

Bratislava Model United Nations 2011

V4 COMMITTEE



A COMMON ENERGY POLICY & V4 FOREIGN RELATIONS

Study Guide

Chair: Sabine Hoferová

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Letter from the chair

Dear delegates,

It is my pleasure to welcome you to the Visegrad Group Committee at Bratislava Model United Nations 2011. My name is Sabine Hoferová and I will be the chairperson of the committee you have chosen. I am a student of the International Baccalaureate Diploma Programme at Gymnázium Jura Hronca. Last year I participated in BratMUN as a deputy chair of the ECOSOC.

It is always better to know what the topic is to keep the quality of debate, or in this case, the committee at a high level. Therefore, I recommend you to do your research properly, and not only I, but other members of the committee as well will be grateful if you do so.

This year, at BratMUN, there will be two major topics we will discuss and hopefully find a resolution for. One of them is Energy and trying to find a common sustainable energy source. The second topic will be concerning foreign policies and security policies of V4 countries.

As you probably know, you will act as a delegate of one of the V4 countries. During our and mainly your discussion on this topic, you will be asked to provide and defend the standpoint of your country and hopefully reach a consensus in the discussed topic. Therefore I will repeat myself and emphasize the importance of your research. I hope this study guide will be the best start of it. If you have any questions, please feel free to contact me via e-mail.

Sabine Hoferová, Chair of the V4 Committee

Introduction

Energy policy and especially energy security are undoubtedly of high importance for all of the V4 countries. Despite the differences in Poland's, Hungary's, Slovakia's and the Czech Republic's energy portfolio, there still is a number of challenges the countries share in the context of energy supplies. The Ukraine – Russia crisis made the countries' common weaknesses and the general problems with energy security in the region clearly visible. The V4's vulnerability is in that the countries largely depend on energy supplies from one source and lack an integrated energy market.

Natural gas constitutes the biggest part of the imported energy sources. What is more, 92% of the gas is imported from one supplier, i.e. from Russia. Initiatives which aim at changing the situation should now be the priority in the common efforts of the V4 countries. The North-South Gas Corridor is one of the flagship initiatives in the field and stands a very good chance of improving energy security of the V4 countries. The overall objective of the project is to provide access to alternative gas sources of supply for the region and to create a system of interconnected networks of transmission and reception of gas, which would allow the flow of raw material not only from East to West, but also from North to South.

What are the alternatives for the V4 countries to guarantee energy security for their countries? Is the North-South Gas Corridor a sustainable option for the future? How can infrastructural gaps be tackled?

After considering the briefing of Russia's post-1989 and the Visegrad Group's Foreign Policies, the Visegrad Group is faced with several questions: Is Russia's energy monopoly in Eastern and central Europe to be considered a point of concern for Europe's security? Should we expect more militarization from Russia due to USA's and NATO's recent military actions in Central Europe? Will these actions start another Arms Race similar to the cold war? What steps can V4 take to reduce the chances of a second cold war or should we just continue with our own militarization? Is the battlegroup a realistic option due to financial crisis and discrepancy between the V4 countries and would the V4 Battlegroup help increase security? If Ukraine was integrated into the EU and/or NATO would it increase security and stability in Europe? How to lower dependency of Central Europe from Russia's oil/gas? What of the current state of integration of the Balkans into EU and NATO and the benefits of having a new corridor for natural gas? Is Russia to be considered a point of concern for Europe's security?

Analysis of national energy policies in the V4 countries

Energy policy of Poland

Crude oil and petroleum products

In 2009, total consumption of crude oil in Poland amounted to 24,5 Mt (533 kb/d). Since 2000, an average rise of 2,9% per year was observed. This consumption is mainly driven by demand for fuel oil and gas oil which jointly constitute half of the total consumption. In 2009 domestic crude oil reserves were estimated at 25,9 Mt with limited possibility for growth. The current domestic production of crude oil in 2009 was estimated 0,66 Mt per year which covers, approximately, only 2,5% of the total demand. This shows the extent to which Poland depends on the import of crude oil and also demonstrates the significance of the need for diversification.

Imports of crude oil (2009):

- 94% from Russia
- Algeria approx. 2%
- UK 1%
- Norway 1%

Imports of petroleum products (2009):

- 60% originated from the former USSR states: Russia (20%), Lithuania (13%), Kazakhstan (8%), and Belarus (6%)
- 30% from Germany,
- 9% from Slovakia
- 3% from the Czech Republic

The crude oil from Russia is mainly imported through the Friendship (*pol.* Przyjaźń) pipeline which delivers oil from Russia *via* Belarus and Poland to Germany. Another pipeline – Pomorski– which connects Gdańsk and Płock, can be used to transport crude oil in both directions. This route is typically used to transport the Russian oil to the refinery in Gdańsk or for export *via* Naftoport (see below).

The two mentioned cities – Gdańsk and Płock – are locations of two main oil refineries. Moreover, 96% of its supplies are imported through the Friendship pipeline. This fact demonstrates the extent to which this refinery relies on a single transport infrastructure and a single direction of supply sources. An alternative means of import is provided by oil terminals in Gdańsk (Naftoport), Gdynia and Szczecin.

The energy policy with regards to the oil sector needs to focus on two main objectives: increasing the level of diversification of crude oil supply through obtaining it from various suppliers in various regions of the world and imported *via* various routes, and investment in storage facilities for both crude oil and petroleum products with capacities that would ensure continuity of supply in any potential crisis situation.

