

CENTRAL EUROPEAN WEEKLY

ANALYTICAL NEWSLETTER FOR CENTRAL EUROPE, GERMANY, THE BALKANS & THE BALTIC STATES

OŚRODEK STUDIÓW WSCHODNICH IM. MARKA KARPIA | CENTRE FOR EASTERN STUDIES | ISSUE 25(37) | 15.07.2009

Inside:

ANALYSES

Intergovernmental agreement on Nabucco case / 2

Conclusion of an intergovernmental agreement on the Nabucco pipeline significantly increases the probability of its coming into existence. However, the provision of resources still remains a great challenge

EVENTS

Lithuania, Latvia and Sweden decide on the construction of electricity link / 5

Further deterioration of Bratislava-Budapest relations / 5

Russia threatens MOL with the withdrawal of its licence for the extraction of Russian oil? / 6

Return of Serbs to Kosovan police / 7

Germans more aggressive in Afghanistan? / 7

Germany towards Russia: parliamentarians stricter, Ministry of Foreign Affairs milder / 8

Germany: E.ON under pressure from Brussels / 8

www.osw.waw.pl

We recommend our publications
which can be found at the OSW
website osw.waw.pl

The New Great Game
– a breakthrough?

The German vision of NATO's future
– The Alliance as a building block
of Germany and Europe's security

ANALYSES

Intergovernmental agreement on Nabucco case signed

On 13 July in Ankara the prime ministers of Austria, Bulgaria, Hungary and Turkey and the president of Romania signed an intergovernmental agreement on the construction of the Nabucco gas pipeline, through which gas from Central Asia and the Middle East is to flow to the EU. A mitigation of its negotiation stance by Turkey, the key project participant, was of key importance for the signing of the agreement. The intergovernmental character of the agreement significantly increases the probability of the Nabucco pipeline construction. However, the provision of resources still remains a great challenge.

Agreement content

The main objective of the Nabucco project is to provide supplies of non-Russian gas to the EU and Turkey without Russia's mediation. The project assumes the construction of a 3300-kilometre pipeline through Turkey, Bulgaria, Romania and Hungary to Austria, through which gas from Azerbaijan, Egypt, Iraq and Turkmenistan would flow. The project received the support of the USA and the EU, especially of Germany. Apart from the signatory countries, Germany's RWE is participating in the project.

The intergovernmental agreement provides that the construction of the pipeline is to be carried out in 2011–2014 and its cost is estimated at €7.9 billion. The pipeline's capacity will be 31 billion m³. Nabucco will be a reverse pipeline, i.e. having the possibility to pump gas also from Europe to Turkey. 50% of gas is to be sold on the European market (third countries) and other 50% will be divided among the signatories. Transit profits will be divided among the signatories proportionately to the length of the pipeline running across their territory. Also, the Nabucco Committee was appointed under the agreement, whose task is to supervise project completion. Within six months an *Agreement on Project Support* is to be signed, regulating detailed technical and legal issues.

Resource supplies – the greatest challenge

Nabucco has been supported by Azerbaijan almost from the very beginning. However, firstly Baku has to settle points of dispute with Turkey on gas price, currently bought by Ankara on very favourable financial terms and – of much greater importance – Azerbaijan does not have sufficient gas deposits (0.6% of the world's deposits). Subsequent countries declaring their readiness to participate in the Nabucco project are Egypt (1.2% of the world's deposits) and Iraq (1.7% of the world's deposits). Construction of the pipeline between Turkey and Syria, through which gas from Egypt would flow, is to be completed by 2011. However, due to its limited capacity (10 billion m³) and Egypt's obligations towards other contractors, Egyptian gas may not be a sufficient source for Nabucco.

On the other hand, in the case of Iraq, the problem lies in the unstable political situation and the unregulated issue of the division of profits from the sales of resources between the local and central authorities. Ankara in turn fears that large profits from the sales of the gas of Iraqi Kurdistan – as an important supplier uncontrolled by Baghdad – will strengthen the decentralizing tendencies in this region, threatening Turkey's territorial integrity due to its Kurdish minority.

