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Interview With Greek Journalists on Energy Issues

Matthew Bryza, Deputy Assistant Secretary for European and Eurasian Affairs
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Question: What happened with the Greeks on South Stream? Unfortunately, the incident [inaudible]. I mean they built the TGI and then they went with the Russians. What is the story there?

Deputy Assistant Secretary Bryza: I don't know what the story is for them. I know what our story is, which is the report saying that we are somehow annoyed are fantasy. They're manufactured reports. We're not annoyed at all. It is up to Greece to do whatever it wants with its energy supplies.

We supported TGI because our Greek and Italian allies and Turkish allies said "we support this project". So it was you allies who thought it up and found the investors and the momentum built up. We came in later and said it's a very good idea, we support you.

At the request of the investors we went to Azerbaijan and said this is a great project, let's try to make this happen. We convinced President, I mean we worked with President Aliyev to help convince him that the project was worth supporting because Azerbaijan was not enthusiastic about developing its gas supplies. It was going to leave the gas for the future.

So we worked together with the Greek, Turkish, Italian investors to convince President Aliyev that there are some serious investors out there who will make it worth your while to take all the risks associated with developing your gas. So he started to do it. As far as we knew, and as far as we know, you still, Greece still wants to make that project happen. That's great. So let's make it happen.

Question: TGI.

Deputy Assistant Secretary Bryza: TGI.

We also know that Southstream is designed to fight competition and to derail TGI and derail Nabucco. If it so happens that by pursuing Southstream TGI is derailed, we don't suffer at all. Azerbaijan doesn't have to develop its gas. It wasn't so enthusiastic about doing it. It saves the gas for the future. We work on all sorts of other options to help those allies who really wish to diversify sources of supply do so. There are all kinds of options out there. Of course there's Nabucco, and there's liquid natural gas, and either coming into Romania or Bulgaria or Greece maybe, or Italy or Croatia, Poland, Lithuania, Latvia, you name it. There are all sorts of other options out there. So if Greece decides it prefers another project, okay. It's fine. It's your prerogative. We've got a lot of other irons in the fire on energy security. No problem.

But we would like to stick with what we started. We thought we were supporting the Greek government's policy, and we support it as a good ally. So let's keep going.

Question: You think they play a game?

Deputy Assistant Secretary Bryza: No, I don't think they're playing a game. I think that the Greek government has decided that Greece is better off somehow in terms of energy security if it has more pipelines crossing its territory. That's what it seems like. That's what the Greek government tells us. From our perspective, thinking a little bit more abstractly, we think security comes from having diversity of supply. Not from multiplicity of pipelines.

We used to say happiness is multiple pipelines, but what we meant was happiness is multiple pipelines leading to diversified sources of supply. So we wanted to get Caspian gas to global markets, or Caspian oil to global markets. In addition to just Russian oil.

In this case security comes from multiple sources of supply. Why is that? Because if you have multiple supplies then you have more leverage to negotiate a better deal with your primary supplier. That's Gazprom. So we want Greece to be in a stronger position. It's pretty transparent.

Question: Do you think the Azeris may have a problem with this deal? And probably will change their mind or ask for more guarantees from Greece that they are serious about it?

Deputy Assistant Secretary Bryza: No, I don't think it's that big a deal, actually. This intergovernmental agreement between Greece and Russia on Southstream is not that big a deal. It's one more intergovernmental agreement, one more piece in what will be the world's most expensive gas pipeline of all time.

Question: It is --

Deputy Assistant Secretary Bryza: $15 to $20 billion. The most expensive project of all time. It will probably be built, and you'll pay a correspondingly high price for that gas.

Question: Who is going to pay for this?

Deputy Assistant Secretary Bryza: Consumers will. You will.

Question: But let's say it's too expensive and after five, six, seven, eight years they realize that it cannot be built. Then let's say the needs of the Greek market are expanded and they will need more gas. Is there any possibility for the Azeris not to provide that?

Deputy Assistant Secretary Bryza: Of course it is.

What I'm saying is that if the -- We had to work together. The investors, ourselves, with the Azerbaijani government to convince them --

Question: Convince them.

Deputy Assistant Secretary Bryza: To convince Azerbaijan to develop their gas. They just wanted to leave it for the future. They're not desperate to make their way to

Europe with their gas right now, but they're happy to do it for strategic reasons. But what they're thinking about, think of it from Azerbaijan's perspective. For the third straight year, the third straight year, Azerbaijan has the fastest economic growth rate of any country not in the Caspian, not in Europe, in the world. Three straight years. Over 30 percent economic growth because of oil. So they're not in a hurry in Azerbaijan to have even more oil and gas revenue coming to market, right, because they've got to manage this huge revenue flow from oil.

