

## ENERGY &amp; CLIMATE

## ENERGY | GAS PIPELINE

## GDF Suez to join Nord Stream gas pipeline project, takes stake

On 1 March, France's partially state-owned natural gas and electric utility GDF Suez and Russian natural gas monopoly Gazprom signed a memorandum for the French company to buy a 9% stake in the Russia-backed North Stream pipeline. The planned pipeline is meant to pump gas from Russia under the Baltic Sea and to Germany and Western Europe.

Gerard Mestrallet, chief executive of GDF Suez, called North Stream "a key element in the security and the supplies of natural gas in western Europe," because the region is increasingly dependent on imports as its own reserves dwindle.

GDF Suez and state-controlled Gazprom also said they have begun talks to supply GDF Suez with up to an additional 1.5 billion cubic meters of natural gas a year from 2015. Currently GDF Suez imports almost 11 billion cubic meters of Russian natural gas a year.

The 1,220 kilometer-long Nord Stream pipeline will eventually pump 55 billion cubic meters of gas per year to Western Europe, bypassing traditional transit nations. Nord Stream will have two pipelines, each with a capacity of 27.5 billion cubic meters a year,



French President Nicolas Sarkozy (R) and Russian President Dimitri Medvedev (L) gesture during the joint press conference that followed the signature of agreements at Elysee Palace, in Paris, France, 1 March | ANA/EPA/HORACIO VILLALOBOS

on the Baltic Sea floor stretching from Russia's Vyborg near the Finnish border to Greifswald on Germany's coast. Construction of the first pipe is to begin in April, with pumping of gas expected to start in late 2011, while the second is to come online in 2012. Gazprom currently holds a 51% stake in Nord Stream AG, the project operator. Germany's Wintershall Holding and E.ON Ruhrgas control 20% each, and the remaining 9% belongs to Hol-

land's Gasunie. GDF Suez is expected to join Nord Stream through the reduction of the stakes held by Wintershall Holding and E.ON Ruhrgas.

Medvedev also welcomed French help in improving Russia's energy efficiency.

France is the seventh largest foreign investor in Russia, while Russia is France's largest supplier of crude oil and natural gas, according to figures supplied by MEDEF.

## ENERGY | GAS PIPELINE

## Iran-Pakistan-India pipeline deal close

Iran and Pakistan are slated to sign a final agreement to launch implementation of a project for exporting Iran's rich gas reserves from the massive South Pars field to the south-Asian country through a multi-billion-dollar pipeline. Fars News Agency quoted Hojatollah Ghanimifard, a senior investment official at the National Iranian Oil Co. that there would be a signing ceremony 9 March for the so-called Peace Pipeline. "Once so, the ground is prepared for the export of gas to Pakistan and India," he added. He said that the agreement will be the last annexation to the deal signed between the two countries in Istanbul, Turkey in May, 2009.

The official further expressed the hope that the new move would pave the way for exports of natural gas to Pakistan by 2014. The 2700-kilometer long pipeline was to supply gas for Pakistan and India which are suffering a

lack of energy sources, but India has evaded talks. Last year Iran and Pakistan declared they would finalize the agreement bilaterally if India continued to be absent in meetings. In a major breakthrough on 20 March, the Pakistani government approved Iran's proposed pricing formula for gas supplies to the South Asian country.

According to the project proposal, the pipeline will begin from Iran's Assalouyeh Energy Zone in the south and stretch over 1,100 kilometers through Iran. In Pakistan, it will pass through Baluchistan and Sindh but officials now say the route may be changed if China agrees to the project. The gas will be supplied from the South Pars field. The initial capacity of the pipeline will be 22 billion cubic meters of natural gas per annum, which is expected to be later raised to 55 billion cubic meters. It is expected to cost \$7.4 billion.

