIC APPROACH

"Member states should be encouraged to use the most economically-effective and available local energy sources, whether they be fossil fuels or renewables, because an approach which stipulates that one overall policy is compatible with the energy and energy-intensive industries sectors of every single country is unrealistic," the document states.

In addition to this, the memorandum's signatories asserted that the level of CO₂ emissions per capita and the costs of reducing them, are different in each member state and related to the prices of energy, the level of the countries' development, and the structure of their economies, which cannot be ignored by Brussels in its plans for setting new climate policy goals. Bogdan Janicki, Senior Adviser at Grupa LOTOS and CEEP, illustrated this with the topical example of Romania, where annual CO₂ emissions are less than four tonnes per capita, yet the economic and social costs of decreasing emissions are significantly higher than in Germany, where these emissions are close to 10 tonnes

per capita.

Currently, the biggest challenges in the field of energy for our region are energy prices and supply security. Both issues need to be addressed at the EU level. The recent proposal by Polish Prime Minister, Donald Tusk, regarding the establishment of an energy union, has obtained the backing of Romania's Minister Delegate for Energy, Razvan Nicolescu.

"It is a paradox that the EU was set up on the basis of the European Coal and Steel Community, and to date, there has been no common policy regarding energy," Nicolescu remarked. "We need to create a common energy market: with this aim in mind, we need interconnectors, but also better regulations. Currently, we have 28 energy regulatory agencies, but we should be thinking about launching a single, pan-European regulator."

THE EU NEEDS ITS INDUSTRIES

In Bucharest, Oettinger, whose term as the EU's Energy Commissioner is set to end this autumn, presented himself as a pragmatist with a significant understanding of industrial issues, including those in Central Europe. He said that particular industries should not be separated into new and old ones with the aim of bashing the latter, but rather into existing and new ones.

Europe's energy challenges

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The existing, traditional industries, often energy-intensive, such as the chemical and metal industries, are also needed by the EU. Oettinger also emphasised that coal will continue to be used in Europe for many years to come.

“When I started to work at the European Commission, the EU’s energy policy was an offshoot of its climate policy, formulated in the ‘20-20-20’ programme,” Oettinger declared, referring to the programme which requires the EU to reduce its greenhouse gas emissions by 20%, increase its energy efficiency by 20%, and achieve a 20% share of renewable energy sources in its total energy production by 2020, in comparison with the level from 1990. “These goals are good, but they only concern climate change. Energy policy should be related to climate policy, but it cannot be completely limited by it. Industrial policy, policies related to the energy sector, and climate policy must be kept in balance.”

As for the European Commission’s proposal for member states to reduce their CO₂ emissions by 40 percent by 2030, compared with the 1990 level, Oettinger felt that such a goal would be very ambitious. The Commissioner did point out, however, that many member states are close to reaching the goals set for 2020, whilst some have already exceeded them.

“The largest reductions were made by countries from Central Europe. This was due to the gradual shutting down of ineffective factories built in communist times. It would be extremely difficult to repeat this success in a decade,” Oettinger stressed at the summit.

The Romanian minister highlighted the fact that the EU is responsible for a mere 10% of global CO₂ emissions, and even if its member states continue to reduce their emissions unilaterally, this would not suffice to halt climate change, but only hurt their economies.

“We need to act as part of global agreements. Otherwise, we are at risk of simply diminishing the competitiveness of the European economy, without achieving the goals of climate policy,” Nicolescu opined.

Friedbert Pflüger, Director of the European Centre for Energy and Resource Security (EUCERS) and Professor at King’s College, London, indicated that the US has been reducing CO₂ emissions without formulating any climate policy, which is possible by replacing coal-generated energy by energy obtained from shale gas, an energy source responsible for relatively lower emissions.

“I will do everything in my power to have pilot shale gas exploration programmes operating in Europe,” Oettinger vowed. “Our conventional natural gas resources will be fully exploited in close to two decades. If we don’t replace them with something else, Europe will become increasingly dependent on imports. Shale gas is one of the solutions to this problem. There are many countries eager to explore it.”