Natural gas

Domestic production of natural gas has not changed significantly in recent years. Although the share of domestically produced gas is important in the country's overall consumption of this resource, the inflexibility of the production process does not allow it to be a safeguard for national energy security. In 2009 Poland imported 9.1 bcm of natural gas. Given the fact that the imported volume covers the vast majority of domestic consumption, it would be prudent to diversify routes and sources of imports in order to spread the risk involved. Yet, almost 90% of gross import volume comes from Russia and less than 10% is bought from Germany. With regards to the import infrastructure it shall be observed that currently there are no LNG terminals in Poland and the pipelines are focused on the transit of the Russian gas to the West.

Apart from the East-West connections, there is a single interconnector with Germany. A number of new interconnectors are being developed or planned, including ones with the Czech Republic, Germany and possibly Lithuania. There is yet one more game-changer in terms of import diversification which is expected to influence the market, i.e. an LNG terminal in Świnoujście with a capacity of 5 bcm in the first phase (from 2014) and 7.5 bcm in the second phase (after 2020).

Energy Policy of the Czech Republic

The energy security of the Czech Republic is currently at a relatively high level, particularly when compared with most of the other CEE states. The primary fuel mix is diversified and it is to a high extent based on readily accessible domestic fuels, predominantly brown coal. The vast reserves of Czech brown coal are complemented by substantial natural uranium deposits. The overall import dependence of the Czech Republic is therefore relatively low.

The Czech Republic succeeded in breaking Russia's import monopoly on oil and gas when it diversified its suppliers and transit routes in the 1990s. However the share of Russian oil and gas in Czech imports is still predominant.

The Czech Republic has well established and secure alternative sources and routes of supply in oil and gas. On top of that, the Czech Republic also has its own oil refineries held by Western energy companies and extensive stocks of both oil and gas. The level of energy security of the Czech Republic is further augmented by a highly developed and reliable power grid that covers a vast proportion of its territory.

The Czech power-generation sector also relies heavily on two nuclear power plants, Dukovany and Temelín, which supply a large share of Czech base-load electricity constantly and with no CO₂ emissions. All of these factors combined mean that the Czech Republic disposes of a net surplus power generation and the capacity to export electricity abroad.

The most outstanding challenge at the moment concerns the future of the Czech brown coal reserves and the heating sector, which has been linked to brown coal for decades. Put simply, the issue boils down to the question of whether to continue to use the vast national brown coal resources for energy purposes in the future or – for various reasons – discontinue using it.

In 2004, the MPO issued the *National energy concept (Státní energetická koncepce – SEK)* which is to be updated this year (work on the updated version has been going on since 2009). This document contains a vision and a national strategy for the development of the Czech energy sector in the upcoming decades.

Oil

About two thirds of the imported oil are of Russian origin, the rest originates in a broad mix of countries (Azerbaijan, Kazakhstan, Norway, Algeria, Libya, Syria and others). The main and traditional import route for oil is the Friendship pipeline, which has been supplying Czechoslovakia and then the Czech Republic with oil since the early 1960s.

In 1997, the Czech government made the decision to diversify its import routes for oil and built the Ingolstadt-Kralupy-Litvínov (IKL) pipeline which links the Czech Republic to the Transalpine (TAL) pipeline. The TAL pipeline originates in the Italian marine terminal Trieste and connects Italy, Austria, Germany, and *via* the IKL pipeline also the Czech Republic. Via the TAL/IKL pipelines, the Czech Republic is directly connected to the global sea-borne oil market. The IKL pipeline, which cost the Czech government some 400 million USD, has an annual capacity of about 10 Mt of oil. In fact, it only carries some 2-3 Mt of oil annually, mostly of Azerbaijani origin. Although the IKL pipeline is underutilized most of the time, it served its purpose fully in 2008, when Russia cut off the oil supplies to the Czech Republic *via* the Friendship pipeline for “technical reasons” after the Czech government had signed a treaty with the USA on the stationing of some components of the U.S. ballistic missile defence system on the territory of the Czech Republic.

Gas

The Czech Republic consumes approx. 8-9 bcm of gas annually (8.57 bcm in 2010), of which it produces only 1-2%. The remaining 98% have to be imported from abroad and most of this gas is imported from Russia *via* the Brotherhood pipeline. In the past, Russian gas imports covered Czech consumption up to almost 100%. However, in the nineties, the Czech government decided to diversify away from Russia and concluded a contract on gas import with Norway. Since then, the share of the Norwegian gas in Czech gas imports has grown to over a thirds (in 2010, the shares were as follows: Russia – 58.8%, Norway 34.6% and

Germany – 6.6%) and represents an important element in the Czech effort for import diversification and energy security.

In the last couple of years, there has been a lot of talk about the new sub-sea Nord Stream pipeline from Russia to Germany that circumvents traditional transit pipelines leading through Ukraine, Belarus and Poland that have been carrying gas from Russia to Europe for decades. Although some of the CEE countries such as Poland, Ukraine or the Baltic states have been complaining about this pipeline and have claimed that it decreases their energy security, Nord Stream will actually enhance the energy security of the Czech Republic. The Czech Republic will tap the Nord Stream pipeline through the OPAL/Gazelle pipelines and therefore will have access to the gas flowing through Nord Stream in case of a crisis and a cut off of traditional import channels.

Further measures are being planned, especially on the V4 level, including the construction of several interconnectors that would allow for the creation of a North-South Gas Corridor to compliment the traditional East-West gas-transit route (access to LNG terminals in Polish Swinoujscie and on the Adriatic coastline of Croatia). The Czech Republic also supports the construction of the Nabucco pipeline, which would tap the gas resources of the Caspian Basin and make them available to Europe. Last but not least, it is definitely worth mentioning the significant underground gas storage capacities that exist in the Czech Republic. These are, after Germany, the second largest ones in Europe and boast an impressive 3 bcm of gas storage annually which represents over a third of total annual gas consumption in the Czech Republic.

