



## Energy Issues in Europe

### **Matt Bryza, Deputy Assistant Secretary for European and Eurasian Affairs**

Interview with Hungarian News Agency  
Washington, DC  
February 26, 2008

**Question:** You might know that I like to hear the American official comments on the Russian-Hungarian gas pipeline deal, but before that I know that you had a meeting today with two representatives of the Hungarian government. Could you describe shortly what was the topic of the discussion?

**Deputy Assistant Secretary Bryza:** We talked about a number of issues, but as you know, they came here to have a primary discussion on oil and gas pipelines, on Nabucco and Hungary's priorities it places on Nabucco and also Hungary's discussions on South Stream as well. It is a positive sign that they made it a point to come to Washington to talk to us before making any decisions or reaching any formal agreements.

**Question:** Was it at the American request that they came here?

**Deputy Assistant Secretary Bryza:** I probably shouldn't get too much into that, but I guess I can say that it was an initiative by the Hungarian government, but we would of course reached out to them had they not already been coming, but actually it's [okay to say that]. It was their initiative. It was the Hungarian government's initiative.

**Question:** As I understand you're specializing in the energy questions and then you can report...

**Deputy Assistant Secretary Bryza:** I am the person who has responsibility for our relations with [a few] countries, with the countries of the South Caucasus, so Azerbaijan, Armenia, Georgia, as well as Turkey and Cyprus. Then I'm doing other things in conflict mediation, but also I'm the one that has the lead on the geopolitics of energy in Europe.

**Question:** Would you like me to ask specific questions or can I ask you just to make a comment in general about this Memorandum of Understanding signed on Monday in Budapest, that is the Russian-Hungarian gas pipeline deal?

**Deputy Assistant Secretary Bryza:** Your preference... I can make a statement, but I usually prefer to have the journalists ask questions so I know what matters to him or to her of course. So whatever way you prefer to proceed.

**Question:** Okay. According to my analysts this deal, which is going to be signed on Thursday, as you must know, it strikes a major blow in the so-called pipeline war with the west. Do you agree with that?

**Deputy Assistant Secretary Bryza:** We do not see there being a pipeline war. We see a shared strategy that the European Union has articulated which talks about diversifying sources of supply of natural gas. And we have worked with friends, allies, the Hungarian government, and developed a plan to help realize that key goal of diversified sources of supply in the form of the Nabucco pipeline with supplies of gas coming from Azerbaijan and perhaps from elsewhere in the Caspian and in Iraq. So our focus is on that, is on realizing that shared objective.

We by no means think we're at war with anybody else. We do know, however, that when Alexei Miller made his comments yesterday in Budapest, the CEO of Gazprom, he made the point that he thought that South Stream would obviate the need for any other pipelines to supply gas to Europe in the next few years because South Stream would provide all the gas that Europe needs.

That approach is contrary to ours. Our approach is to help Europe and help our European allies achieve their goals in diversification and to put them in the strongest possible negotiating position with a Gazprom partner who will be around for a long time. Strength in negotiations comes from diversification. And we find it very uncomfortable if Alexei Miller or somebody else is going to say that South Stream is going to be used to block Nabucco. However, we believe that is what the strategy is and we think it would be unwise to allow such a strategy to proceed to block Nabucco. We have to achieve Nabucco.

**Question:** There is obviously an understanding that the demand in Europe is not enough to justify having both pipelines and that the first one to start operating will win the race.

**Deputy Assistant Secretary Bryza:** That is absolutely false. That is a statement that was made by Mr. Miller yesterday in Budapest. It is ineffectual and frankly, untrue. The problem in Europe is finding enough gas to meet increasing demand. What he may have meant to say is that Gazprom is having problems identifying supplies of gas within Russia and is relying on Turkmenistan to provide gas to Europe. Maybe that's what he meant. I'm not quite sure. I don't know what he meant. But the problem is finding sufficient supplies for Europe and we know that Nabucco has a strong cost advantage over SouthStream in terms of providing gas from the Caspian region to Europe. The Nabucco advantage is 40 to 50 percent in terms of cost of providing gas to Europe from the Caspian region.

So there's plenty of demand and the challenge is to identify the supply.

**Question:** After they sign this memorandum both Medvedev and (inaudible) said that diplomatically there is no contradiction between the South Stream and the other project. Do you agree with that?

**Deputy Assistant Secretary Bryza:** That is what Medvedev said. That is not what Alexi Miller is saying. What Miller said was that South Stream aims to absorb all of the gas demand in Europe.

It looks like South Stream; South Stream was designed to try to block Nabucco as well as the Turkey-Greece-Italy pipeline. Look at South Stream's design. It's got a spur that follows the Nabucco, part of the way, and a spur that follows into Greece and Italy.

