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The Diversification of the Polish Natural Gas Market in an Enlarged European Union.

Written by

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PLVS RATIO QVAM VIS

'Wiadomo, że jesteśmy uzależnieni do rosyjskiego gazu. Wiadomo, że to niedobrze. Wiadomo, że aby się uniezależnić, trzeba podpisać kontrakt z Norwegami. Dlaczego nie udaje się go podpisać od dziesięciu lat? Tego akurat nie wiadomo'.

'It is known, that we are dependent on Russian gas. It is known, that that is not good. It is known, that to make ourselves independent, we have to sign the contract with the Norwegians. Why we do not succeed in signing it since ten years? That is exactly not known (Rzeczpospolita, February 19, 2001).

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In this way I would thank them for supporting the realisation of my idea.

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The transliteration of the Cyrillic alphabet.

In this thesis I have chosen for the scientific transliteration of the Cyrillic alphabet, because it is the easiest way to derive from the ISO R/9 system the transcription of different languages, as English, Polish and Dutch. The fact that Polish quotes are translated into English using the international transposition, might look strange. It is, however, the only way to avoid confusion among non-native speakers.

Table 1: The transliteration of the Cyrillic Alphabet

Alfabet		Transliteration			
		Polish	ISO R/9	Dutch	English
А	а	a	a	a	a
Б	б	b	b	b	b
В	в	w	v	v/w	v
Г	г	g	g	g	g
Д	д	d	d	d	d
Е	е	je	e	e/je	e
Ё	ё	jo	ë	o/jo/e/je	ë
Ж	ж	ż	ž	zj	zh
З	з	z	z	z	z
И	и	i	i	i	i
Й	й	ji	j	j/-	Ĭ
К	к	k	k	k	k
Л	л	l,ł	l	l	l
М	м	m	m	m	m
Н	н	n	n	n	n
О	о	o	o	o	o
П	п	p	p	p	p
Р	р	r	r	r	r
С	с	s	s	s	s
Т	т	t	t	t	t
У	у	u	u	oe	u
Ф	ф	f	f	f	f
Х	х	ch	ch/h	ch	kh
Ц	ц	c	c	ts	ts
Ч	ч	cz	č	tsj	ch
Ш	ш	sz	š	sj	sh
Щ	щ	szcz	šč	sjtsj	shch
Ъ	ъ	without palatalisation:the previous consonant is hardened	"	-	"
Ы	ы	y	y	y	y
Ь	ь	Palatalisation: the previous	'	-	'

		consonant is softened			
Э	э	e	ė	e	É
Ю	ю	ju	ju	joe	Yu
Я	я	ja	ja	ja	Ya

Source : Wikipedia, 2004 and Suputnyk, 2004.

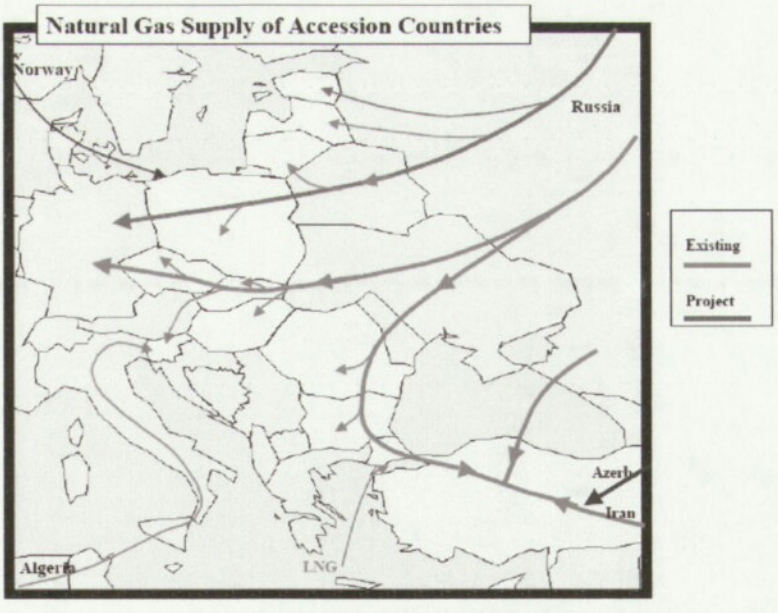
Introduction

In an Enlarged European Union, the demand for natural gas and its dependence on import will grow considerably. Therefore, safeguarding a secure supply is one of the main priorities both on the European and national Polish level. This thesis focuses on the commercial and strategic supply aspect of the European Energy Policy: the diversification of import sources. As a starting point, it takes the recommendation of the European Commission to ensure delivery by three equally important natural gas suppliers. However, this concept means exactly the opposite in West and Central Europe. In a report from the Centre for Eastern Studies (Ośrodek Studiów Wschodnich) can be found:

> 'There is a different perception of the diversification problems concerning the sources of the energetic stocks' supply, from the new and old EU members' viewpoint. The 'Old' part of the EU is interested in increasing the Russian import, while for us the increase of its diversification is the problem[1]'.

Central Europe is indeed highly dependent on the import of Russian natural gas; for most of the countries, it is the only available import source (See Map 1). In Poland, about 90 percent of the country's import comes from the East.

Map 1: Natural Gas Supply of Accession Countries.



Source: Hafner, 2003.

[1] 'Jest odmienną percepcją problemu dywersyfikacji źródeł dostaw surowców energetycznych przez obecnych i nowych członków UE. 'Stara' część Unii jest zainteresowana zwiększeniem rosyjskiego importu, dla nas problemem jest zwiększenie jego dywersyfikacji' (Rzeczpospolita (RZ), April 19, 2004).

This thesis analyses the projects that were proposed to diversify Poland's natural gas import. It asks which of them were actually realised and on what ground they were implemented. It examines if in Polish decision making political motivations won over geographical/economical arguments. On a second level of the diversification debate, the paper researches the European Commission's influence in this process. To what extent did the Polish diversification initiatives follow the EC's line of thinking and, when not, did their arguments differ from economical or political points of view? This work starts therefore with a presentation of the European Policy concerning diversification and of Poland's natural gas market. The second chapter sheds light on the Polish diversification debate.

The research focused on official EU (mostly EC) reports, unpublished Polish government documents and articles from the Polish newspaper Rzeczpospolita[2]. The outcome of three interviews are included: with Piotr Woźniak and Piotr Naimski, who were both advisers to the former Polish Prime Minister Jerzy Bużek, and with Ewa Grabarczyk, the Director of Natural Gas Operations in the Norwegian company Statoil Polska.

My Belgian/Flemish roots only have one link with the topic, which is nevertheless worth mentioning. The word *gas* was invented in Brussels in the 17th Century and is of Flemish/Dutch origin. It was the Flemish philosopher Jan Baptist van Helmont who derived it form the Greek loan-word *chaos*, which has become since Paracelsus' time (in the middle of the 16th Century) an equivalent for *air* (Etymologie, 2004).

[2] To get an idea of the Polish public opinion, I give in my thesis room to the Polish press, which comments the governmental line of thinking. In order to avoid the question of reliability and objectiveness of the Polish press, I narrow my research down to the semi-official viewpoint of Rzeczpospolita, as proposed by Professor Andrzej Nowak and Professor Katarzyna Żukrowska.

Chapter 1: Poland's Security of Supply within the context of the EU

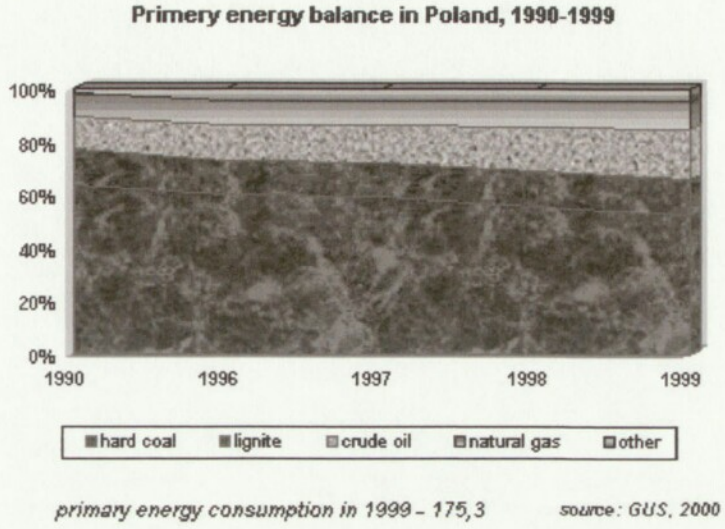
This chapter focuses in on the European Policy dealing with safeguarding the supply of Natural Gas for the long term and shows whether and how Poland will fit into that picture. After illustrating how the European Union as a whole is deeply dependent on the importation of gas, the European Commission Security of Supply Policy will be discussed. From the beginning it needs to be stressed, that the supply-side rather than the demand-side of its policy will be concentrated on. Within this framework, we will examine the diversification of natural gas imports, the strengthening of supply networks and the EU's permanent dialogue with producers. The chapter aims to give a general background to the Diversification Debate that will be analysed afterwards.