Energy Policy of Slovakia

Slovakia imports almost 90% of its primary energy sources from abroad. This high level of external energy dependence makes the country one of the most vulnerable states in Europe in terms of energy security. Nearly all of Slovakia's three major energy sources – oil, natural gas and nuclear fuel are imported from one source – Russia. The share of natural gas in the energy mix represents 35%, nuclear power counts for 25% and oil for 18%. Over 75% of current energy fuels are imported from Russia through Ukraine. From the Slovakian energy security perspective, the regional V4+ cooperation and relations with Russia and Ukraine are of the strategic importance.

Oil

Slovakia only has the Slovnaft refinery, which belongs to the MOL portfolio, located in Bratislava. This facility is consuming the overall Slovak oil consumption. The Slovnaft refinery has higher production than the national demand; therefore, it is theoretically possible to cover full demand from own capacities. The Slovnaft technology is adjusted to processing heavy Russian crude, thanks to investments made in the last decade and therefore, it is in the commercial interest of the company to continue with its processing in the future as well.

The only operator of the crude oil pipeline system in Slovakia is the state-owned company Transpetrol. The Slovak system consists of two lines, first is Friendship and second is a short extension to the Adria. The second pipeline was originally a branch of the Friendship pipeline leading from Šahy in the South to Hungary. On Hungarian territory, this branch connects to the Adria pipeline. Adria was built because of the potential diversification of crude oil supply sources and was put into operation in 1980. It starts in the Croatian port of Omisajl and continues *via* Croatia and Hungary. In Slovakia, this extension is only 8.5 km long and connects to Friendship pipeline near the city of Šahy.

In 2008, this branch was used for crude oil transport from the Hungarian refinery Szazhalombatta to Slovnaft based on Slovnaft's requirements. Currently, the Adria-Friendship interconnection is used only as a back-up solution in case of oil supply disruptions from Ukraine.

Natural gas

Natural gas is another fuel with an important position in the country's energy mix, which is almost fully imported from abroad. Slovakia is considered a highway for Russian gas flowing to its European consumers. The annual transmission capacity of the pipeline is 90 bcm and ranks in first place among the EU states. Slovakia based its national energy security strategy on the crucial role that it has played in transiting Russian gas to other EU Member States. This has not been the case since the January 2009 supply crisis. Moreover, the current development of gas infrastructure in Europe indicates that the Central European transit corridor will lose its specific position and importance in the mid-term period.

There is one entry point at the Slovak-Ukrainian border and two exit points, one to the Czech Republic and one to Austria. Through the exit points, gas can be imported from the West as well. The reverse flow capability will be used only in case of supply disruption; usual operations are commercial gas swaps between various gas traders. The Slovak pipeline system is a good example of the linear gas infrastructure orientation in the V4 countries, which has its historical reasons.

Based on this orientation, Slovakia has not truly diversified gas sources and import routes, given that the North-South interconnectors gaining access to new gas sources are missing.

January 2009 supply crisis

Slovakia was one of the worst-hit countries in Europe during the 2009 Russia-Ukraine gas crisis. According to some sources, Slovakia lost 100 million EUR a day, or 1 billion EUR over the duration of the entire crisis, and the gas-cut related recession led to a 1-1.5% decrease in GDP. Gas supplies were entirely cut for 13 days during winter. This is a real wake-up call as to what happens when energy security is taken for granted. Even one interconnector would be enough to mitigate the financial impact of the supply crisis. Since

its independence in 1993, the January 2009 supply crisis represented the highest threat to the security of the country.

As a result, there were several measures undertaken by respective, responsible institutions and companies to increase the readiness of the country in case of any future supply disruptions. On the government level, newly adopted legislation has transferred the responsibility for the security of gas supplies (during periods of shortages) to gas suppliers. Gas suppliers have to comply with the supply security standards, which are monitored by the Ministry of Economy. Another measure was the application of regulated access to gas storages and the right of the Ministry of Economy to devote some gas storage capacity for emergency issues in the initial phase of the gas storage site preparation.

At the SPP level, the reverse flow capability of the network and commercial diversification of gas supplies were two major undertaken measures. Modifications on the pipelines in the Czech Republic and Austria together with the upgrade of the Slovak transmission system now allow switching to reverse flow within several hours

Since January 2009, energy security is a topic with an adequate political backing. The highest political representatives support the pipeline connection with Hungary and Poland and promote the North-South Corridor.

Energy Policy of Hungary

Considering the last 20 years in Hungary, while GDP was remarkably increasing, after 2000, energy consumption has been rather stagnating and only slightly increasing. The fossil energy sources' net import increased while coal production's importance weakened significantly, so the energy mix changed in a way that natural gas became more dominant. Hungary is on the second place after the Netherlands regarding the share of natural gas in the total primary energy supply.

Natural Gas

Hungary is among the IEA member countries with the highest share of natural gas in its energy mix (40-45%), and imports about 82% of its gas consumption from one single supplier. The domestic gas consumption is very much weather dependent below a temperature limit. The usage in winter is seven times higher than the summer demand. Considering the so-called consumption swing (the rate of the highest and lowest monthly consumption) which is above the value of three in Hungary, in order to fulfil demand, very high market flexibility is required which can be ensured through adequate storage capacity.

Domestic production has not been able to cover demand since the early 1980s. Currently, about 3 bcm of natural gas is produced in Hungary, which covers about 20-25% of the total domestic consumption. It is estimated that Hungarian reserves will last another twenty years with continuous decrease.

There are two sources of natural gas imports: Ukraine and Austria. From the East, directly from Ukraine, Russian gas is transported through the Friendship pipeline. The second source is the Austrian HAG pipeline. This pipeline could also provide Norwegian or Dutch gas; however, it is currently used to transport Russian gas. As a result 86% of the import comes directly or indirectly from Russia (Gazprom), the rest comes from Germany (E.ON Ruhrgas), France (Gaz de France) or Ukraine.