A potential solution of the lack of resource sources is Iran joining the Nabucco project, as it has the world's second largest (after Russia) gas deposits (16% of the world's resources). Teheran declared its interest in participation in the project, however at present it is not possible due to strong US opposition. Washington has made a change of its standpoint in this matter conditional on Teheran's resignation from its nuclear programme.

In such a situation, Turkmenistan becomes of key importance, as on its territory as much as 4.3% of the world's gas deposits are located (fourth largest). On 11 July the president of Turkmenistan Gurbanguly Berdimuhamedow declared his country's readiness to participate in the project for the first time.

The most important challenge for Turkmenistan joining Nabucco is Russia's hostile attitude towards the project. Using a number of various methods (pressure, blackmail, making competing financial offers and lobbying alternative gas pipeline projects), Moscow is trying to convince EU countries and potential suppliers to give up on Nabucco's completion. On the other hand, Moscow uncompromisingly rejects Turkey's, the USA's and the EU's proposals to join the project.

Turkey – the key signatory

Due to its strategic location, Turkey is the key country among signatory countries of the intergovernmental agreement signed in Ankara. 60% of the planned pipeline's route will run across its territory, and Turkey itself plays the role of strategic bridge between Europe and the Middle East/Central Asia, where most of world's gas and oil deposits are located.

Turkey's support for Nabucco is a part of Ankara's broader energy security policy. Its most important objective is to gain the position of energy hub, drawing profits not only from transit, but also from resource re-export. Turkey is interested in the construction of as many pipelines as possible across its territory, through which resources from Russia, Central Asia and the Middle East (including Iran) would flow in different directions. In this way Ankara also wants to guarantee supply diversification and as a result to strengthen significantly its own energy security.

As part of the hub strategy, while negotiating the intergovernmental agreement, Ankara demanded to be assigned a share larger than the share of the remaining project participants (15%) in the division of gas which is to flow through Nabucco. It also made its support for Nabucco conditional on Azerbaijan's consent to a preferential, lower price of gas for its own use. Ultimately Turkey mitigated its standpoint, agreeing to further talks on points of dispute, which enabled the signing of the intergovernmental agreement. It seems that Ankara's firm stance was influenced by Azerbaijan signing an agreement on the sales of gas to Russia on 29 June.

From Ankara's point of view Nabucco has also an important political dimension, as Turkish authorities assume that if Turkey gains the position of a key energy bridge between Europe and the Middle East/Central Asia, its chances for EU accession will grow significantly, as well as its influence in adjacent regions. For a few months

