



German Marshall Fund Brussels Forum

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Thank you, it's a pleasure to be involved in the Brussels Forum again this year. The level of discussion and analysis at this event is among the most incisive to be found anywhere – in the best traditions of George Marshall himself.

Like most discussions, the essence of this debate about the Black Sea region lies in connections.

Marshall forged connections between Europe and America – although it's interesting to note that, at the time of Marshall's historic Harvard address, the US State Department told a journalist to expect "Nothing of importance."

And yet, here we are, nearly 70 years on.

From my perspective, I'd like to focus on the role that energy can take in forging connections.

Energy offers us with a helpful locus for our discussion – a point of mutuality between the energy-rich Caspian region, the strategically important bridging countries surrounding the Black Sea – and the energy poor but high-demand European market, increasingly reliant on imported resources.

I see four constituent elements to this mutuality:

- The prosperity that energy can create for consumers, facilitators and producers
- The trade in energy required to unlock that prosperity
- The hubs and spokes or networks on which trade depends
- The interconnectivity required to unlock the potential of those hubs and spokes.

Prosperity

Energy and prosperity can go hand in hand. Energy underpins growth and development in consuming countries as well as acting as an engine of wealth creation and employment in producing nations.

- In terms of the prosperity generated for energy consumers, since 1990, world GDP has grown around 230% - fuelled by a 60% growth in energy consumption.
 - In 1990 almost half the global population lived on less than \$1.25 a day.
 - This rate dropped to 22% by 2010, reducing the number of people living in extreme poverty by 700 million and meeting the UN goal to halve the number in extreme poverty.
 - In the same period, energy consumption rose by 50%, providing fuel for vehicles, heat and light for homes, refrigeration for medicines and power for water pumps.
- Turning to the wealth that can be created by energy production (and I am mindful here of the sustainability issues arising from wealth based purely on natural resources), but

By way of an illustration relevant to today's theme, in the 25 years BP has been operating in Azerbaijan, we have generated around \$140 billion in contributions to government and reinvested a further \$60 billion in the country.

- Elsewhere, BP's activities in the UK supported an £8.7 billion contribution to GDP (about 0.5% of GDP) and nearly 126,000 jobs.
- BP's activities in the US supported an \$80 billion contribution to GDP and 145,000 jobs.

Trade

So, energy can underpin prosperity. But for the benefits to accrue, markets must operate to connect producers and consumers through trade.

- Trade in energy offers other collateral benefits including the opportunity to build stabilising relationships.
 - For example, mutual interest has enabled Europe and Russia to maintain trade in gas for decades, including through the years of the Cold War.
- Israel trades with Egypt and Jordan. Greece trades with Turkey
- As is often said, the more borders are crossed by trade, the less they need patrolling by soldiers.
- This is particularly true for Europe which is resource-poor, in terms of natural energy resources.
- In the next two decades, Europe's gas consumption is expected to rise at 0.7% a year – at the same time as its limited indigenous production is declining sharply at 3.2% a year – as existing fields mature.
- As a result, the share of imported gas in Europe's total consumption is expected to rise from around 50% today to nearly 80% by 2035.
- LNG will play an important role in EU gas imports and we expect its share to rise from 7% in 2014 to 28% by 2035.

Hubs and spokes

For trade to succeed, physical networks of hubs and spokes must be created and maintained.

- In Europe, just as this stage is surrounded by people - Europe is surrounded by abundant sources of energy.
- In the East, Russia currently supplies a third of all Europe's gas.
- It is important to diversify supplies and Commissioner Sefcovic has led the EU in seeking to open up new sources of energy.
- That includes energy from the South - huge gas resources in North Africa.
 - There is more shale gas in Algeria than there is in the US, according to the EIA.
 - Egypt's Nile Delta is a prolific gas basin. Egypt has the potential to become a regional hub and start LNG exports by 2020 – first phase of development of the giant Zhor field is being fast-tracked for first gas later this year.
 - West African LNG- including Mauritania and Senegal (where BP is working to develop an estimated 15tcf of discovered gas resources).
- And to the West, the US is now an exporter of LNG – one shipment to Spain and one to Italy in 2016.
- And of course, to the North, Norway, while not an EU member, is Europe's most prolific producer of gas, supplying around 25% of the EU's consumption.
- This session is looking at the broad Black Sea region and there are other key sources to the East:
 - Iran, Israel and Cyprus, with potential synergies for exporting gas from the Leviathan and Aphrodite fields.

- Azerbaijan, where BP is leading a major project to develop a giant field in the Caspian Sea, Shah Deniz 2, and pipe the gas westwards.

- The Southern Gas Corridor project will connect Caspian gas with European markets for the first time, bringing benefits to producers and consumers alike.

- For producers and transit countries...
 - \$40 billion of investment to south east Europe and roughly 30,000 jobs in Azerbaijan, Georgia, Turkey, Greece, Albania, Bulgaria and Turkey.
 - The building of hundreds of kilometres of new and rehabilitated roads, new bridges, modernization of transport infrastructure.
 - In Azerbaijan and Georgia, BP had more than 28,000 people involved in construction activities at peak– with the majority being nationals.

- For consumers
 - In 2018, Shah Deniz 2 gas will be delivered to consumers in Georgia and Turkey.
 - First gas to Europe is expected in 2020, with delivery of 10 bcma of gas to customers in Italy, Greece and Bulgaria.

Interconnectivity

Hubs and spokes can only operate effectively when there is adequate interconnectivity between the physical networks.

- Once up to 16bcm of gas are flowing through the pipeline, that is enough to meet the needs of every capital city along the pipeline route more than twice over.
- We are building the pipeline with scope to expand to roughly twice the initial capacity to accommodate initial supply
- But, the corridor will be delivering gas into Europe's least developed gas market.
- For example, at present, there is no infrastructure to move gas between Greece and Hungary, or between Bulgaria and Serbia.
- Further west, there is a bottleneck between France and Spain.
- While Europe has all the software in place for the market to function (the rules and regulations) the hardware (the pipelines and interconnectors) is still lacking in certain areas – south east Europe particularly.
- The Southern Gas Corridor is an important agent of change – but it can't fulfil its potential unless action is taken to complete the hardware of a fully functioning energy market.

Conclusion

A common theme in conferences and debates is the risk of energy trade being disrupted by geopolitical instability.

I think we become so preoccupied by that theme that at times we forget the obverse – which is the proven reality of energy trade as an instrument of geopolitical stability.

This is part of a wider process whereby energy supports prosperity and prosperity supports peace.

As George Marshall said, “Wars are bred by poverty and oppression. Continued peace is possible only in a relatively free and prosperous world.”

In many energy-producing regions, we find complex geopolitical issues. But society’s basic needs for heat, light and mobility – and the common endeavour to supply the energy required - provide a bridge towards the solutions.

The Black Sea region’s energy resources may only make a modest contribution to European demand, but I believe that contribution towards Europe’s energy security needs will have a major and positive impact on the region’s future.

And I believe that can be replicated around the periphery of this continent. Let us work with our energy-rich neighbours to make trade in energy the guarantor of peaceful borders and the foundation of prosperous relationships.