The Commissioner agreed with several of the summit’s participants who outlined that the excessive differences in energy prices between particular EU member states, are not only a result of the lack of an integrated energy market, but are also due to the differences between taxes imposed by various EU countries. These are often responsible for more than a half of the final energy price.

“Tax rates should be harmonised, but it is an idea to be addressed in the future. I would not expect this to happen anytime soon,” Oettinger predicted. 🌱

Translated by Jarosław Adamowski, Grupa LOTOS S.A.

Interview with Mr. Roman Łój, President of the Board, KHW (Katowicki Holding Węglowy)



Roman Łój

By Witold Nieć

Witold Nieć (WN): The subject of pressure on coal prices by the commercial power industry continues to be applied. Power engineers are trying to push forward demands for the reduction of raw material prices, primarily at the expense of mining. Is it still a basis for negotiation or has it already become a diktat?

Roman Łój (RŁ): Due to recent events in

Ukraine, coal prices have barely flinched. If we compare our prices with the prices of imported coal, along with the costs of transport, the boundary line for Upper Silesian coal finds itself somewhere between Warsaw and Łódź. The price talks are difficult, but in the end, it is possible to reach a compromise, although with some pre-dominance of the other side. It is not just about the use of coal and gas, but also about the direct importing of electricity. Energy from wind power stations in Germany is being sold for almost nothing, because excessive supplies.

KHW started this year with contracts for the delivery of over 90% of its planned production. Initial delivery schedules were adopted. After the first quarter, our stocks piled up to more than 1.3 million tonnes of coal. Our purchasers either move or delay the date of receipt, or simply reject the delivery of coal, because they have too much of it. If the purchaser, who owns six coal-fired blocks, only one in operation, also has full stocks, we will be pushed up against a wall. You can talk about arrange-

ments and contractual penalties, but none of them allow us to make a living. We make a living from selling our product. So, I repeat – this is not just about the price.

(WN): On the global markets, there seems to be no chance of reversing the trend of the decreasing coal price. Producers of coal are in a particularly difficult situation. The price of coal in the Amsterdam-Rotterdam-Antwerp (ARA) area reaches only 82-83 dollars per tonne, while several years ago it reached the level of 170 dollars per tonne. Is it possible that Poland will mainly import coal for its use?

(RŁ): Let's take a broader look at this situation. Since 1991, no comprehensive fuel and energy balance has been created in Poland. No one has tried to determine how much coal, and from what sources – domestic or imported – will be necessary to meet the needs of the energy sector. This causes the situation in which mining and energy do not make any actual long-term contracts which would allow us to outline, in general terms, the volume of deliveries and

financial conditions, with a fairly precise determination of the methods of price indexation. Meanwhile, without such an approach, it is impossible to plan sensibly the investment process. For mining, a period of three or five years is the normal time to build something, change something, and make it start to deliver.

When it comes to imported coal, we have to compete with quarries in Siberia or Mongolia, where operating costs are in the range of 11 to 29 dollars per tonne. Here, with the deep mining methods, operating costs correspond roughly to ARA prices. We use the high quality of our coal to defend ourselves, while transport and delivery costs also fulfil that role. Yet, the competition continues to get stronger, and in the never-ending scenario of dumped energy prices from German wind power stations and low prices of Asian coal, Polish mines will eventually be closed. This will show, in the absence of domestic market competition, just how much energy and coal can really cost in Poland.

Interview with Mr. Roman Łój, President of the Board, KHW (Katowicki Holding Węglowy)

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(WN): Europe's energy dependency ratio is about 56%, do you think it is possible to decrease this ratio without coal?

(RŁ): No, without coal it is impossible to decrease this ratio. Targetting the mines in Poland will lead to an increase, which means the EU's dependence on energy sources outside the Union will grow.

Poland is in a slightly different situation from most member states, because it has the highest ratio of energy security among the EU countries, owing to producing energy from its own fuel resources. Its supply of coal can last for at least a few decades, but it has to be used wisely.