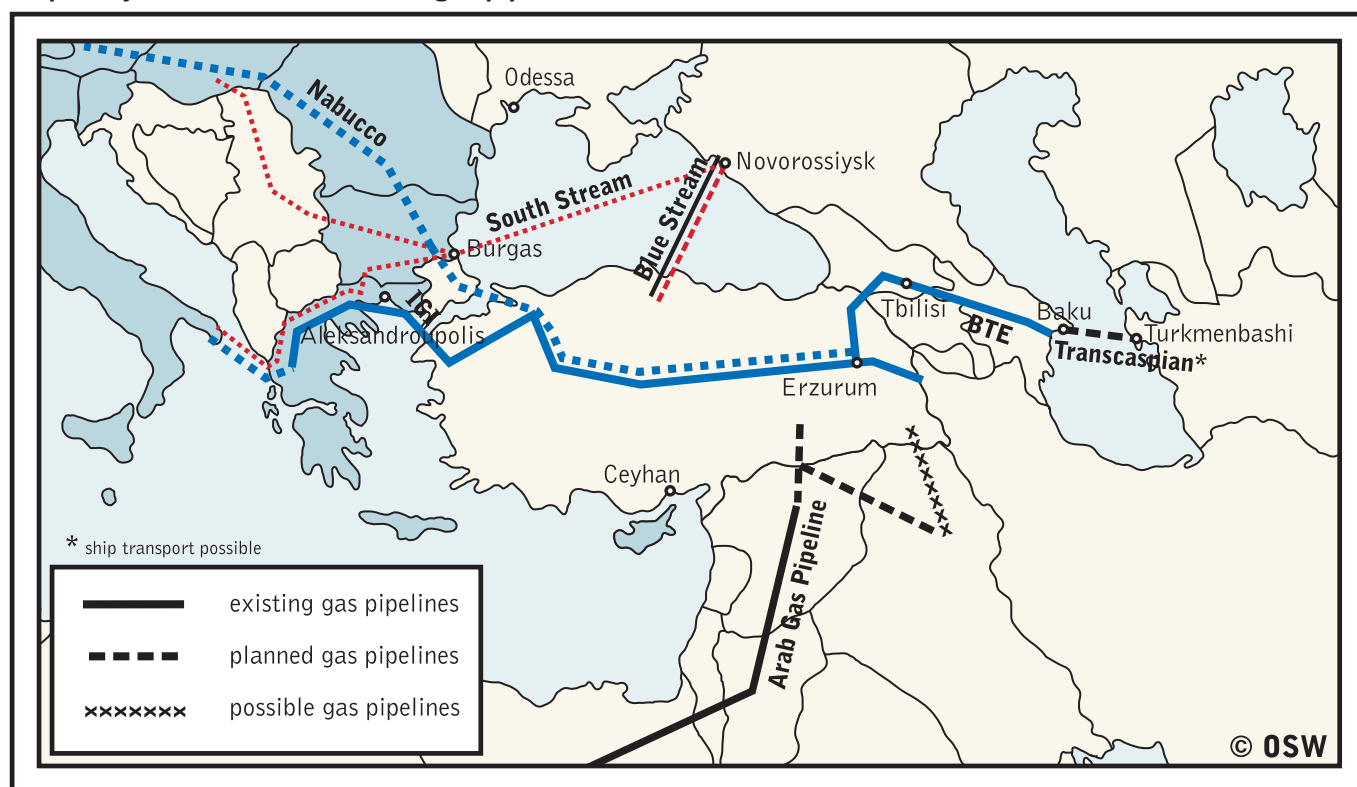
Turkey made its further support for the project conditional on Brussels opening a negotiation chapter on energy, which has been frozen since the end of 2006 due to the unsolved Cypriot problem. However, in the end it gave up this demand.

Forecast

1. In the next few months the success of the Nabucco project will be connected with the agreement on the price of gas sold to Turkey by Azerbaijan, the settlement of the issue of Turkey's share in the resource division in the Nabucco project and on Turkmenistan's standpoint.
2. Russia will definitely increase its pressure on Turkmenistan to give up its participation in the project. Here Russia may count on Iran's support, which is against gas transit from Turkmenistan to the West via the Caspian Sea. Should Turkmenistan not change its standpoint, Russia may undertake radical steps – e.g. induce another war in Georgia and occupy the territory through which the Baku–Tbilisi–Erzurum gas pipeline runs.
3. Turkmenistan's retreat from Nabucco would make Egyptian and Iranian gas gain key significance in the project's completion. In the case of Iran, its participation will depend on its internal stabilization – for which the process of the withdrawal of the American Army is a challenge – and on the understanding between Turkey and Iraqi Kurds.
4. Project completion would also be hindered by a serious crisis in the negotiation process between Turkey and the EU (the suspension of talks).
5. In the long-term perspective, Nabucco's chances for success will grow significantly should relations between Iran and the West become warmer and, as a result, Iranian gas is to be transported to Europe on a large scale.