Our goal is to achieve both pipelines -- The Turkey-Greece-Italy and the Nabucco pipelines, because they provide the most commercially attractive ways for Europe to achieve diversified supplies of natural gas. So I'm sure we're going to succeed in those efforts because of the big advantages that these projects actually have.

**Question:** Do you think, Mr. Bryza, that the South Stream rightly is for the diversification of supply for Hungary, or it's the wrong one?

**Deputy Assistant Secretary Bryza:** South Stream is clearly designed in a way to deepen Hungary's dependence on one supplier. Already Hungary receives 80-85

percent of its gas from one company, Gazprom. South Stream deems to deepen that dependency even further. So diversification does not mean you have two pipelines to the same company that supplies you. Diversification means you have multiple suppliers who playing against each other can keep the price as competitive as possible.

You need a diversified source of supply so that you can create that price competition and compel your primary supplier to treat you with respect and treat you as a valued customer. If that monopolist is a monopoly power, then that monopolist need not show you as much respect and need not negotiate agreements that are so clearly in your country's benefit. So we want to help Hungary strengthen its negotiating position with Gazprom through diversification, and South Stream definitely does not strengthen diversification. It strengthens dependence on one supplier.

**Question:** Maybe that was one point you made clear today to the Hungarian representatives, right?

**Deputy Assistant Secretary Bryza:** We make this point clear consistently to our friends in Hungary, in Bulgaria, Romania, Austria, Italy, and in Greece. Diversification is essential if you want to have a long-term relationship with Gazprom that is fair, that is mutually beneficial, and that is based on the market forces of competition.

**Question:** What will be the most urgent in your view that Nabucco would be viable, and what the Hungarian government would do for it?

**Deputy Assistant Secretary Bryza:** Nabucco is viable, so what we hope all of the Nabucco countries with Hungary at the head of the line will do is demonstrate clearly that Nabucco is the top priority because it makes the most commercial sense for Hungary's consumers and for all consumers along its right of way. And we hope Hungary will make clear Nabucco is its top priority because getting in place a diversified supply source will make coexistence and cooperation with Gazprom all the more fruitful and successful. So we need the Hungarian government to sustain the strong support for Nabucco which we have seen and we need people to keep in mind that sequencing matters. The order in which a pipeline project is built really matters. The design of South Stream, as I said before, is to divert attention away from finishing Nabucco and finishing the Turkey-Greece-Italy pipeline.

A similar thing happened back in the 1990s. Many people were involved in trying to build a trans-Caspian gas pipeline to bring gas from Turkmenistan to Azerbaijan. You remember that project, yes? And Russia decided to proceed with the Blue Stream pipeline. Blue Stream won the race in the Turkish market. It was designed to delay or prevent the trans-Caspian pipeline. And it won not because it made commercial sense; it couldn't because it's so expensive.

The Blue Stream won simply because Gazprom pushed it forward regardless of the fact that it did not make commercial sense. And that delayed the trans-Caspian pipeline for ten years.

Today we're saying to our allies focus first, it's wise, focus on getting in place the alternative supply source through Nabucco and then worry about additional supply sources later.

**Question:** Mr. Bryza, in what form this thing the Hungarian government can declare Nabucco top priority? Are you saying that this memorandum of understanding with Russia and Hungary can and would or should be modified in a way?

**Deputy Assistant Secretary Bryza:** I don't know what's in that agreement. I haven't read it. I don't have a copy of it. But I think it's important for the Hungarian government to protect the country's own national interests by doing whatever is necessary to advance the Nabucco pipeline. The Hungarian government has talked about taking an increasing leadership role in realigning Nabucco. That would be terrific. I'm sure the Hungarian government has its own thoughts on how to do that.

**Question:** You're not saying that South Stream is not for Hungarian national interests, just Nabucco?

**Deputy Assistant Secretary Bryza:** I said something different. What I said was it's very important to sequence pipeline projects in a way that strengthens ones own negotiating position with Gazprom, so Hungary will find itself in a much stronger position to develop future cooperation with Russia on natural gas if it first has in place or is making clear it will succeed in realizing the Nabucco pipeline.

I'm not making the argument that all of our allies should cut off their contacts and their cooperation with Russia on natural gas. Russia has the largest supplies of natural gas in the world. What I am arguing is it's important for the leaders of all these NATO countries and non-NATO countries to keep their national interest in diversifying supply at the top of their agenda.

You need diversification first so that you have a better relationship with who is now your primary supplier.

