The energy ‘battlefield’ in Europe

Moderator: Michael Williams, Global Energy Editor, Wall Street Journal

- Speakers: Lord Simon (MBA ’66), former Chairman of BP; Gerd Leipold, International Executive Director, Greenpeace International; Kris Sliger, Executive Vice President, TNK-BP

Demand for energy around the world is increasing, particularly with the rapid economic growth in China and India, and the issue of ‘energy security’ is becoming increasingly important. But, on the other side of the coin, climate change and global warming have also become political and economic issues. And while the future of nuclear power is still uncertain, it seems we shouldn’t be counting on alternative energy sources to take up the slack from carbon-based fuels just yet.

At
a plenary session on energy at the Leadership Summit, the former chairman of BP, **Lord Simon**, said it's 'crucial' to change usage patterns. That would require incentives and disincentives, he said, but not many politicians would be prepared to implement these. Governments, he adds, should try to encourage investment in environmentally-friendly technologies rather than price subsidies. He told Summit participants to 'beware biofuels' even though it's important to develop cleaner forms of transportation, as sources such as sugarbeet and wheat may face 'terrific' price competition from the food industry.

"Don't get overexcited about alternative energy in the next decade. It's very important to have it in your strategic plans, but it's not going to answer very much in the next decade. If it's seven per cent of our energy requirement in Europe we're doing quite well," he says.

"Over the next decade 70-80 per cent of our energy is going to be carbon-based in Europe whether we like it or not, which is why the climate change issue is highly significant both economically and socially."

Coal will be an important source of energy and Lord Simon called for a carbon trading operation to help cap the amount of carbon we put into the air. 'In the next decade, the market for carbon should be as vital and as lively as the market for money is now."

The nuclear debate

Lord Simon told the Summit that although it may take 10 to 15 years to bring on the next generation of nuclear power, the renewal of the nuclear industry, along with efforts to improve the technology and security, will be 'vital' in the next decade.

Gerd Leipold said Greenpeace is opposed to nuclear power for a number of reasons, including the risk of accidents, questions about nuclear waste and ethical considerations. While this generation would enjoy the benefits, future generations would face "substantial and unknown costs … and we think that's unethical," Leipold said.

In response, Lord Simon said he didn't 'believe in the leap' that this is an ethical problem for future generations. "Every piece of energy we produce has its ethical problems and I'm afraid we've got to produce it," he says. "You can't differentiate nuclear in ethical terms from other sources of energy. The point is that it doesn't make a mess in the same way that most of the carbon-based energy (does)."

"Honestly we can't do without nuclear and stopping it, and not going to the next generation, is going to be an extraordinary error in my view, in terms of the cost to the community."

Leipold of Greenpeace acknowledged that every form of energy production has side effects and took issue with Lord Simon's assertion that nuclear power doesn't make a mess: "If you say nuclear (does) not (make) a mess, you should have travelled in the decaying Soviet Union and looked at nuclear power stations."

"Then I ask you to look around the world and just imagine if Nigeria and Indonesia would have nuclear power. How much fantasy does it take to imagine that China will be a stable country for the next 150 years and will operate nuclear power stations in a safe way and manage the waste in a safe way? You may have the optimism, I don't have it."

During the session, Leipold (right) argued that Europe is well placed to take on climate change as 70 per cent of the whole climate problem is energy related, but added that European leaders are sometimes 'not fully up to the problem'. They may be high minded about climate change but energy is 'closer to home'.

"Actually there's enough energy produced in the world," Leipold says. "What we have to do is use it much better and redistribute it in a different way." He says an 'energy-efficiency revolution' isn't a pipedream. "If we are more energy efficient, then we need less energy in Europe, then renewables can play a substantial part, can play 50 per cent of it. That has to be the starting point."

Doing business with the bear

Russia also loomed large in the Leadership Summit session on energy. **Kris Sliger** of Anglo-Russian energy venture TNK-BP said the European Union consumes about 15 million barrels of oil a day, almost 20 per cent of the entire world consumption of oil and about 16-17 per cent of global consumption of natural gas. However, the EU only produces about 2.5 million barrels of oil a day, leaving a major shortfall.