They want to develop their gas because it helps bring them together with European partners. If the European partners decide you know what, we're not ready for your gas. I don't think Azerbaijan really cares because they've got all that oil. They'll do the gas in 10 years, 15 years, 20 years.

We care because our allies will be in a weaker negotiating position because instead of Greece being 80 percent dependent on one company, if you take another chunk of gas from that same company you'll be more than 80 percent dependent and unable to negotiate a better deal because you'll have no leverage.

Question: The Azeris are on the record. Remember the Turkish-Azerbaijan conference at Hudson?

Deputy Assistant Secretary Bryza: Right.

Question: The Speaker of the Parliament said we have gas. If you want it, it's here, but you have to be serious.

Deputy Assistant Secretary Bryza: Exactly. And they're not posturing. I know they're not posturing. They are happy to wait. Or there can be LNG that will go across the Black Sea in a few years. They can ship their gas north through the Russian system. We wouldn't like that because it would be even less diversification available for our European allies.

Question: That's the target of Gazprom.

Deputy Assistant Secretary Bryza: That's the target.

Question: Gazprom wants that?

Deputy Assistant Secretary Bryza: That's exactly what they want to do. And we wouldn't block it. We can't block it. All we can do is say to Azerbaijan, but don't you know our allies want your gas so they have diversification? Then if our allies don't want the gas --

Question: You think they don't want the gas?

Deputy Assistant Secretary Bryza: The allies?

Question: This deal with Russia is perceived by you that Greece wants out of the TGI deal?

Deputy Assistant Secretary Bryza: No, not at all. I think Greece has been clear that it wants TGI to happen. What I'm saying is, I'm not sure everybody recognizes in Europe, including in Greece, that the sequence in which you develop projects really matters. It matters what makes it to the market first. I'll illustrate that with one example of an oil pipeline, one example of a gas pipeline.

Oil pipeline is Burgas-Alexandroupolis. It was thought up a decade ago while we and others were working on Baku-Tbilisi-Ceyhan. There was a race, which project would get to the market first, would attract the investors. Baku-Tbilisi-Ceyhan won. Burga-Alexandroupolis is going to happen, but delayed by ten years or more.

A second example is a gas pipeline. At the same time, a decade ago, we were working very hard to develop a Trans-Caspian gas pipeline, right? From Turkmenistan to Azerbaijan and onward to Turkey. That project was in a race with Bluestream, the Russian project. Bluestream won. The Trans-Caspian pipeline is delayed until this day. It's going to happen, but it's delayed by a decade.

So what we're saying is we don't want to see the same thing happen to TGI where we begin the project, we're moving forward, then something new comes along and delays TGI by a decade because Azerbaijan then doesn't feel compelled to develop the gas.

Question: For the sake of the discussion, can you discuss a little bit where TGI is today?

Deputy Assistant Secretary Bryza: Sure, good question.

Question: How long from today it can provide gas to Greece the way things are?

Deputy Assistant Secretary Bryza: They can provide gas to Greece today, and is. Right now. Small volumes. There was a problem this winter as that connection began. That is common when a pipeline first starts up. You have problems with too much moisture in the line. It's all been fixed. But today it can provide a small volume of gas.

Over the course of the next few years the volume will increase and increase. So the infrastructure is there to get the gas to Greece. There's nothing more that needs to be done to get gas to Greece except to convince the Azerbaijanis to accelerate gas production.

Question: And make a fuss that the pipeline is big.

Deputy Assistant Secretary Bryza: It's big. It's big. But still there needs to be some infrastructure expansion. But it's there.

By the way, when I say increased gas production in Azerbaijan that means the companies and the government have to come to agreement.

What the larger volume of gas is going to be needed for is continuing on to Italy. That construction has not yet begun. So the construction is on land across Greece, and to Italy needs to happen.

Question: Did the Greeks inform you before that they are going to sign this agreement with Putin?

Deputy Assistant Secretary Bryza: I mean --

Question: As allies.

Deputy Assistant Secretary Bryza: I have to say, we were surprised last June when the initial MOU was signed. We didn't know about that. But since then, sure.

Question: But not now.

Deputy Assistant Secretary Bryza: Now now. Now there was no surprise now. We knew exactly what was going on. There was a major theme of my humble visit to Athens a couple of weeks ago, we talked about it a lot. So not at all a surprise. Okay, so what, so sign. No problem.