Adam Balcer

Map. Projected route of Nabucco gas pipeline



CENTRAL EUROPEAN WEEKLY ■ Analytical Newsletter for Central Europe, Germany, the Balkans &

EVENTS

Lithuania, Latvia and Sweden decide on the construction of electricity link

On 9 July, electric power companies from Lithuania (Lietuvos Energija, the state-owned Central Project Management Agency spoke on its behalf), Latvia (Latvenergo) and Sweden (Svenska Kraftnat) signed a memorandum on the construction of a power connection from Lithuania to Sweden named NordBalt (earlier called Swedlink) enabling the exchange of electric power among the Baltic republics and Sweden. The understanding does not specify the financial involvement of particular parties in the project or share distribution, yet it will allow them to make an official application for a €175 million subsidy assigned by the EU for this investment.

The parties decided that they will participate jointly in investment expenses estimated at €516–738 million. The memorandum says that the project will be made up of two parts – the construction of a connection with an electric cable from the territory of Lithuania to Sweden and a strengthening of Latvian domestic network. The second part of the project is the price of Latvia's concession in the long-lasting dispute with Lithuania on whose territory the connection will run. The understanding was accelerated by the EU's decision to assign financial resources to this aim, with a reservation that the European Commission has to receive a joint application from parties interested in the investment by July 15.

The achievement of subsequent understandings describing the hard facts of the investment and the involvement of particular parties is being slowed down by Lithuania. The Lithuanian national investor in the construction projects of the new nuclear power plant and power bridges to Sweden and Poland is LEO LT, where national and private capital with the right to block the investment is involved. The Lithuanian government aims for the bridge to Sweden to be built by a company controlled by the state; however Lietuvos Energija is a part of LEO LT. At first Lithuanian authorities intended to dissolve LEO LT and at present they are trying to introduce changes to acts increasing the states shares in it. <jhyn>

Further deterioration of Bratislava-Budapest relations

On 30 June, the parliament of Slovakia passed an amendment to the act on protection of the national language. Bratislava's decision in Budapest's opinion seriously threatens national minorities' rights in Slovakia, where people of Hungarian origin constitute approximately 10% of society. This caused a further escalation of tension between the countries, which resulted in the cancellation of the Slovakian prime minister's visit to Hungary. The prospects of dispute mitigation are faint due to a radicalization of social moods in Hungary and due to the fact that Slovakian authorities are exploiting the issue of the Hungarian minority in their internal policy.

The amended act strengthens the role of Slovakian e.g. in local government administration, the education system, also in areas where the Hungarian minority constitutes a high percentage. The act orders priority use of Slovakian in contacts with public institutions with fines possible (up to €5000), the use of Slovakian geographical names and street names. At the same time many provisions of the act are imprecise, which allows for free interpretation. The parliament's decision was met with firm objection by the Hungarian minority backed by the government of Hungary, all Hungarian political parties and church organizations; the new act was described as contradictory to bilateral understandings and international obligations.

Slovakian Prime Minister Robert Fico argued that the act was indispensable due to the increased threat of Hungarian irredentism and striving for autonomy in Slovakia. Support for such actions can be seen first of all in Hungary itself, where one can observe the activation of radical groups (growing support for extreme right-wing Jobbik, the popularity of the paramilitary chauvinist organization called the Hungarian Guard). <doc>

Russia threatens MOL with the withdrawal of its licence for the extraction of Russian oil?

On 2 July, the Russian federal agency on the use of natural resources (Rosnedra) threatened ZMB company – MOL/Russneft jointly-owned venture – with the withdrawal of the licence for the extraction of the Zapadno-Malobalik oilfield. The actions of the Russian party are a reaction to MOL rejecting the cooperation proposal with Surgutneftegas who owns 21% of shares in the Hungarian corporation. MOL does not intend to change its stance even at the price of losing Russian extraction assets and will defend its stance by tightening cooperation with other Central European corporations.

The Rosnedra agency noted that the joint venture belonging to MOL and Russneft does not comply with mining licence terms. According to the Russian agency, the utilization level of the 'crude oil gas' extracted with crude oil is lower than that under the licence (95%). The Russian agency appointed ZMB a 6-month period during which the company is to comply with the regulation under threat of the penalty of losing its licence. MOL associates the agency's stance with the Hungarian corporation's rejection of the possibility of cooperation with Surgutneftegas, who in March bought more than 21% of its shares and with blocking its representatives from entering the company's management. The Hungarian corporation does not intend to surrender to the blackmail and is declaring a continuation of its own independence strategy.