(WN): What impact on the condition of the mining industry is the Free Trade Agreement with the United States likely to have? Does it contain some items which need to be blocked? Could its introduction be a threat to mining? Not so long ago, you said that the United States want to ship tens of millions of tonnes of coal to the EU markets.

(RŁ): The USA today has a significant surplus of fossil fuels, so they can afford to export tens of millions of tonnes of coal per year to the EU, which will have a disastrous effect on the price level.

(WN): The political situation in Ukraine and the returning threat of insecurity in gas supplies to Europe from Russia, point to new challenges in the EU's energy policy. What importance might it have for the coal industry?

(RŁ): I will not answer this question. It is more a matter of high politics than economic policy. Although the EU officially speaks with one voice, its member states do not.

(WN): 'Action Plan for Coal in the 21st Century' – is a call to revise the climate and energy policy of the EU, issued by major European players of the conventional coal-fired power sector, initiated and devised by CEEP and Euracoal. Do you think this document has any chance of resonating in the new Parliament and European Commission?

(RŁ): At the cost of hundreds of billions of euros annually, the EU takes on its shoulders the reduction of greenhouse gases by an average of 1%, which falls within the range of a statistical error. The effects, in the form of a loss competitiveness of the EU economy, in comparison to other parts of the world, are already being felt. Some analysts clearly indicate that this is only the beginning of unfavourable changes. Therefore, the climate and energy policies of the EU must be revised.

I have a great appreciation for all initiatives aimed at making changes, so I appreciate what CEEP and Euracoal do. I believe in a return to economic thinking, and even to common sense. However, how will the new European Parliament behave? Nobody knows.

(WN): A coal gasification test is under way in the coal mine 'Wieczorek' (KWK Wieczorek). This experiment is carried out within the framework of the strategic programme for research and development 'Advanced technologies for energy generation' funded by

the National Centre for Research and Development. What does it mean from the KHW strategic point of view?

(RŁ): It is mid of May. The experiment has yet to last for at least two months. It is a fragment of a larger project, in which we are included, concerning underground coal gasification. The idea is that instead of extracting coal from the ground and burning it on the surface, we can burn the coal underground and obtain gas on the surface, which can then be used in boilers, engines, or sold to the chemical industry. In the 'Wieczorek' mine, we have provided one of the deposits, secured it, completed the oxygen supply, and are receiving syngas from the underground installations. The gas is being tested and burnt on the surface. The existing pilot plant aims to enable us to understand the mechanisms of this process, and also determine the benefits and costs of the project, and the problems which may occur. There is a whole series of questions for which answers need to be found. Firstly though, you have to finish the experiment, summarise the data, and

Interview with Mr. Roman Łój, President of the Board, KHW (Katowicki Holding Węglowy)

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very carefully calculate all the possible costs and projected profits. We have to act with the utmost care. Therefore, it is impossible to even talk about including any conclusions in our strategy. If the results turn out to be promising, we have earmarked a source which could potentially be used to develop such technology on an industrial scale. Nevertheless, it is a question for the future rather than for now.

(WN): How is methane being used in the KHW mines?

(RŁ): We have launched more methane drainage stations. Their main role is to obtain methane from the underground, mainly from chambers and excavations, and direct it to the surface through pipes. Methane obtained by this method is not mixed with air, so the risk of fire or explosion is reduced. On the surface, our subsidiary, Zakłady Energetyki Ciepłej SA, operates generators and boilers which

burn the excess methane. We use such solutions in 'Myslowice-Wesola', 'Wieczorek' (for methane from the 'Murcki-Staszic' mine) and 'Wujek Ruch Śląsk' mines. Approximately 27 million cubic metres of methane are expected to be used this year. This solution is very cost effective. It provides for both an increase of security, as well as for emission fees reduction. In addition, funds obtained from the sale of methane will pay for further investments. As we keep mining deeper and deeper, we obtain more methane, so it is of huge interest to us. Hence, there is a concrete plan to launch methane-powered engines. ○

Roman Łój

President of the Board of KHW (Katowicki Holding Węglowy). KHW is a member company of Central Europe Energy Partners.