## ENERGY | GAS PIPELINE

## Nabucco consortium to finalize agreements

The consortium managing the Nabucco gas pipeline is working hard to finalize agreements with potential supplier countries, said Stefan Judisch, the chief executive of Nabucco partner RWE Supply and Trading.

Europe aims to build the Nabucco gas pipeline through Turkey to break Russia's grip on the natural gas sector. The project could move gas from Central Asian and Middle Eastern suppliers.

Judisch said in an article for the Azeri news agency News.az that the consortium was working "intensively to get the project off the ground. Despite widespread political support for the project, potential suppliers are slow to emerge. Judisch, however, said he was engaged in "fruitful discussions" with Azerbaijan and Turkmenistan over gas supply contracts. Egypt and Iraq have also been mentioned as potential suppliers to the Nabucco pipeline.



## ENERGY INSIDER



## Ukraine energy sector reform will wait

By Kostis Geropoulos

As Ukraine's newly-elected president, Viktor Yanukovich, was meeting top European Union officials during a one-day quite unexpected trip to Brussels, a few blocks away in Rond-Point Schuman, I was moderating a panel discussion of the integration of Ukraine in the EU's Energy Policy. Experts discussed ways to utilize Ukraine's full energy potential, including connecting electricity markets, energy efficiency, renewables, and improving the effectiveness and environmental standards in the coal sector.

Yanukovich, whose first foreign visit as head of state was to Brussels, promised European Commission President Jose Manuel Barroso, EU Council President Herman Van Rompuy, European Commission Vice President Siim Kallas, High Representative for Foreign Affairs Catherine Ashton and European Parliament President Jerzy Buzek closer relations with the 27-country bloc. "European integration is a key priority," he said on 1 March, adding that the talks focused on a planned association deal with the EU that would allow free trade. He also promised to reform Ukraine's key gas sector.

A diplomat in Brussels told New Europe that Yanukovich's visit to Europe's capital was a nice gesture towards the EU. "Now he will go talk business with Moscow," the diplomat quipped. Yanukovich left for a one-day official visit to Moscow on 5 March.

But Yanukovich will not be Russian Prime Minister Vladimir Putin's stooge. Moscow sees Yanukovich a friendlier partner than former president Viktor Yushchenko, but its tone was hardly celebratory. Yanukovich is more likely to pursue the interests of the group of Ukrainian oligarchs that supported him. For its part, the EU hopes that Kiev and Moscow will have close relations and Ukraine becomes a reliable energy partner. "We need urgent progress on modernization and restructuring of the gas sector," Barroso said, calling for more transparency and market mechanisms. Changes sought by the EU include tariff increases for gas supplies for domestic consumers and businesses and restructuring of national joint stock company Naftogaz to ensure its sustainability. Barroso said Ukraine, which is member of the Energy Charter, could join the Energy Community Treaty, which is expected to "unlock significant direct investment" in the country, provided Ukraine adopts a gas law in accordance with the EU acquis. He expressed confidence that if Ukraine reforms its gas sector the "international financial institutions will be able to provide financial assistance" to the former Soviet republic. Yanukovich said he was ready to adopt the law on the internal gas market.

Yuriy Ryzhenkov, Chief Operating Officer of energy company DTEK, owned by SCM Holding, itself wholly owned by tycoon Rinat Akhmetov, said there is probably a greater need for reform in the electricity sector than gas. The need is twofold: to bring the tariffs to the adequate levels and reform the electricity market. "We need to move to more market-based mechanism to pricing of electricity sector," Ryzhenkov, who participated in the roundtable, told me in an interview in Brussels before departing for Kiev. "Also the reform is necessary in the field of electricity distribution. Right now there is no incentive for distributing companies to be more efficient, we need to introduce those incentives, and we need to introduce incentives for the investors to come in to this industry. Another problem in the distribution sector of Ukraine is the plain field is different for local companies and foreign investors," he said. But, as Ukraine's political leaders struggle to form a new coalition, plans for an effective reform of the country's energy sector will have to wait a little longer.

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