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**Interview of Mr. Gordon Bajnai, former Prime Minister of Hungary and Director General of Meridiam**

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### **Energy issues in contemporary Central and Eastern Europe**

**According to you, what are Eastern European countries' main factors of vulnerability, in terms of energy security? Is energy a key issue in a more general perspective of political independence in the EU?**

Energy dependence – and therefore, energy security – has been a major factor of the region's security. These countries, whether they are EU member States or aspiring member States, have a strong inheritance from the communist era. From 1949 onwards, the former USSR linked them via the Comecon and made them almost independent from the outside and almost completely dependent from its important resources. If you look at Central and Eastern Europe from an energy network perspective, the main lines are mostly East-West, very few North-South, for historical reasons.

Politicians have a tendency to act when a crisis or an emergency happens: these past few years, and more specifically after the first and second gas crisis in Ukraine, the governments speeded up their reforms and actions in the matter. When Gazprom suspended the gas supply through Ukraine, these countries immediately suffered because for many of them, including the Balkan states, Slovakia and the Czech Republic, the only route for their gas supply was Ukraine. Poland was a bit more balanced, thanks to its coal industry and a dense system of district heating, but they were still using Russian gas. Also, take the case of my country's energy mix: in Hungary, 40% of our total energy consumption was gas, mostly retail: many people had their individual gas meter. 80% of that gas came from Russia. When I became Minister of Economy, I experienced the first gas crisis with Russia, and then I became Prime Minister. It was my priority: I organized an Energy summit with twelve countries from Eastern Europe, including Austria, in 2010 to push the EU to take action. At the time we had discussions about a North-South gas connectivity: the project has evolved a lot since then, as Croatia is selecting investors for the Krk LNG terminal. LNG is one of several answers to how to diversify our energy strategy in the area. At the time of the negotiations, the shale gas revolution hadn't boomed, but today it is a possible and easy solution to the gas problem, from the security point of view, and sometimes from the price point of view. From the security of supply perspective, Poland has decided to build the Świnoujście LNG terminal. Hungary built huge gas storage facilities, prior to the first gas crisis; we were then able to give gas from our own reserves, as a solidarity action to Serbia and Croatia. We couldn't give any to Slovakia due to lack of connection. We decided to build that connection and today, Hungary's huge storage facilities could help the neighbouring countries in case of necessity.

**What political tools can be set up to guarantee a country's energy security in the long term?**

I see four different tools for energy security: independent source (from Russia), independent pipeline (from Ukraine), gas storage and interconnection facilities. Partly with the support of EU funds, Eastern European countries built these connections and upgraded some of the existing infrastructure a few years ago. As mentioned previously, the Polish government has promised to build the Świnoujście LNG terminal, and Croatia seems to be moving that way six years later. The aspiration to have an independent pipeline like Nabucco or South Stream has failed for economic

reasons. It brought a lot of debate: between South Stream and Nabucco, my position was and still is that Hungary and the region need both an independent source and an independent pipe. South Stream, sponsored by Russia, was a Ukraine-independent pipeline coming from a Russian source. It was less interesting than Nabucco, which had independent source and pipe. However, both of those projects have failed. The whole economics of gas have changed since the shale gas revolution. We have to look forward.

**Let's talk about the Southern gas corridor. The pipeline takes its source in Azerbaijan: can we consider it an independent source of gas, regarding the links between the Azeri and Russian markets and Russia's influence in the region?**

It is clear for Russia that energy is a resource as well as a major foreign policy and security instrument. For the last decade and more, Russia has been hugely dependent on the gas demand, as a supplier. Russia is trying to secure its market and to keep its gas clients at a high level of dependence. They are not interested in creating competition: on the contrary, they seem to be doing everything to secure a close cooperation between former Soviet republics. Sometimes they buy other countries' gas, like Azeri gas, so they can sell it themselves, and more generally they try to influence the sale of their resources. Putin has initiated a new program of economic cooperation in the region, to strengthen these ties. When we talk about these countries, considering them as an independent gas source, we need to ask ourselves how long they can ensure this independence.