Considering the possibility of any disruption, in case of a Western cut, Hungary could increase its imported volume on the Friendship pipeline, as the current turnover is way lower than the pipeline maximum capacity. On the other hand, as mentioned before, the gas through the HAG is also Russian, so it could be the case that the Friendship pipeline would stop transporting natural gas too. If the Friendship pipeline alone or together with the HAG pipeline would be interrupted, Hungary would suffer from an about 75-80% supply shortage.

To sum up, Hungary ensured a significant storage level in case of a crisis, which can offset in short term the vulnerability deriving from the less diversified import routes. Further to the safe storage capacity of Hungary, significant progress has been realized also in the cross-border capacities. The Szeged-Arad gas transmission pipeline has been completed (capacity: 4.8 mcm/day). This Interconnection can provide the possibility for a two-way gas transmission from 2010 July between Hungary and Romania. Moreover, a construction of the 206 km long Hungary-Croatia interconnector (Városhőd-Slobodnica gas transmission pipeline) has commenced – the pipeline capacity will be 19.2 mcm/day.

Crude Oil & Fuels

Oil is the second most important energy source of Hungary and accounts for more than 25% of the total energy consumption. The share of oil, as well as the share of fuels, has declined significantly since 1990 as these fuels have been gradually replaced by natural gas.

At present, Hungary imports around 80% of its oil requirements and all come from Russia. Hungary is supplied by three pipelines, first of all by the Southern Friendship (Friendship II/Friendship-2) pipeline system from Russian fields with a capacity of 7.9 MTA. The Friendship-2 passes from Uzhgorod (Ukraine) into Hungary and runs from Fényeslitke to Százhalombatta refinery. Secondly, there is also a connection between Százhalombatta and Saly (Slovakia), connecting Friendship-1 and Friendship-2, which is fully reversible with a capacity of 3.5 MTA. Thirdly, Adria pipeline with the capacity of 9.8 MTA runs north into Hungary from the terminal at Krk Island on Croatia's Adriatic coast and reaches Százhalombatta refinery.

In case of a supply disruption caused by either the Friendship-2 or the Adria pipeline, one of them can fully substitute the other and alternative transportation is also available *via* railway or automotive. However, these other supply routes' (in comparison to the direct Friendship or Adria route) transportation costs are higher. All in all, despite the high rate of import, Hungary is not vulnerable in case of an oil supply disruption of a limited magnitude.

The Hungarian refineries have access to alternative supply routes, so any supply cut can be mitigated by other sources, alternative transit routes.



Security of Gas Supply – A Regional Dimension

Energy security issues are of great importance both for Hungary and Poland and a number of decisions relating to it will be taken during these countries' presidencies of the European Council. Hence the presidencies create a great opportunity for facilitating the debate on the European level. In particular, there is a need to answer questions regarding sustainability, security of supply and improving competitiveness by tariffs or other legislation. Gas dependence constitutes crucial problems for Poland and, to an even greater extent, Hungary. After the Polish presidency up to 2020, no major change is expected. From this point of view, it puts a lot of responsibility on both presidencies to facilitate the debate at the European level.

Guaranteeing the security of supply

There are a number of important aspects regarding the preparation of current policies at the European level. One is an issue of infrastructure development in ensuring security of supplies. Europe's gas dependence is already high and is expected to grow. According to the Commission's estimations, imports will reach about 73-79% of gas consumption by 2020 and even 81-89% by 2030. Ensuring a secure supply of natural gas requires diversified imports, substantial development of the already existing cross-border connections and facilitation of the free cross-border movement of natural gas. Since Hungary is highly dependent on gas from one gas supplier – Russia – it serves as a good illustration of the significance of the already mentioned issues. Currently, a great emphasis is put on the development of interconnectors, one between Hungary and Croatia and one between Hungary and Romania. There is also an agreement with Slovakia for the construction of a Hungarian-Slovakian interconnector, which will be part of the North-South Gas Corridor. However, even if these goals are achieved, Hungary will still remain dependent on Russian gas. This proves that the EU energy policy should aim at creating a properly interconnected single market which can guarantee security of supply.

Tackling challenges on the EU-level

Some measures to tackle the existing challenges have been already taken on the European level. During the Belgian presidency, the European Commission has concluded two directives: *Energy 2020* and *Energy Infrastructure priorities for 2020 and beyond*. These were discussed during the first High Level Summit held by the Hungarian presidency on 4th February in Brussels. The Summit was dedicated only to energy innovation and the conclusions have confirmed the importance of the energy infrastructure development.

North-South Energy Interconnections in Central-Eastern Europe

Regarding the Central-Eastern Europe (CEE) region, the North-South Interconnections are one of the new priorities identified by the EU. This issue was included in the

aforementioned *Energy Infrastructure priorities for 2020 and beyond*. The package proposes development of an interconnection which would serve the Baltic energy market and the CEE region. In order to create the North-South Energy Interconnection linking the Baltic Sea, the Adriatic Sea and the Black Sea, a High Level Expert Group with the participation of Poland, the Czech Republic, Slovakia Republic, Hungary, Romania, Bulgaria and Croatia (as an observer) has been set up. The Group is expected to deliver an action plan regarding the development of interconnections of gas, electricity and oil sectors by the end of 2011. On 3rd February 2011, the Heads of Governments of the interested states and the European Commission President Jose Manuel Barroso officially launched the project.