1.1. Introduction

Poland's production and consumption structure of primary energy has not changed substantially over the 1990s. The still dominant coal and lignite industry provides most of the country's energy needs. According to the Polish Official Statistics (Główny Urząd Statystyczny), the importance of coal declined only 6 % from 80 to 74, while the country's energy basket diversified mainly to oil and natural gas, and to a lesser extent, to renewable fuels (see Graph 1). In this respect, natural gas gradually gained influence and accounted in 2003 for 11% of Poland's primary energy consumption. This number however sharply contrasts with the 20% of its neighbour the Czech Republic and the similar European Union average of 24% (Nafta-Gaz, 2003b). As examined by o.a. the EU and the IEA (the International Energy Agency, which is linked with the OECD), this trend will continue within the coming twenty years both in Poland and the enlarged EU. Europe's fuel mix will switch in favour of natural gas – making it the fastest growing among the fossil fuels - but the usage of oil will remain predominant (European Commission, 2001a). The current Polish energy policy, in parallel with the European one, thereby intends to enhance the utilisation of natural gas, since it is a cheap and environment friendly alternative to coal, which remains uneconomical. Currently, in Poland, the production of coal stands at its selling price. Renewables and natural gas still remain not widely spread (OECD, 2002). It is necessary to stress, however, that this rise is the result of an obvious switch away from coal, since efficiency gains decreased over the passing years the needed amount within the natural gas

sector in se (Gula, 2001). This thesis thus takes the foreseen increased use of natural gas as a starting point.

Graph 1: Primary Energy Balance in Poland, 1990-1999.



Source: Rynekgazu, 2004.

Besides the growing importance of natural gas, also its dependence on import is expected to rise (Cleutinx, 2003). In the astonishingly increased import of gas in the enlarged EU, from 186 billion cubic meters (BCM) in 2000 to 450 in 2020 - good for 70 % of its natural gas consumption - (European Commission, 2003a), Poland also plays its role. Since the country in 2002 fulfilled merely 32,8 % of the indigenous demand with domestic production, and the joint-stock Polish Oil and Gas Company PGNiG S.A. (Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna) foresees in its Diversification Report of September 2001 a stable annual production of about 4,3 BCM (vide infra: Archive Naimski (AN), PGNiG, 2001) the country's import dependence ratio of 67,2% will soon get worse (European Commission, n.d.). For its neighbouring countries without national gas reserves like Slovakia and Lithuania, for instance, this problem is even more at the forefront. The highly import-dependent Central Europe thus recently boosted via the Enlargement the gradual European loss of independence in the natural gas sector from 45 % in 1990 to 73% in 2010 (European Commission, 2000a). This thesis tries to examine how the EU, and, more in particular through Poland, wants to appease its rising appeal on external partners with the guarantee of a secure supply.