Central Europe Energy Partners has become a Media Partner of the Annual CEE Energy Awards.

The Annual CEE Energy Awards was created as the only event of its kind to recognise organisations and individuals in the Central (and Eastern) European energy industry for setting new standards of innovation and excellence in daily operations.

The awards will be announced by an Energy Awards jury including experts from the oil, gas, renewable energy, and unconventional oil and gas sectors. The award winners are, generally speaking, leading producers, suppliers, and distributors from the CEE region, recognised for their contributions and value to society, reinforced every day by their continued efforts on behalf of their relevant energy sector.

The CEE Energy Awards will be held on May the 29th, 2014, at the Intercontinental Hotel, Warsaw.

At 18:30, the CEE Energy Awards Gala begins with cocktails/networking, and this is followed by a formal dinner at 20:00, with the 15 Energy Awards to be announced during the dinner.

We are delighted to inform you that several of our Member Companies have been nominated to receive the prestigious CEE Energy Awards, among them being: Grupa Lotos (offshore Baltic exploration; Petrobaltic); Katowicki Holding Węglowy S.A.; Jastrzębska Spółka Węglowa S.A.; Tauron; New World Resources; Enea S.A.; and Węglokoks S.A.

For a full list of short-listed firms, you can find them here: <http://ceeenergyawards.com/categories-and-nomination-process/>

To see the complete programme for the evening, click here: <http://ceeenergyawards.com/program>

Coming together for a common energy market in Europe

By Witold Nieć

The European Economic Congress in Katowice (Poland) is considered to be one of the most representative discussion forums on the future of Europe. The ECC is a three-day series of debates, meetings, and associated activities involving of six thousand visitors from Poland and abroad. Hundreds of panellists attended nearly 100 sessions this year. Guests included Prime Ministers and representatives of European governments, EU Commissioners, presidents of major companies, scientists, practitioners, and policy-makers who have a real impact on economic and social life. ‘The Common Energy Market in Europe’, an important panel discussion, organised by Central Europe Energy Partners, was one of the highlights of the Congress.

“We are in a special moment of history. The topic of a common energy market is always revived in time of crisis. Then, different actions aimed to deal with the problem in the short-

term are taken”, declared Paweł Olechnowicz, Chairman of the Board of Directors of CEEP. “In my opinion”, he added, “we must find solutions that will also prevent similar problems in the future, and we must do it now”.

ECOLOGICAL DEMAGOGY

One of the most discussed topics this year was the issue of the energy security of Europe. The message of many discussions, and especially energy-related panels, including the above-mentioned meeting organised by CEEP, was ‘crystal clear’. Europe has gone too far in the implementation of its ambitious goals in climate policy. It has put on the ‘green altar of sacrifice’, not only jobs, but also the social and economic safety of the continent, and ‘put at risk’ the existence of industry. “As a result of this recklessness, we pay 20% more for our energy than China, 65% more than India, and two times more than the U.S.”, claimed Marek Wozzycznyk, the CEO of Polska Grupa Energetyczna, during the Congress. “We are also dependent on external energy supplies, whilst subsidies



European Economic Congress (EEC)2014, Katowice, (from left to right): Paweł Olechnowicz, Chairman of the Board of Directors, CEEP; Jerzy Buzek, President (2009-2012) and Member (since 2004) of the European Parliament.

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for renewable energy are a serious challenge, even for economically strong countries such as Germany”, he said. During the accompanying debate about the climate package post-2020, Professor Jerzy Buzek asserted that “the actions being taken to eliminate coal are motivated solely by a game of interests”. He went on to state that “for France, Germany and Sweden, the climate package was, and is, an excellent deal”. Professor Buzek urged those present at the Congress, “to do everything they can to give industry a strong representation and make ‘its voice’ heard within European institutions”. He concluded by stressing “that was why what CEEP does is so important”.