Regional cooperation in the CEE area – V4 initiative

With regards to the regional cooperation in CEE and within the V4 initiative, it is crucial to emphasize the importance of the V4 collaboration during the Hungarian and the Polish presidencies. Adding the V4+ countries (Slovenia, Croatia, Romania and Bulgaria) might be crucial in order to connect the North-South Energy Corridor with the new legs. Given the European project plan Nabucco, this could support interconnection to the North-South Corridor and as well the LNG leg from the West-South direction throughout Croatia or Slovenia or Italy. The key problem is ensuring financing for these projects. Hungary stresses the importance of European financial contribution to improve the security of supply to the region. It has already started cooperation within the framework of the V4 initiative. In the *Memorandum of Understanding* signed in February 2010, all the V4 countries agreed *inter alia* to support the promotion of the North-South Interconnection, and the Nabucco pipeline. During the fourth meeting of the High Level Energy Working Group (including Croatia as the observer) on 29th June 2010 it was agreed that an *ad hoc* Expert Working Group would work on the concept of the North-South Gas Corridor. The Group would deal with the issues concerning the LNG terminals. It was also agreed that Energy Supply Crisis Working Group would be created – a solidarity mechanism for gas, oil and electricity supply in the region. In January 2011 Energy Ministers made a Declaration in Bratislava to ensure a common standpoint of the V4 countries on the EU issues.

V4 Energy Cooperation with a special view on Natural Gas

Special focus of V4 cooperation in energy is the natural gas sector, where challenges and issues are similar among countries, and solutions are seen to be feasible in the most efficient way on the regional level. Cooperation in natural gas is seen as a flagship of V4 initiative, and it seems to play the role of a driving force for other energy sectors, like oil and electricity.

Strategic basis for cooperation

Visegrad region has very modest natural gas domestic production. While on average European Union indigenous production equals ca. 37% of EU consumption, in the V4 region it is only 19%. The biggest producer is Poland covering 36% of its consumption, second is Hungary covering 19% from indigenous sources, with downward trend. The Czech Republic and Slovak production is negligible.

Modest indigenous production means high import dependency. What is remarkable and valid for all V4 countries, high import dependency goes together with almost full reliance on one supplier, namely Russia.

Infrastructural gaps are a common challenge for V4 countries. On one hand, on the territory of Poland, Slovakia and the Czech Republic there is a huge transit infrastructure, namely the Yamal and Brotherhood pipelines, major routes for Russian deliveries to the EU with yearly transit which equals approximately 100 bcm. There are no significant alternative supplies possibilities for the region. On the other hand, besides limited temporary possibility to reverse the Brotherhood pipeline from the Czech Republic to Slovakia, there is no interconnection between V4 countries at the moment, resulting in lack of market integration and low security of supplies reaction potential. Gas markets of V4 countries, even though they are neighbours, are perfectly separated from each other.

One could argue that huge transited amounts of gas and relatively small consumption are quite a comfortable situation in terms of security of gas supplies. For sure this could be an important element of building security of supplies, but as it became obvious in January 2009, without alternative supplies possibilities (diversification) and market integration (interconnections), feeling of being secured thanks to being a major country for transit is delusive. When the Brotherhood pipeline stopped pumping, V4 countries were locked in their national markets without possibilities for solidarity reaction **Formal basis for cooperation.**

The *Declaration of Budapest* confirmed similarities of challenges, but also reaffirmed common dealing with it on regional as well as on the EU level underlining the importance of diversifying fossil fuels supplies to the region and expressing V4+ views on *Security of Gas*

Supplies Regulation. Leaders noticed the lack of interconnections and reverse flows possibilities and indicated that the internal gas market is still uncompleted.

Signatory countries supported the idea of North-South Interconnections, to connect Polish and Croatian LNG terminals through the V4 region, and in parallel they supported Romanian LNG terminal and CNG projects in Black Sea region. The *Declaration* raises also a number of issues that could be summarized as EU ones, *inter alia* stressing importance of the cohesion policy for energy infrastructure development. In the institutional dimension the *Declaration* foresees holding regular High Level Meetings and creating expert working groups. The *Declarations* gave the fundament for further cooperation in energy, especially in the framework of HLG and its working groups. To summarize HLG duties and priorities one could distinguish two pillars: to facilitate realization of North-South Gas Corridor and to coordinate V4 countries contribution to the EU energy policy. The first task is a kind of permanent duty, while EU coordination is connected with the EU agenda, what means it is conducted more on *ad hoc* basis.

The North-South Gas Corridor

The Corridor is a flagship of the energy cooperation in the V4 framework. The general idea is to assure access for alternative gas supplies for the region, and to interconnect transmission systems to allow gas to flow not only in East-West direction, but also in North-South (bidirectional) manner. At the moment the North-South Gas Corridor aims to create a kind of triangle, with LNG terminals on each top of the triangle and with Nabucco pipeline in the middle, with well interconnected systems among the region. V4 cooperation regarding North-South Gas Corridor was broadened in the V4+ framework, with indispensable involvement of Croatia and Romania. Significant advantage of the Corridor is its scope.

This is not one, huge-scale project with enormous financing needed, but rather a series of small-scale components removing identified infrastructural gaps, also in terms of intra-national networks. North-South Gas Corridor will give access to an alternative external source; realization of the idea shall facilitate completion of the EU internal gas market with all its benefits like competition, price arbitrage possibilities, infrastructure optimization (i.e. underground storage capacities utilization). Moreover, it will increase security of supplies thanks to infrastructural possibilities for reaction in case of emergency.

Other, less direct effect could be increased attractiveness for alternative external suppliers that could have found V4 separated markets too small to make it profitable to compete with the dominant supplier at the moment. As V4+ will be in fact one, regional market it shall be recognized respectively.