**What is your opinion on the Russian gas market, its weaknesses and strategy towards China?**

The question for Russia is, can they fund the investment to renovate their internal infrastructure, but also do they have the technology, in a context of international sanctions? With relatively low gas prices, can Russia fund further necessary exploration projects? China sees Russia as strategically important, but it isn't their only source of gas. They are major beneficiaries of Russian contracts.

**In November 2015, Poland, the Baltic states and other Central and Eastern European countries sent a letter to the European Commission about the North Stream II project, where they raised their concerns about its consequences on their energy independence.**

Germany plays an important role in Europe's sanctions policy towards Russia. The North Stream pipeline is a big flaw in that strategy: we have experienced in 2009 and 2010 that Germany was hostile to growing independence from Russian gas, partly because many German importers sold high volumes of Russian gas abroad. I think the right solution would be to create Europe as a single market for gas, and to make sure that the gas arriving to Europe as a single market is priced at its borders. From then only the transport can change the price. Russia's strategy is to divide the EU on this subject, selling cheaper gas to some corporative players, including German trading companies, than to other countries so they can play different States against each other. The EU needs to have a united strategy, because as Russia's biggest gas buyer it has the capacity to negotiate in stricter terms. In that respect, I agree with this letter sent to the European Commission. On the other hand, with the Second and Third Energy Packages published by the European Commission, the promises expressed by the EU, such as the diversification of energy sources and routes, have to be delivered.

**Do you think Turkey, as a transit country for the Southern gas corridor, is a safe partner for the EU, considering the migration crisis, the instability in the Karabakh region and Turkey's often problematic relations with Russia?**

Europe has now become a tripolar area: first there is the EU, which is much weaker than its potential when it comes to security and defence; secondly there is Russia, with its existing problems, and Turkey, the third angle of the regional strategic balance. A new pipeline involving

Turkey would definitely increase the energy security in Europe, because it would prevent Ukraine from remaining the exclusive route for gas from Russia. It is not in our interest to put all our eggs in one basket, whether it is Russian or Turkish: counting on Turkey would be a step forward on the way to a more reliable energy strategy. Turkey is a member of NATO and needs Europe as much as Europe needs Turkey in many aspects. This interdependent relation needs to be developed and strengthened.

**What was your experience of negotiations and decision-making as Prime Minister of Hungary, regarding your neighbour countries, the EU and Russia, especially in the context of a gas crisis?**

There is a strong harmony of interests between Central and Eastern European countries, between Poland, the Czech Republic, Hungary and Slovakia, the four members of the Visegrad group, and to a larger extent the Balkan states. These countries' aim was to become less and less dependent on Russian gas, so it was relatively easy to raise unity among them, to start and continue the negotiations and to raise a single voice. We have converging interests on other issues, such as nuclear capacity for electricity production: most power plants in the region are traditionally based on Russian technology and many countries still import uranium from Russia. In that sense, many other subjects have to be reconsidered and rediscussed to guarantee a reasonable level of independence from Russia.

**What is your opinion on France's energy mix and strategy, potential weaknesses, strengths and perspectives?**

I see a major boost in energy efficiency and renewables: we recently set up a fund with the investment of French insurance companies, to encourage COP21-compatible projects such as smart grids, smart metering, district heating and special forms of renewable energy. I see this revolution ongoing and the big question for France is how to maintain and renew its nuclear capacity, which accounts for a big part of the country's electricity supply.

*Gordon Bajnai is the Director General of Meridiam, a Paris-based investment fund specialised in public infrastructure projects. He was Prime Minister of Hungary from April 2009 to May 2010 and was previously appointed Minister for National Development in 2008 and Minister for Local Affairs and Regional Development in 2007.*

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