“WE HAVE KNOWN, AND WE HAVE WAITED”

The current events in Ukraine, and their possible implications, are an excellent opportunity to reflect on what to do next. “The time has come for specific decisions”, Ian Brzeziński, an Atlantic Council energy expert, argued. Mari Kiviniemi, Prime Minister of Finland (2010-

2011), emphasised that EU countries should increase both their energy efficiency and energy saving. “What is currently happening in Russia and Ukraine is a warning sign that should accelerate the introduction of agreed regulations on the energy market”, she proclaimed. “An increase in productivity and the efficiency of power units is a better and more effective way to produce low-carbon energy than is a fight with carbon. The most efficient fight with CO₂ emission is saving of energy”, she concluded. “Through the excessive domination of the EU with ecology, we begin to lose our competitive advantage and jobs in Europe, which duly migrate to places where energy costs are lower, , bemoaned Jarosław Zagórowski, CEO of Jastrzębska Spółka Węglowa S.A. He proposed that we should, therefore, combine the energy systems in the network within Europe.

According to Prof. Buzek, Scandinavia provides a good example of such a solution, where countries co-operate and send each

other energy. System built by the Czech Republic, Slovakia, and Hungary, also works well. In Poland, similar expectations accompany the construction of an energy bridge between Poland and Lithuania.

“We earmarked 6.5 billion euro for energy links between EU countries”, Professor Buzek indicated. “So, we should definitely focus primarily on the activities which will lead to the completion of the internal energy market”, he advised.

FUNDING PRIORITIES

The financial plans of the European Union were strongly criticised by Jan Kulczyk, in whose opinion, “they are far from meeting real needs”. The 6.5 billion euro intended for energy links is unfortunately, further evidence of Brussels being “out of touch with reality”. “This is just a drop in the ocean”, mocked the President of the Supervisory Board of Kulczyk Investments. “The real needs in this specific area are estimated at 100 billion euro”,

he pointed out. His key question was: “if we could find the funds to help Greece, why can’t we find the necessary funds for this particular project?” His forceful remarks continued as he spelt out the ‘bottom line’: “we must understand that a common energy policy is in our interests and we have to duly pass a part of our sovereignty to Brussels, but they also need to remember to deal with the issues of energy, not the shape of bananas”.

THE ROOTS OF THE PROBLEMS

According to dr Kulczyk, many problems are associated with the fact that instead of a single strategy, we are still immersed in EU-28 national energy policies. Paweł Olechnowicz though, struck a more optimistic tone, suggesting that “we’re going in the right direction and, therefore, I am an optimist when it comes to the establishing of a common energy market in Europe. We have ideas, approved money, regulations; it is more about what we need and really want”. He outlined that, “Central Europe Energy Partners are in favour of

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maintaining the balance between European economic policy and climate policy, and for the recovery of economic growth in Europe. It is important to constantly pay attention, and to convince governments, parliaments and public opinion within the Union's community, of the fact that the implementation of climate policy objectives should be modified, taking into account the need to balance economic and social development, especially in the region of Central Europe". He posted a positive vision of the immediate future, stating that, "if we truly believe in a strong and competitive Europe, we should allow Member States to use the cheapest and most easily accessible indigenous energy resources, whilst systematically reducing carbon emissions. We should also support the common policy of the EU,



EEC 2014, panellists of CEEP's panel discussion: "The Common Energy Market in Europe", an important panel discussion"

taking into account the interests of Central European countries, including initiatives such as the creation of the internal energy market Mr. Tusk's (Prime Minister of Poland) initiative concerning Energy Union, should be supported as very interesting solution.

Former Polish Prime Minister, Jerzy Buzek, mentioned that when he was the President of the European Parliament, he proposed the establishment of an energy union. The project involved, amongst others, the joint purchasing of raw materials, the creation of solidarity mechanisms, and the development of clean energy, along with innovative energy technologies. He recalled that some of the proposed solutions were then implemented, including 6 billion euro from the EU budget for the

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construction of gas and electrical connections between countries.