Besides V4+ region, the North-South Gas Corridor idea has also significant potential for synergies when combined with BEMIP11 initiative, that is focused on interconnections within the Baltic Sea region **HLG deliveries** Basing on principles expounded in the

Declaration of Budapest, HLG prepared a letter from V4 Ministers responsible for energy to Mr. Gunter Oettinger, EU Commissioner for Energy, concerning development of energy infrastructure in the region and in the EU, with two general threads: North-South Gas Corridor and energy infrastructure development on the EU level. General context of this action was awaiting Communication of the EC concerning energy infrastructure priorities, accompanied by expected EC proposal to create a new EU financial instrument for infrastructure development. The V4 expressed its devotion and readiness to contribute to the further process, indicating crucial and highly effective role of the cohesion policy in developing energy infrastructure. Moreover, the V4 for the first time specified the idea of the North-South Gas Corridor, indicating specific projects to be included. Besides LNG terminals the general idea assumes realization of interconnections between every neighbouring country in the region and extension of internal gas networks where needed. In medium term Baltic Pipe (Polish-Denmark interconnection) is also considered as a new source of Norwegian supplies.

Mr. Oettinger welcomed the North-South Gas Corridor initiative, and strongly supported the idea of cooperation on regional level. Appreciating V4 initiative he also promised to introduce the North-South Gas Corridor as one of the priorities to the upcoming Communication, what became reality on 17th November 2010, when EC announced its *Energy Infrastructure Package* Communication and indicated the idea to connect three Seas: Baltic, Adriatic and Black as one of the EU priorities. Priorities set up in the Communication were endorsed by the European Council on 4th February 2011.

On 3rd February 2011 Mr. Jose Manuel Barroso acting jointly with leaders of respective countries established a HLG, chaired by the EC and comprised of Bulgaria, The Czech Republic, Hungary, Poland, Romania, Slovakia and Croatia as an observer, aiming at realization of the priority to interconnect three Seas. According to Terms of Reference, "The High Level Group shall deliver an Action Plan on the development of interconnections in the sectors of gas, electricity, and oil by the end of 2011. The work should also contribute to the definition of criteria for project prioritization and selection as set out in the Infrastructure Communication. These criteria will allow the identification at EU level of "Projects of European Interest". Support from the EU, also in terms of financing for the "Projects of European Interest" is expected. Going back to V4 HLG forum, works are finalizing to prepare in the mid of 2011 detailed technical specification, including major characteristics of projects that comprise on the North-South Gas Corridor.

Extract from the Annual Implementation Report

of the Program of the Presidency of the Slovak Republic in the Visegrad Group(1 July 2010 – 30 June 2011):

Energy was a regular subject of discussions of the Prime Ministers. The activities reached their peak during an extraordinary EU summit devoted to this area (4 February 2011) and at the meeting of Ministers responsible for Energy held in Bratislava.

The discussion of the Ministers responsible for Energy was of crucial importance (25 January 2011); it covered issues of cooperation of the V4 region in the areas of electric energy, oil and gas industry, exchange of viewpoints on strategic EU documents related to energy (Energy 2020, Energy Infrastructure Priorities) and the support of energy science and research. The Ministers approved conclusions drawn from discussions of individual V4 Working Groups.

One of examples of coordination within the V4 was a joint letter of the V4 Economy Ministers sent to the European Commissioner for Energy, G. Oettinger, (September 2010), informing him about joint projects of energy infrastructure development and about their attitude to the announcement of regional initiatives. In May 2011 an informal meeting of the Energy Council was held where a joint V4 candidature to the position of the Secretary General of the Energy Charter Secretariat was announced. Conclusions of an extraordinary European Council meeting held on 4 February 2011 where the Energy Strategy for Europe, 2011-2020 was formally approved, confirmed the importance of infrastructure development in the V4 region and retained the possibility to finance energy projects from public resources. In the perspective of preparing a new multi-annual financial framework for 2014-2020, we advocated the provision of financial support of infrastructural projects at the EU-level, while our priority is mainly the project of the North-South Gas Corridor. In this respect, there was an important Agreement signed by the Prime Ministers of Slovakia and Hungary on 28 January 2011 between the Government of the Slovak Republic and the Government of the Republic of Hungary on cooperation in construction, operation, maintenance, reconstruction and operational recovery after breakdown of the hydrocarbon transmission pipelines crossing the common state borders.

The political support in the area of energy was emphasized in a declaration adopted by the V4 Ministers in January 2011 in Bratislava. The Declaration calls on the V4 countries to support a higher dynamics when implementing projects in the gas or oil industry or electric energy, and to set a preliminary technical design of the North-South Gas Interconnections. In addition, the Declaration invites to support the cooperation in science and research, mainly in the area of nuclear energy and clear technologies.

In order to enhance the coordination in EU issues, an independent V4 Working Group on European Affairs and Strategic Issues was established in April 2011. The joint letter of the

V4 Ministers of Economy helped to make infrastructural projects in the region one of the top EU priorities. This resulted in establishing a High Level Working Group on North-South Interconnections, coordinated by the European Commission (EC). EC adopted various activities in the area of preparation of projects carried out in the V4 format. The High Level Working Group on North-South Interconnections is going to draw up an Action Plan in the course of 2011 with diversified projects in the areas of gas industry, electric energy and oil. V4, Bulgaria and Romania are members of the group; Croatia has a status of an observer. As a part of the EC initiative, some sector-specific Working Groups (oil, electric energy, gas) were established with representatives of Ministries, regulators and operators of transmission networks and systems.

With the aim to pursue priorities of the conclusions of the Budapest summit which clearly defined the support of the North-South Gas Interconnection project, the Ministers responsible for Energy sent a joint letter to the Commissioner for Energy on 15 September 2010. On the basis of the letter, the EC included the North-South Interconnections in Central Europe and in the gas and electric energy industry among its top priorities in its announcement ***“Energy Infrastructure Priorities until 2020 and beyond”***.