The actions of the Russian agency are an attempt by Russia to exert pressure on MOL. It was already heralded by statements made by the Russian Deputy Prime Minister Igor Sechin in June this year on using all available methods to influence MOL. The Hungarian corporation intends to defend its independence through attempts to tighten cooperation with Central European corporations. In the opinion of the chairman of MOL, relations with Poland may prove to be of special significance. Such aspirations will be favoured by the expected accession to power of right-wing Fidesz next year, who promote such actions. <doc>

Return of Serbs to Kosovan police

On 1 July 1, nearly all Serbian policemen who left the police in February 2008 as a sign of their protest to the declaration of Kosovo's independence returned with no preconditions. Their return is an important sign of Kosovo's internal stabilization; however it does not signify a change of the negative attitude of Kosovo Serbs to its independence.

In February 2008, after Kosovo declared its independence, more than 300 Serbian policemen left the Kosovan police. Kosovan authorities suspended them in their duties, yet paid their salaries until May 2009. Next the Kosovan Ministry of the Interior and Administration announced that Serbian policemen must decide on their return to work by July 1. All policemen who did not report to a police station by that day were to be dismissed. The positive response of Serbian policemen to the ultimatum of the Ministry of the Interior and Administration must be first of all searched for in the difficult material situation in Kosovo, deepened by the world crisis (salaries of the Ministry of the Interior and Administration employees are among the highest in Kosovo). Also, a growing conviction among Kosovan Serbs that Kosovo's independence is an accomplished fact is of some importance, despite the fact that nearly all policemen are against it.

The return to work without preconditions of the vast majority of Serbian policemen is a great success of the authorities in Pristina that favour internal stabilization. Another serious test of Kosovan Serbs' attitude towards Kosovo's independence will be the local elections, which are to take place in mid-November. <abalc>

Germans more aggressive in Afghanistan?

According to German press information, the government of Germany has given up part of restrictions on the use of the Bundeswehr within NATO's ISAF mission in Afghanistan, and is developing modifications in the rules of using arms by German soldiers. This means that the Bundeswehr is going to take a greater and greater part in offensive combat operations, which is a change in its hitherto operations abroad.

As the German press informs, the government of Germany has agreed to withdraw from the hitherto binding rule of using force only in self-defence. At present the German Ministry of Defence is working on changing the Bundeswehr's regulations regarding rules of using weapons outside the country. Such changes, whose introduction by end of July has been confirmed by the ministry's spokesman, will allow German soldiers to carry out independent offensive operations instead of only reacting to Taliban attacks, as until now. In Germany there is also currently a discussion on using offensive weapons – such as helicopters and combat aircraft – following the death of three German soldiers a few weeks ago. Due to the increasing number of attacks in the north of Afghanistan, pressure within the Treaty to increase German involvement and a new American policy regarding Afghanistan's stabilization as a priority, Germans are compelled to revise their participation in the ISAF mission. From the point of view of Germany's previous policy, this is a step towards using the full military capacity of the Bundeswehr, whose operations abroad will not be limited by historical aspects in future. <jus>

Germany towards Russia: parliamentarians stricter, Ministry of Foreign Affairs milder

On 2 July, the Bundestag passed a resolution summoning the German government to strengthen cooperation and to exert a greater influence on Russia in the scope of observing the standards of a state of law. Parliamentarians are calling on the government to be more active on EU, OSCE and European Council forums. The resolution shows a more critical attitude of most German parliamentarians towards Russian policy than in the case of the German administration.