Question: So you think Greece is going to face problems in the future with Gazprom?

Deputy Assistant Secretary Bryza: I don't know. I hope not.

Question: Greece is not like Ukraine who defaulted on a few payments, et cetera, et cetera. Usually we pay.

Deputy Assistant Secretary Bryza: That's right. What does Minister Folias say? He says in my restaurant business I always knew I needed to have more than one supplier of cheese, right? Of feta. If you have only one supplier of feta you're in a vulnerable position. Same for gas.

It doesn't mean that something bad's going to happen. If you have only one farmer providing you feta, that doesn't mean his cows are going to stop sending cheese your way. But it means he has the ability to, he has more leverage over you because he can set the price.

So I'm not saying Gazprom will become an unreliable supplier, but if you give more power to somebody that already gives you 80 percent of one of your most important commodities, what would you do if you were in that position? You'd use that leverage any way you can.

So I think what will happen is that the Greek consumer will find itself paying higher prices for gas than it would if there was competition. Economics 101, the most elementary point.

Question: Do you think that Karamanlis signed for political reasons? And that's why [inaudible]?

Deputy Assistant Secretary Bryza: I have no idea why he signed it. There's no way for me to get into his brain. I don't know. I wouldn't even want to speculate. I think the signing of it simply shows that the Greek government now has decided that it can elevate its strategic importance by maximizing the number of pipelines across its territory. I would argue Greece is already of great strategic importance in so many ways that we talk about, that we've been talking about for years. Be it cooperation on traditional security and counter-terrorism. Be it its ability to be the key economic locomotive in the Western Balkans. Or be it its existence already as a key energy transit hub. Or almost as that with TGI's evolution.

So what we're saying is finish that. Realize the ambition of Greece to be an important transit hub by virtue of getting TGI finished. You can have both TGI and Southstream if you get TGI done first. But if you do Southstream first, I fear you'll only get that. That's the argument.

Question: Probably Southstream will not happen in my lifetime. I'm 40.

Deputy Assistant Secretary Bryza: That's a view. I don't know. I wouldn't say that. That's a view I hear.

Question: That's mine.

Question: Do you think that the Greeks can afford to build, do they have the money to build Southstream?

Deputy Assistant Secretary Bryza: I don't know. I don't know what's in this intergovernmental agreement. I do know what we talked to some of the other Southstream partners about which was make sure you put into your agreement clauses that protect you commercially and economically. Make sure you negotiate the best deal possible. And when I talk to the Hungarians and Bulgarians, what they said is yeah, we insist on getting over 50 percent ownership. It's our sovereign territory. We want to control it and own it. We want to make sure the Russians will show us what the gas supply is. Demonstrate to us with a contract where the gas is going to come from. And we want Gazprom to sign up to the industry standard in terms of contract which is Gazprom is committed to pay Greece if it cannot come up with the gas, and Greece is committed to pay Gazprom if Greece can't take the gas. So it's called a ship or pay, or take or pay agreement.

I have no idea what's in this agreement that was currently signed. Probably --

Question: -- is there.

Question: -- going to say the same thing to Greece.

Deputy Assistant Secretary Bryza: If Greece asks our advice, as other countries did, they say how can we protect ourselves. We'll offer our advice.

Question: So they told you they are going to sign the agreement, but they didn't show you the agreement?

Deputy Assistant Secretary Bryza: I can't talk about -- You mean Greece?

Question: Greece.

Deputy Assistant Secretary Bryza: I think they were negotiating the agreement. I don't think it was finished when I was there.

Question: How do you expect them to show it to you if they did not show it to the Greek parliament?

Deputy Assistant Secretary Bryza: Yeah.

Question: That's [inaudible].

Deputy Assistant Secretary Bryza: I wouldn't expect them to show it to me. I wouldn't even ask.

Question: Another thing, I don't think you trust the Russians.

Deputy Assistant Secretary Bryza: That you --

Question: You don't trust them.

Deputy Assistant Secretary Bryza: That we don't trust them. That's such a broad question. Narrow it down. What do you mean?

Question: This issue on the gas, on oil, on energy.

Deputy Assistant Secretary Bryza: I don't know what you mean by trust. One question is, is Russia --

Question: Is it business here or is it relations between two countries? I'm talking about United States and Russia on energy. How are the relations on this issue and energy issues.