The Ministers’ activities were detailed at meetings of particular Working Groups. At the first meeting of the V4 Working Group on North-South Interconnection (22 September 2010 in Bratislava) in the format of V4+Croatia, the delegations agreed on the need to prepare background documentation to the project of such interconnection, in order to ask the EU for financial assistance as a part of the new financial framework for 2014-2020. Experts of the state sector and gas industry also declared their willingness to prepare a preliminary technical design of partial interconnections in the course of 2011.

In October 2010 Bratislava hosted discussions of Working Groups on Energy Security in the gas and oil industries. The participants agreed that it is necessary to create joint prevention plans and risk analyses; their creation results from the regulation to safeguard security of the natural gas supply made in 2010. The regulation lays a particular emphasis on regional cooperation when supplying gas in emergencies. In the area of oil, the delegations agreed that it is necessary to look for alternatives to the oil supplied by Druzhba pipeline.

The V4 Working Group on European Affairs and Strategic Issues (11 April 2011, Bratislava) mainly discussed the EU Energy Efficiency Action Plan, a regulation to ensure integrity and transparency of energy markets, as well as exchanged their opinions on the Transition Plan to the Low-Carbon Economy until 2050 and its impacts on the energy sector.

Foreign Relations of the Visegrad Group

Relations with Russia

Brief history on Russia's relations post-1989:

Russia is currently a member of the Commonwealth of Independent States (CIS), Union of Russia and Belarus, Organization for Security and Cooperation in Europe (OSCE) and the North Atlantic Cooperation Council (NACC). It also signed the NATO Partnership for Peace initiative on 22 June 1994. On 20 May 1997, NATO and Russia signed the NATO-Russia Founding Act, which the parties hoped would provide the basis for an enduring and robust partnership between the Alliance and Russia — a partnership that could make an important contribution to European security architecture in the 21st century, though already at the time of its signing doubts were cast on whether this accord could deliver on these ambitious goals. On 24 June 1994, Russia and the European Union (EU) signed a partnership and cooperation agreement. However, Russia still refuses full NATO membership and this is unlikely to change if Mr. Putin gets elected as president in the upcoming elections.

After the USSR was dissolved by the presidents of Russia, Ukraine and Belarus, Russia tried to regain some sort of influence over the post-Soviet space by creating, on December 8, 1991, a regional organization – the Commonwealth of Independent States. The following years, Russia initiated a set of agreements with the Post-Soviet states which were designed to institutionalize the relations inside the CIS. However, most of these agreements were not fulfilled and the CIS republics began to drift away from Russia, which at that time was attempting to stabilize its broken economy and ties with the West. At the moment, Russia maintains its military bases in Armenia, Belarus, Kyrgyzstan, Moldova, Ukraine and Tajikistan.

Russia's relationships with Georgia are at its lowest point in modern history due to the Georgian-Russian espionage controversy and due to the 2008 South Ossetia war; Georgia broke off diplomatic relations with Russia and has left the Commonwealth of Independent States. Russia has played an important role in helping mediate international conflicts and has been particularly actively engaged in trying to promote a peace following the Kosovo conflict. Russia is a founding member of the Contact Group and (since the Denver Summit in June 1997) a member of the G8.

Vladimir Putin's previous presidency lasted from January 2000 until May 2008. In international affairs, Putin made increasingly critical public statements regarding the foreign policy of the United States and other Western countries. In February 2007, at the annual Munich Conference on Security Policy, he criticized what he called the United States' monopolistic dominance in global relations, and pointed out that the United States displayed an "almost uncontained hyper use of force in international relations". He said the result of it

is that "no one feels safe! Because no one can feel that international law is like a stone wall that will protect them. Of course such a policy stimulates an arms race."

Putin, who was president already in 2007 expressed some worries about the US missile shield being built in Poland and the Czech Republic and had a strong reaction at it. In a 4 June 2007, interview to journalists of G8 countries, when answering the question of whether Russian nuclear forces may be focused on European targets in case "the United States continues building a strategic shield in Poland and the Czech Republic", Putin admitted that "if part of the United States' nuclear capability is situated in Europe and that our military experts consider that they represent a potential threat then we will have to take appropriate retaliatory steps. What steps? Of course we must have new targets in Europe."

During the communist rule in the past, all countries of Visegrad region had been the part of former Soviet bloc. At that period many key links were created and some of them have been transformed into current relations and cooperation - especially on fields of trade, energy, energy infrastructure and foreign and security policy. Between the most recent issues discussed between V4 and Moscow one can identify U.S. anti-missile shield in Czech Republic and Poland, gas supplies to Slovakia, as well as Nabucco and South Stream pipelines talks with Hungary. Currently Russia is the third biggest trade partner of the EU.

In 1994 EU and Russia signed the Partnership and Co-operation Agreement, which provides a political, economic and cultural framework between the two entities. However, this document is currently being revised since 2008 and a new agreement should be signed in the near future. Furthermore the EU and Russia initiated a bilateral Energy Dialogue in 2000, which from the EU side should secure stable supply of energy sources and create an open and transparent market between EU and Russia.

When the new 10 member states countries entered the EU in 2004, the EU launched its European Neighbourhood Policy and later in 2009 also the Eastern Partnership Initiative and especially the V4 countries became active in promoting cooperation with the eastern neighbourhood of the EU. However Russia chose not to join any of the Union's initiative as it wants to be an equal partner of the EU. As a consequence EU and Russia set up four Common Spaces for cooperation in the field of economy; freedom, security and justice; external security and a common space on research, education and culture.

Although EU and Russia have a long record of agreements, partnerships, contracts etc. there are also issues that create tensions between Russia, the EU an individual member states. Above all is the question of energy security, followed by the tensions between Russia and NATO over the anti- missile defence system, tensions over the influence of EU in the zone of Russia's interests, dispute over the Kaliningrad Oblast and a number of bilateral disputes between Russia and individual EU countries.