The EC's policy of secure supply does not seek thus to maximise its natural gas self-sufficiency, since it only owns 2 % of the world's reserves, which most likely can ensure the European consumer's demand for only 20 years at present rates (European Commission, 2000a), but aims to reduce the risks evolving from its own energy dependence. To preserve its seat at the front at the world energy market – with a nowadays 15 % share of worldwide energy consumption – the EC attunes to the free market on both the demand and supply side. As the main objective in the demand field it supports by a. o. taxes and grants (e.g. energy thrifty cars) the revision of the current energy consumption for two reasons. Firstly, to fulfil the Kyoto Protocol, it supports a shift away from high CO2 emission fuels towards the dissemination of renewables and, since this is only realistic in the middle long term, the broader usage of natural gas in the first stage. And, secondly, new, renewable and nuclear sources of energy offer in the long run a stable alternative energy source to reduce the EU's dependence. Natural gas is in this respect often seen as a bridge, together with renewables, to a hydrogen market in some fifty to one hundred years (UNECE, 2003). At the supply-side its policy consists of two different elements. Within the EU on the one hand, it tries to ensure a preserving access to resources by increasing the underground gas storage capacity (UGS) in order to thwart the possible supply stubbornness of producer countries and their speculative moves[3]. The external wing on the other hand, focuses in on the diversification of natural gas imports, the strengthening of supply networks and a permanent dialogue with suppliers. The further 'opening up' of the internal energy market both on the demand- and the supply-side moreover will enhance competition and in this way will soften the pain of the inevitably higher real energy prices. In its Green Paper 'Towards a European Strategy for the security of energy supply', a discussion paper prepared by the European Commission, the Commission even clarifies that

> '... enhanced gas-to-gas competition on an integrated European market could be conducive to uncoupling the - from historical reasons justified, but nowadays increasingly ineffective (red.) - price of gas from that of oil' (European Commission, 2000b, pp. 71).

This thesis focuses on the external supply wing of the security debate, but needs the to Poland applied European storage management (the internal supply side) and natural gas market liberalization (from now on narrowed down to only the supply aspect of it) to illustrate that picture.

[3] This is for sure a political argument and will give the European Commission the opportunity to plan the market. The realisation of the EU UGS requirements will increase natural gas prices without customers having asked for this (Van Kleef, 2004).

Here follows firstly the EC viewpoint on, and secondly the Polish approach towards EC guidelines with respect to the triad diversification of natural gas imports, the strengthening of supply networks and its permanent dialogue with producers. Since it is beyond the scope of this thesis to concentrate in depth on the European natural gas storage policy and its realisation of an internal energy market, these two concepts are only in the second part described with reference to Poland. It has to kept in mind however, that the European Commission until now does not have a full energy mandate, and this situation is not very likely to change in the near future. As a result, the impact of its activities is limited (Van Kleef, 2004).

1.2. The EC's external supply wing of the security debate

The EC defines diversification as 'the physical delivery of natural gas from three different sources to safeguard its security of supply' (AN, Jesień, 2001). The ideal scenario moreover seeks for a balanced import basket, in which each source represents about 30 percent (AN, pp. 126-127). It further distinguishes short- from long-term safety, where the former one ensures delivery in case of temporal (seen as a few weeks or months) inconveniences caused by e.g. severe weather conditions. The latter is concerned about the endurance of the infrastructure and the applicability of long term supply contracts (Ellig, 1999). First of all, it is important to notice the EC's omission of the word 'import' in its description, especially when taken into account that academics expect the production in demand regions as Great Britain, the Netherlands and even Denmark to evolve within the next twenty years from net exporting to net importing countries of natural gas (Seeliger, n. d.). Albeit this alternation follows more from a national political decision to save natural resources, than from the depletion of their natural resources, especially Great Britain's dramatic change from exporting 22 BCM in 2000 to nothing in 2005 will require an international – EU/EEA and beyond - supporting network (Ibidem).

Europe's networking has been gradually built out from the 1970s on, making over thirty years gas fields from the producer countries Algeria, Russia, Norway and Egypt – and for liquified natural gas (LNG) Libya, Algeria and Nigeria - accessible (See Map 2 and 3). To fulfill the predicted requirement of 400 BCM in 2020 however, it is forecast that the existing capacity of 330 BCM needs to be augmented by almost 200 BCM within the EU, and additional external

pipelines have to safeguard the import supply (European Commission, n. d.). The Commission therefore proposed last year the Council and the European Parliament (EP) to grant specific investment projects in different geographical areas a priority status (the decision making of this secondary community law aspect falls under the co-operation procedure, as defined by Article 252 TEC). Within the framework of this thesis, the following concepts are relevant: (1) with respect to Russia, the Štokman pipeline from Vyborg in the north of St. Petersburg to Greisswald in Germany under the Baltic Sea and the second Jamal pipeline through Byelorus and Poland, parallel with the older existing one, (2) in the Caspian Basin, connecting Azerbaijan through Georgia[4], and secondly Iran with Turkey[5] while keeping the option of a Kazakhstan – Ukrainian gas pipeline over Russian territory open, (3) in the Mediterranean and South-East Europe, a Turkey-Bulgaria-Romania-Hungary-Austria connection to bring this Caspian gas all the way up to South and even Central Europe and to improve port equipment that enables the supply of the enlarged European Union with LNG from Egypt and Algeria, and finally (4) the physical improvement of the Ukrainian gas transit network, as responsible for nearly 85 % of all Russian gas export and with a multiplicity of pipelines that extend some 14 000 km (European Commission, 2003a and UNECE, 2003).