The bill "Strengthening of a state of law in Russia" talks about positive (praising President Medvedev's initiatives and the influence of the German-Russian partnership for modernisation) and negative tendencies in Russian policy in the scope of observing human rights and state of law standards. In the resolution the Bundestag summons the German government to support the monitoring of Mikhail Khodorkovsky's trial from the EU's side, to discuss in the EU, OSCE and European Council issues related to the observation of human rights and democratic standards in Russia and to increase Germany-Russia and EU-Russia cooperation in the scope of jurisdiction, public administration and education. An impulse to pass the resolution in this issue was a draft presented by the Green Party and FDP. A much stricter document was unofficially supported by the Christian Democrats. The draft of the Green Party/FDP openly criticised Russia for political pressures in Khodorkovsky's case and summoned the German government to undertake more concrete and binding steps. The Social Democrats were against it for "the good of German-Russian relations"; also the federal Ministry of Foreign Affairs raised its doubts. So SPD presented its own, "milder" resolution draft consulted with the ministry, which, after a discussion lasting several weeks, was supported by all parliamentary factions (except for the Party of the Left). Discussions about the resolution show that despite a more critical stance of German MPs and of public opinion in Germany towards Russia, the official Berlin (and above of all the Social Democrat Ministry of Foreign Affairs) does not want to criticise Kremlin openly, and in the case of stricter Bundestag initiatives will try to mitigate its message. <jus>

Germany: E.ON under pressure from Brussels

The Commissioner for Competition Neelie Kroes announced on July 8th that the German corporation E.ON/Ruhrgas and the French Gaz de France (GDF) be fined (€553 million each) for a contract being in contradiction with EU law. In the 1970's the companies agreed that they would refrain from competing on the domestic gas market and carried out these provisions until 2005, ignoring EU directives. Neelie Kroes is exerting pressure on the largest corporations to limit their dominant position on domestic energy markets. E.ON does not want to give up its position on the German gas market, even for the price of a dispute with the European Commission and will aim at challenging the EC decision as regarding an expired case.

When constructing in 1975 the MEGAL gas pipeline transporting Russian gas to Germany and France through southern Germany, the E.ON and GDF corporations decided not to compete against one another on their domestic markets. Despite the fact that legislation obliging them to increase competition on EU energy markets had been in force since 2000, E.ON and GDF refrained from competition until 2005 and did not encroach on one another's interests. Thus the Commissioner for Competition Neelie Kroes launched an investigation on the violation of EU law against both corporations. She is trying to repeat her success from 2008 (when she forced E.ON to agree to the sale of power grids and power plants in Germany) and to force E.ON to give up gas transport grids in Germany in exchange for a waiver of penalty. However, gas transport is of strategic importance for E.ON, e.g. it enables broad cooperation with Gazprom. So the corporation had withdrawn from the settlement and will appeal against Commissioner's decision. The penalty of €553 million imposed on the company is severe, yet the EC could have demanded up to €9 billion (the maximum penalty is equal to 10% of annual turnover). <ŁAN>

OSW

The Centre for Eastern Studies

(OSW) was established in Poland in 1990. OSW is financed from the state budget. Its task is to monitor and analyse the political, economic and social situation in the Central and Eastern European countries, in the Balkans, in the Caucasus and in Central Asia.

The main objectives of OSW research are:

- the internal situations and stability of the countries in the area of OSW interests,
 - foreign policies,
 - issues related to NATO and EU enlargement,
- how the states of the region aspire to integrate with Western structures,
 - energy supply security,
- existing and potential conflicts, and other issues pertaining to the security.

Publications:**PUNKT WIDZENIA
POLICY BRIEFS**

Short analytical papers, presenting opinions of OSW experts on current and important processes taking place in OSW area of interest



Large analytical studies on the important events in the area of OSW interests, published in Polish and in English approximately 6 times a year

© Copyright by
Ośrodek Studiów Wschodnich

Editor: Anna Łabuszewska
Translation: Anna Kucińska
Co-operation: Nicholas Furnival,
Joanna Hyndle
DTP: Wojciech Mańkowski



**Ośrodek Studiów Wschodnich /
Centre for Eastern Studies**

ul. Koszykowa 6A
00-564 Warsaw, Poland
phone: +48 /22/ 525 80 00
fax: +48 /22/ 525 80 40