Russian oil supplies are helping to cover that deficit. Citing data from BP, Sliger said Russia provides about 28 per cent of Europe's total gas and about 40 per cent of its total oil supplies.

"When you look at energy globally Russia matters. Russia holds about 6-7 per cent of the world's supply of liquid hydrocarbons. More importantly, it holds 42 per cent of the non-OPEC (Organisation of the Petroleum Exporting Countries) supply of liquid hydrocarbons and it holds 30 per cent of the world's natural gas supply."

Russia's the second largest oil producer, producing almost 10 million barrels a day, and occasionally produces more than Saudi Arabia, he says. It's also the second largest energy exporter globally, exporting almost 5 million barrels a day of liquid hydrocarbons. In addition, he says, Russia also exports more than 150 billion cubic metres of gas, "essentially all of it to the European theatre."

Sliger says he views the relationship between the EU and Russia as an "unfinished story of mutually beneficial dependency and really an opportunity and a cause for more engagement, further economic integration and enhanced growth for all concerned rather than … confrontation or stagnation."

In economic terms, Russia and Europe are fundamentally connected, Sliger says. The EU is Russia's largest trading partner, while Russia is the EU's third largest trading partner after the US and China. "Energy's at the heart of Russia's economic relationship with Europe today and I would argue that because of the availability of resources, the supply that Russia has, the geographic proximity … the existing infrastructure and the history of cooperation, Russia and Europe – at least in the energy sphere – are destined to be partners."

That will require increased benefits for both sides, Sliger says, adding that greater reciprocity and transparency are critical. "If Europe wants continued access to investment opportunities in Russia, I would anticipate that Russia is going to demand equal access to markets (and) to investment opportunities in Europe."

It's a relationship fraught with difficulties, however. In recent years, the Russian government has taken back control of large sections of its energy industry from foreign investors. Shell and its Japanese partners sold a controlling stake in the Sakhalin-2 oil and gas project to state-owned gas monopoly Gazprom after Russian regulators threatened to shut down the project. Then, on the day the Leadership Summit was staged, the Wall Street Journal Europe reported that BP, 'facing regulatory pressure from the Kremlin', was close to a deal to cede its holdings in the 20 billion dollar Kovykta natural gas project, also to Gazprom. Under the deal, the newspaper said, BP's Russian venture, TNK-BP – Kris Sliger's company – would sell its 62.7 per cent stake in the gas field for close to one billion dollars.

Sliger did not comment on the Wall Street Journal report, but said he "would like to dispel the notion that Russia is closing to foreign investment, particularly in energy." He added that access to strategic sectors, such as oil and gas, will only open up if Russia sees real value "beyond just money."

On the Sakhalin deal, he said economic circumstances have changed since Shell had reached the agreement in the early 90s. "It was a radically different world," Sliger says. Russia was bankrupt back then, oil prices were expected to be at 10 dollars forever and some were arguing they could go to five dollars a barrel. "The economic terms and conditions that were in place then were radically different than what are in place today," Sliger says.

While oil prices are now more than 70 dollars a barrel, Russia is currently sitting on around 400 billion dollars in hard currency. "They don't need money. What they do need is technology, better governance, better business processes, practices. Where companies can demonstrate that they can provide something other than just money I think they will find the Russian environment completely open, so long as the rest of the world attempts to invite Russia to the benefits of mutual interdependence (and) cooperation."
Russia should be more than an economy which just produces raw materials, Sliger adds. "It's in Europe's interest to have Russia to continue to grow economically."

Wall Street Journal Europe editor Michael Williams, who questioned whether Russia could be trusted as a stable supplier of energy to Europe, told Knowledge that Russia's actions concerning Shell and BP are "not a mature way to do business."

"From a political standpoint many people in Europe think that western Europe is too reliant on Russia for its energy," Williams says. But then there would be two alternatives which would be 'hard choices': diversifying supplies, but these may not come from particularly stable countries either; or decrease demand and aim for greater energy efficiency. "Politicians have to ultimately make the decisions,' he says, "And that's where we get back to the politics question."

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