**Question:** I see. Today's meeting, did you ask something from the Hungarian government and did they make any promise?

**Deputy Assistant Secretary Bryza:** It would be unfair of me to divulge the specific contents of a private diplomatic discussion. That would be contrary to diplomatic practice and counter-productive, but what I can say is that the general themes that I have just told you are constantly present in our discussions with our Hungarian NATO allies and all of our friends and allies when we talk about these very important pipeline projects.

**Question:** Can I put that in material that you ask them if the Hungary government would declare the Nabucco pipeline top priority?

**Deputy Assistant Secretary Bryza:** What you can say is that I am making that statement right now, but I'd rather not, it would be best if you just wrote that you know, a short time, a few minutes after that meeting this guy, Mr. Bryza made these points.

Again, it's not appropriate for me to say exactly what was discussed in private. That isn't our policy.

**Question:** I see. You mentioned earlier commercial sense; the Nabucco pipeline makes commercial sense. Did you mean by that that the oil coming from the Nabucco, the oil would be cheaper than the South Stream?

**Deputy Assistant Secretary Bryza:** Gas actually. Yes. Yes, yes, yes. Here is why.

I can give you numbers and maybe you can follow the numbers, I'll just give you a warning that you'll probably want to write down the numbers.

This is from a think tank called the Mediterranean Energy Observatory, OME in French, okay?

They estimate the cost of producing and delivering new supplies of gas to Europe in 2020 or to Austria or Hungary will be as follows. So it's a cost comparison here.

Shipping gas from Turkmenistan to Austria, the end of the Nabucco pipeline, from Turkmenistan it will cost \$102 per thousand cubic meters. \$102. This is an estimation in the year 2020.

The cost of moving gas from Azerbaijan to Austria via Nabucco is estimated at \$72 per thousand cubic meters. So that's over a 40 percent cost. That's nearly a 50 percent cost advantage for Nabucco to move gas to Austria, compared with moving Caspian gas also to Austria via Russia's other pipelines. Existing pipelines that will be

upgraded. So it's 40 to 50 percent cheaper using Nabucco versus using existing pipelines in Russia.

If you add the cost of South Stream, which will be the most expensive gas pipeline in the world at a cost of \$14 billion or 10 billion euros and probably much more, than the cost advantage of Nabucco goes up much higher than the nearly 50 percent. So in terms of the pure economic cost of producing and delivering gas to Hungary and Austria, it's 40 to 50 percent cheaper via Nabucco than via existing Russian pipelines and even more advantageous when you factor in the huge cost of South Stream.

**Question:** Where would the gas come from, Azerbaijan or Iran?

**Deputy Assistant Secretary Bryza:** Azerbaijan for Nabucco. Azerbaijan, we are now convinced after the discoveries late in the year 2006, late autumn, there was a new well that was drilled called SDX-4, or Shah Deniz exploratory well 4 in Azerbaijan. We now believe that Azerbaijan has enough gas to fill the Turkey-Greece-Italy pipeline, and I need to underscore how important the Turkey-Greece-Italy pipeline is as well for European diversification. So there's enough gas in Azerbaijan to fill the Turkey-Greece-Italy pipeline and to launch the Nabucco pipeline, and to fill the first few phases of Nabucco and perhaps to fill all of Nabucco. Perhaps. We're still working on that. But that is only in Azerbaijan, just Azerbaijan. There's also a lot of gas available elsewhere in the Caspian region, in Turkmenistan and Kazakhstan, and there's a lot of gas available in Iraq who's central home could be in Nabucco. So there is plenty of gas that's available, that does not involve Iran or Russia, to fill Nabucco. The challenge now is to do what makes sense economically to develop these fields, develop Nabucco with this gas and follow your wallet rather than following geopolitical pressures. Do what makes economic sense and Nabucco will be realized with Azerbaijani and a little more gas perhaps from Iraq or elsewhere in the Caspian, but not from Iran.

**Question:** Mr. Bryza, what do you think if the Hungarian government would say that the Russian pipeline would serve better Hungarian national interests? And they would not declare so openly that Nabucco is a top priority. Of course they will but saying that the other serves the same way or better. What in this case?

**Deputy Assistant Secretary Bryza:** I would say that anyone who would say that Nabucco is not the most advantageous solution for delivering gas to Hungary or Austria is ignoring economic reality which gives Nabucco a strong advantage over South Stream, and is ignoring negotiating reality which is that in any negotiation, no matter who you're negotiating with, you put yourself in a much stronger position if you have an alternative. That's just a law of human nature. That's even more the case when your negotiating partner is a company that by law is a monopolist. Therefore by definition tries to reduce competition.

If your negotiating partner wants to reduce competition to its monopoly you have to work hard to make sure there is competition.

So for anybody, no matter what government they're in or what company they represent, I would say it doesn't make sense to pursue Nabucco as the top priority, would be ignoring the reality of economics and human nature in terms of negotiations.