Deputy Assistant Secretary Bryza: They're not bad. We just had yesterday, two days ago, our right senior level US-Russia Economic Dialogue. A lot of discussion was on energy. So of course we completely see eye to eye on renewables, and I hope we see eye to eye on efficiency and reducing the flaring, the wasteful flaring of gas in Russia. Ninety BCM a year of gas is just flared, wasted, in Russia. Ninety. They send 150 or 160 to Europe every year. Ninety, well over half of the gas that Europe buys from Russia is just flared or vented into the air ever year.

Question: Because of infrastructure problems.

Deputy Assistant Secretary Bryza: Because of infrastructure. Bottlenecks. So we'd like to work on that with them.

We hope that some day there will be liquid natural gas coming to the US from Russia. It hasn't panned out yet because Russia hasn't developed the LNG facilities yet, but that would be great. And our goal, you should understand our goal. Our goal is to get as much gas to global markets as possible. That includes Russian gas. But we want that gas to get to markets on the basis of market economics. Right? And the key focal point for everyone in Europe is the hub at Baumgarten, Austria. Baumgarten is a spot on the map in Austria where the pipelines from the North Sea and from Russia and then Nabucco and Southstream are all to converge. At that spot there's a market, a clearinghouse that Gazprom owns half of. That will be setting the price, a market price for gas in Europe. It's evolving into the place where the price is set. It's not quite there yet because there's not enough competition. So Gazprom is still kind of determining the price. But soon Baumgarten is where market prices will be set for gas all throughout Europe.

Our goal is to make sure that that price-setting mechanisms operates freely, smoothly, according to market economic principles, and the only way to do that is to get more gas flowing there into Baumgarten so it's not just Russia bringing the gas in because then Russia sets the price.

Question: You mean more pipelines have to convert there, that they are not controlled by Russia.

Deputy Assistant Secretary Bryza: Exactly. More pipelines bringing more gas from non-Russian controlled sources. Not because we're anti-Russian but because we want the market to operate.

The last piece is when Baumgarten is operating in a free market way, then Gazprom will have to behave like DEPA behaves or ENI in Italy or Chevron or RWE. It will have to behave not like a monopolist which is what it is by law, but like a free market company because the market will dictate that.

That is our goal.

So it's not that we mistrust Russia, it's that Gazprom by law is a monopoly. We don't like energy monopolies. The first antitrust case in US history was what? The breakup of Standard Oil in 1912.

Question: Yeah, sure.

Deputy Assistant Secretary Bryza: So we trust Russia fine. It's not that we don't trust them. We just don't like monopolies.

Question: But you started this by saying we are not annoyed.

Deputy Assistant Secretary Bryza: Yes.

Question: But the way that you -- I see that you are not happy at all either.

Deputy Assistant Secretary Bryza: I'm just passionate about this. I love this topic.

Question: I think that your picture is totally wrong. As I realize, you [inaudible] a lot with TGI, is it true?

Deputy Assistant Secretary Bryza: Sure we do.

Question: You spoke to the Azerbaijanis for them.

Deputy Assistant Secretary Bryza: I wouldn't put it that way. We have shared strategic interests, right? When we talk about a community of shared values and shared interests, which is NATO or the US-EU, it's not empty rhetoric. We know that our national security is best served in an economic sense when markets function efficiently. The most important markets for us strategically are what markets? European. Right now the European market is totally dysfunctional. Gazprom has been buying gas in Central Asia for one-third of the price to which it sells it to you, and it absorbs all of the money, all those rents for itself. It doesn't share them with you. You, your consumers, your citizens of Greece or Cyprus, pay the price. Literally pay the price for the monopolistic power that this one major gas supplier exerts over you.

So we don't like that because the market is screwed up. When the market is screwed up, our entire national security is weaker because your economic strength is weaker. Plus when you have big rents there's a disincentive for economic reform, and we've seen how organized crime flourishes in the shadows. We saw that with Semion Mogilevich, who is the head of the company that reached the deal to turn the gas back on to Ukraine. Russia has now arrested him. He's to be on our FBI's top ten Most Wanted List. Russia has now arrested him. So a lot of bad things happen when markets function inefficiently. That's all it's about.

So are we annoyed? No. Are we worried about our shared interest and an inefficient European gas market? Yes, very much. Greece is just one part. It's just one part of this equation. It's a significant part but it's only one spot on the map.

Question: That's because you still consider Greece an ally.

Deputy Assistant Secretary Bryza: Absolutely. That's the only reason we care. Greece is an ally. You've got it.

Question: [Laughter].

Deputy Assistant Secretary Bryza: It's the honest to God truth. We do and we will. NATO ties run deep. They run deep. We're not going to give that up, dear Demetrius.

[Multiple voices]

Question: Thank you very much.

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