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## PRESS ARTICLE

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## RUSSIAN THREAT TO OUR GAS SUPPLY

It seems uncanny how history is repeating itself in the Ukraine. Three years ago we had a similar situation when Gazprom in dispute with Naftagaz celebrated the New Year by cutting off Russian gas supplies through the Ukraine. On the face of it each time it is a business dispute about money but, of course, life isn't that simple.

In 2006 cutting the flow of gas meant a dramatic reduction in supply to central European states and was more like an electric shock as the implications sank in across the whole of Europe. The EU Energy Commissioner Piebalgs was galvanised into action to mediate in the dispute and make the gas flow again. This time the dispute seems determined to rumble on and one could argue the outlook is worse than three years ago. However the background and the implications for EU energy policy remains pretty much the same.

Europe is increasingly dependent on imported natural gas. Our main source of supply is Russia, followed by Norway, Algeria and, recently, LNG (Liquefied National Gas) from the Middle East and Qatar in particular. Once upon a time there was a policy not to use gas for generating electricity but that went by the board when it became apparent there were plentiful resources within the Netherlands, UK North Sea deposits and nearby.

I recall doing a report for the European Parliament some 10 years ago on the prospects for gas supply in Europe. Then I was taken to task by representatives of the industry for suggesting there was a security of supply risk if any one fuel or technology provided more than 25% of final consumption. They said this could place unjustified constraints on the industry. Well I rest my case with the observation that we are even more dependent on oil - some 45% of final consumption.

The gas that Russia supplies to Europe comes through a number of pipelines and quite a large proportion transits through the Ukraine. This is not a one sided trade because we pay hard currency and the Russian economy is heavily dependant on this flow of money. In former times the transit through Ukraine was not seen as a problem since the two countries were perceived as more or less indivisible within the Soviet Union and its successor the Commonwealth of Independent States.

In particular the Ukraine enjoyed what I would call favourable internal prices and transit fees since both countries received benefits from the much higher export prices. As soon as the Ukraine started asserting its independence and began looking westward for a closer association with the EU the rules of the game

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*Conservatives in the European Parliament*

changed. In one sense one can understand a Russian line of thought that says if you want to go off and join the rich countries club then you can start paying the same price as they do.

Likewise one can understand the counter argument by the Ukraine which was that we must charge market rates for transit rights and, possibly, even a premium for our strategic importance. And, of course, there is a Russian interest in stirring up internal debate and dissension between the pro-Russian and pro-Western elements of the Ukraine.

So much for background now what about the implications for Europe? Until three years ago I would have argued that the mutual benefit in the trade of gas for currency was a sound basis for doing business and posed relatively small risks so far as security of supply is concerned. Not any more. In recent years there is a greater emphasis placed on climate change policy which has meant a fundamental shift in attitudes toward the consumption of fossil fuels pushing us in the direction of reduction, substitution and alternative technologies. So it seems to me these two strands of energy policy are no longer in stark competition but finding much common ground.

However we cannot wean ourselves off gas overnight. In the short to medium term there are a number of things to be done to address the security of supply issues. Ironically one is to reassess attitudes towards building alternative pipelines for delivering Russian and central Asian gas to Europe. There has been much controversy over the Nordstream proposed pipeline through the Baltic Sea but from a West European perspective this could be a way of by-passing the Ukraine. A more remote prospect is the Nabucco pipeline proposal which would be routed through Turkey to bring gas from central Asia or even possibly Iran.

We have to find alternatives in the medium to long term to the present levels of gas consumed in generating electricity. For that I see two options, both of which should be pursued. Renewable energy is available in many forms, not all of which are reliable. Some hold out huge promise, such as ambitious plans to create a super grid of offshore wind generation or equally ambitious solar power generation in the Sahara linked to the European transmission system across the Mediterranean. Such large scale facilities will take a long time to develop and, of course will require a lot of capital.

Other options will also take time and capital to develop. Nuclear energy presently supplies 31% of EU electricity. It is reliable base load electricity and has considerable potential for increased capacity, maybe up to 40% of electricity consumed. Of course it represents a much smaller share of final energy consumption so it is unlikely to breach the 25% level. But building a new nuclear power station can take 10-15 years taking all the planning, consultation, design and construction stages into account so it is not exactly going to help switch the gas back on tomorrow or, more to the point, replace it.

In my view we need to pursue all these options for the joint reasons of climate change and security of supply. This is not all that we can or should be doing. Making our economy and homes more energy efficient is obviously one solution but seems to be easier said than done. And the other area for action is to increase research into all energy sources as well as the development of new technologies. So there us plenty we can do but will the need for urgency be kept to the fore once the immediate Ukraine crisis subsides?



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