**Question:** Mr. Bryza, one final question. I understand that you are...

**Deputy Assistant Secretary Bryza:** By the way, one more point. Such a position would ignore EU policy which says that Nabucco is the priority. Nabucco is the priority. South Stream is not an EU priority. So that's the third point.

And if I could make a fourth point, one last point, the shady middle companies. We saw with the Russian Kohmergo deal in Ukraine that a shady company, a non-transparent company inserted itself in the transaction. And it's much better for economic efficiency and the rule of law if deals are reached transparently with companies like those developing the Nabucco pipeline who are absolutely transparent.

**Question:** You mentioned the EU position. It's a very awkward position because this is a proactive gas policy which encourages the diversification of supply.

**Deputy Assistant Secretary Bryza:** Right.

**Question:** But many EU members, including Germany, France and Italy, they have bilateral deals with GasProm.

**Deputy Assistant Secretary Bryza:** Yes.

**Question:** Why is it so awkward in Hungary?

**Deputy Assistant Secretary Bryza:** I didn't say it's more awkward in Hungary or anywhere else, right? It's awkward in all of those countries, or it's advantageous for all those others.

It's a little bit different in Hungary in the following way. Germany has diversified supply sources of natural gas from the North Sea. And it has other large-scale power supplies. It's less important to France because of supplies of natural gas from North Africa. So they, and France has so much nuclear power.

Hungary, in terms of its overall energy mix relies much more than Germany or France on Russian gas. So Hungary has an even stronger national imperative to diversify its sources of natural gas supply.

**Question:** Can you confirm that from the American side in today's meetings you were present and Dan Fried?

**Deputy Assistant Secretary Bryza:** Of course, yes.

**Question:** So you were the two who led these negotiations?

**Deputy Assistant Secretary Bryza:** We had some other people in the room, but yes, Dan and I were both in there. Dan's my boss. So it's his meeting.

**Question:** The last final question. I know you are Deputy Assistant Secretary of State and you were talking primarily about the economics about this question. But you don't have to be shy of talking about the strategic point, side of this question. It's not just about oil and gas and Hungary's interest, but Russia's expansion.

My question is why the United States on implementing the Nabucco project.

**Deputy Assistant Secretary Bryza:** Because of a couple of reasons. One, it is the policy of our European allies who are EU member states, the EU has said this is a priority project. So great, we support our allies in realizing their priority project. We agree with the logic of it very strongly. We agreed on the importance of diversification and we agreed that Nabucco is the most commercially attractive way to do that.

We also care because the current situation in which Europe is dependent upon one company for 25 percent of its gas supplies, 25 percent, leads to dysfunctions whereby that one company is able to buy gas for a very low price in Central Asia. It used to be \$100 per thousand cubic meters. Now it's being raised this year to \$130 to \$150 per thousand cubic meters, but they're selling it for nearly \$300. That huge markup leads to non-transparent distribution of rent and that undercuts incentives for reform, and that also leads to inefficiencies in the European market. We believe that our national security interests are best served with markets like Europe's, the most

important market outside of our own, functioning efficiently. So there's an economic efficiency element to our national security we care about, there is a desire to help our EU and NATO allies realize their own strategy, and the other thing I was mentioning before, we want our closest allies in the world to be in the strongest possible negotiating position with the world's largest energy company that is a monopoly. And for our allies to negotiate fair deals which are in our interest, because if our allies prosper, we prosper. So to put them in that strongest possible negotiating position there's no better deal out there than Nabucco, and I have to add, and please add the Turkey-Greece-Italy pipeline as well.

**Question:** Do you think that the Hungarian-Russian deal can have any sort of effect on the Hungarian-American relations?

**Deputy Assistant Secretary Bryza:** I'd rather not comment on that at all. Our goal right now, our shared strategy, our shared objective with the Hungarian government in this regard is to realize the Nabucco pipeline and so we need to focus on that and we need to achieve our shared goal and we hope that the Hungary government will demonstrate and continue to demonstrate that Nabucco is its top priority. Hungary is a sovereign country. It's our friend, it's our ally, we have close cultural and emotional ties to Hungary, and we hope that that will be reflected in our achieving the strategy that we worked on together to realize the Nabucco pipeline.

**Question:** Mr. Bryza, I appreciate having this opportunity, and thank you so much for your straight answers. Thank you very much.

**Deputy Assistant Secretary Bryza:** Thank you very much as well. If you write one thing, one thing to keep in mind is that the order matters in which pipeline projects are finished, and it's critical to realize Nabucco first. Thank you so much for talking to me.

**Question:** Thank you. Have a good day.

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