According to Ian Brzeziński, Donald Tusk's Energy Union proposal was very important and could be the starting point of a discussion on how to better co-ordinate energy policy, and how the EU may have a stronger role in the formulation and implementation of a common energy policy.

COAL – 'THE ENERGY SECTOR'S WHIPPING BOY'

According to article 194 of the Lisbon Treaty, each country has the right to implement and promote its preferred way of obtaining energy. However, at the same time, carbon taxes are being imposed to a greater degree, and the coal sector is practically being prohibited from obtaining public funding. Meanwhile,

the adoption of directives and regulations concerning energy is accompanied by chaos. The inhibiting policies and attitudes associated with coal, CCS technologies, renewable energy, and biomass which have caused the reduction or suspension of greater investments in the energy sector, was emphasised by Jolanta Hibner, a Polish Member of the European Parliament.

COAL, THE TTIP, AND THE FUTURE

The agreement on free trade between the EU and the United States of America will be a major breakthrough, it was generally perceived. The European Economic Congress was dominated by a compatible outlook for the representatives of the mining, chemical, and energy industries, but much depends on the detailed provisions of the adequate agreements, be-

cause at the present stage of negotiations, two scenarios are being drawn. First, whereby the agreement will contribute to the elimination of European industry and its relocation overseas, and the second, in which the consequences of the free trade agreement will prove to be more positive for the European energy sector.

Jarosław Zagórowski, the CEO of Jastrzębska Spółka Węglowa S.A., strongly emphasised. "It is better, instead of waiting, to focus on what we have. Coal is a raw material available in the EU, and until we learn how to store renewable energy, our energy sources will be unstable", he asserted. "Coal, known as a dirty fuel, could be cleaner, but the key point is that we should not fight with coal, but with CO₂. Let's start to use better technology in coal combustion. Coal should have a place in the energy-mix of the EU, not only today, but in the future".



Witold Nieć

Witold Nieć
 is a specialist in the energy sector

ENERGY DIALOGUE AT THE REICHSTAG



Arash Duero

By Arash Duero

The 48th Energy Dialogue at the Reichstag - at the invitation of Prof. Dr. Friedbert Pflüger, Janusz Reiter, and Central Europe Energy Partners (CEEP) – discussed ‘The US Shale Gas Revolution’. The panel discussion was held on April 4th, 2014.

Mr. Marcin Korolec, Secretary of State at the Polish Ministry of the Environment, opened the discussion by dispelling the notion that US gas exports could help the EU lessen its reliance on Russian gas in the short-term. He gave three reasons for this: the amount of time it takes to build export capacities, insufficient supplies, and strong public and political opposition to gas exports from the US. To strengthen the EU’s energy security, Mr. Korolec suggested Polish Prime Minister Tusk’s initiative, advocating an EU Energy Union based on six pillars. These would include strengthening solidarity mechanisms, expanding interconnectors, increasing the EU’s price negotiating power, finding new energy suppliers, strength-

ening partnerships with neighbours, and exploiting indigenous energy sources.

Mr. Tristan Aspray, Head of Exploration Europe and Caspian at ExxonMobil, praised the economic and environmental benefits of the US shale gas revolution. He said that the rise in shale gas production has significantly lowered energy prices, sparked an industrial revival, created an additional 1.7 million jobs, and increased the average disposable income of American households. Moreover, the shale revolution has drastically reduced the level of CO2 emissions in the US, which are at their lowest level since 1994. Mr. Aspray also stressed that, despite common misconception, investments made in the shale gas industry have not diverted capital from the renewables industry. To prove his point, he observed that Texas, for instance, has experienced a simultaneous increase in shale gas production and installed wind power capacity. Finally, he said that the development of a shale gas industry in Europe could be equally rewarding by creating more jobs, reducing energy prices, and lessening the continent’s import dependency. 

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