The four Visegrad countries all have specific relations with Russia that are influenced not only by their historical relationship, which is relatively similar for all four of them, but

also by the degree of dependency on energy supplies from Russia, their mutual economic trade and the degree of political cooperation as well as political disputes over issues of security and defence.

One of the main topics of the Czech-Russian relations is planned American radar, which the US government intends to construct in the Czech mountain range of Brdy. The contract concerning the radar was signed by the former foreign minister Karel Schwarzenberg and former US secretary of State Condoleezza Rice in July last year. Russian administration has stated its opposition against the construction of the missile defence system in the Czech Republic and Poland.

Bilateral relations Russia and Hungary in the energy sector are among the most important topics. Russia is a major gas supplier to Hungary and all in all 80 percent of gas consumed in Hungary is supplied by Russia. In case of crude oil 99% comes from Russia. With these statistics, Hungary is second among EU countries in energy dependence on Russia.

The relations between Slovakia and Russia have both, negative and positive character and have changed noticeably during the last decades. Currently economic and trade relations are the most significant sphere where both of the countries seek for intense cooperation and perceive their mutual relations as positive and fruitful. In comparison with Czech Republic or Poland, relations between Slovakia and Russia were not influenced as negatively as in the two countries with regards to the American missile programme. The Former Slovak Prime Minister Robert Fico stated that Slovakia would never allow the US to build a missile defence sheet on its territory.

Relations between Slovakia and Russia are the most intense, at least from the Slovak point of view when it comes to the issue of energy supplies. The issue of energy supplies is also the area where the imbalance of the relations is more obvious than in other sectors and Russia being the dominant "partner". Russia supplies Slovakia with 98% of the whole oil demand and nearly 100% of the gas demand. The drawback of total dependency on Russian gas was especially proved during the gas crisis in early January in 2009. Due to the disputes between Ukraine and Russia about the transit prices of gas and other unresolved issues related to payments between the two countries, Slovakia was without gas supplies for two weeks. The only thing Slovakia could do was to demand that the Russian gas company Gazprom meet the agreement which Slovakia has signed with Gazprom.

The previously mentioned gas crisis of January 2009 occurred simultaneously when Ukraine was applying for NATO membership, which it dismissed after the gas crisis ended. Officially the gas crisis is considered to have been caused due to issues regarding the payments between the two countries. One could look at this from the official point of view, but we cannot dismiss the idea that the gas crisis was partly because of Ukraine's attempt at joining NATO, which is an organization founded to control the growth of communism and hence due to its nature is very anti-Russian since Russia is where communism first appeared.

V4 Foreign Policy

The original function of the Visegrad Group was to help the member states accustom to Western Europe. The goal was to westernize the countries and help the countries fulfil the criteria necessary required to join the EU and NATO. The reason behind the V4 desire to join these organizations was to unite Europe and hence by doing so prevent another major conflict between Russia and Western Europe. A stable and secure Europe depends on there being only one Europe. If there are two Europes (western and eastern) then we risk instability. The purpose of the V4 remains unchanged today, as the main aim is to integrate ex-soviet states into the EU and NATO.

The efforts of the V4 were finally realized when all four countries joined the EU in 2004. Today, all the V4 countries are also members of NATO. After achieving this goal, the V4 today focuses on accelerating the integration of the Balkans and Eastern Europe (namely, Ukraine) into the EU and NATO through V4 know-how and the funds from the Visegrad Fund. The V4 realizes the importance of “returning” Ukraine to Europe, since Ukraine offers a direct corridor through which Russia could potentially move an army into Europe, or vice versa. Ukraine is a very strategic point, which it would be wise to have on the side of V4 countries. Currently the biggest problem in the integration of Ukraine into EU and NATO is Ukraine’s dependency on energy sources from Russia and corruption in Ukraine as can be observed in the current Timoschenkova situation.

V4 is mainly determined to further develop Europe to be secure, stable in terms of military security, but also energy security. The Visegrad fund is used to promote projects which promote the cooperation of post-soviet countries and improving the competitiveness of V4 and EU countries on a global scale during the current economic crisis. One of the main aims of V4 is to mediate the process of extending stability in Europe by integrating Eastern neighbourhood countries along with the Western Balkans into Europe and by doing so increasing the security and number of energy sources since the Western Balkans especially may be used as a corridor for transportation of natural gas from non-Russian sources.

V4 already has notable success in the area of the Western Balkans. One of V4’s successes is Slovenia, which is now a full member of NATO and the EU. Croatia and Albania is a member of NATO. Montenegro is a candidate of EU and NATO, but doesn’t seem to have any major problems in the ratification process so its joining of these organizations is to be expected. Albania isn’t an EU candidate yet, however it is beginning to aim towards candidacy. The initial reason for help from V4 to the Balkans was to unite Europe, but over time and the development of the Russian energy dominance the Balkans offer other benefits. The Balkans offer a new corridor, which could deliver oil and gas from Turkey or other non-Russian sources. This is notably another option for reducing our dependence on energy from Russia.

A new objective of the V4 is the V4 battle group. The battle group is the first step that V4 has taken toward militarization and the fact that it is going in that direction shows the rise of instability of Russia. The Nordic states have had a similar reaction to Russia's current military situation by establishing the Nordic battle group, which increased the security of the Baltic Sea area. The main focus of V4 in terms of security is the maintenance of European security through stabilizing Russia. The military steps taken are in place as a sort of back-up plan in case stabilizing Russia doesn't work.

When the vision of V4 is realized in the future, in which Central Europe is united with Ukraine and the Balkans through common security policies and diversified energy forces, then Russia will have a much smaller influence on Europe.



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