This thesis does not seek to research these physical elements dealing with pipeline safety and risk management, although the continuously aging network and its increasing density make future accidents more likely to occur. Therefore, the EU developed a.o. the Galileo project, a satellite navigation system that enhances the safety of overland supply networks and the maritime transport of LNG (European Commission, 2003b). Its opponent however, the strategic and commercial security of supply, forms a cornerstone of this paper. It concentrates on '[the presence of] the necessary pipeline infrastructure to satisfy our domestic consumption needs' (European Commission, 2003c, pp. 6-7). In order to meet the EU's growing demand, it supports the above mentioned investment pipeline projects and exploration of new gas fields in a two-fold way. On the one hand, it offers loans through mainly the EIB (European Investment Bank) and the EBRD (European Bank for Reconstruction and Development).

[4] This is the so-called NABUCCO project, an approximately 3400 km pipeline of which the feasibility study will be finalised at the end of 2004 and the construction is foreseen from Mid 2006 until the end of 2009 (Gallis, 2004).

[5] Although the Armenian-Iranian agreement of May the 13th 2004 on linking their gas systems is of huge importance, since in this way Iran can be connected to the Nabucco-project and an Iran-EU connection can also enable Turkmenistan (which is the largest natural gas producer in Central Asia) to circumvent Russia's gas pipeline network (Eurasianet, 2004).

Map 2: The European Natural Gas Pipeline system in 1970.

Source: Joosten, 2004.

Map 3: The European Natural Gas Pipeline system in 2000.

Source: Ibidem.

Through its own self-investment on the other hand, the EU acts as its own catalyst for subsequent private initiative in construction and maintenance (European Commission, 2003c).

Official negotiations with producer countries on such projects are taking place either within the framework of the three specific permanent dialogues, the Euro-Mediterranean Energy Forum, established in 1997, the European Union-Russia energy dialogue founded in 2000, and the South-East Europe Regional Energy Market (SEE-REM) two years later, or based on Partnership and Co-operation Agreements (PCA) as is the case of Kazakhstan and Azerbaijan, with the Ukraine additionally addressed by a EU Common Strategy dating since 1999[6]. Earlier that year, the EU agreed upon the Common Strategy of Russia. With Russia as EU's single most important external supplier of natural gas, The EU-Russia Energy Dialogue more than anything else plays a key role in this thesis. Its original objective 'to raise all issues of common interest, (...) including (...) the rationalisation of production and transport infrastructures and European investment possibilities' (Prodi, 2001, pp. 2) received in the Fall of 2002 a more realistic emphasis placed on promoting investments and improving the investment climate as well as pursuing regulatory convergence (European Union Newsroom, 2003). This reformulation exactly shows the clash of interests between Europe and Russia; where the European Union wants to ensure the long-term stability of its energy supplies, Russia has different incentives. First of all, it seeks European investment to modernise its energy sector and uses the Energy Dialogue as a channel for European capital. And secondly, it wants to 'ensure that the terms of its energy supplies are not affected adversely by community regulations on market liberalisation and competition' (Lynch, 2003, pp. 65). Despite the Dialogue's several prosperous sounding Progress Reports, this basic juxtaposition held up negotiations. More in general, an internal EU policy paper, drawn up by the Irish presidency, stated in February, 2004: 'While Russia may be a difficult partner, it is clear, that the EU has not been able to define clearly its objectives, nor to promote its values or effectively defend its interests' (Euobserver, 2004). After difficult negotiations, in which energy played one of the key elements, Russia finally agreed upon extending the PCA to the Accession Countries at May 1, 2004. For this paper a relevant bone of contention form the long-term contracts of 20-25 years with their 'Take or Pay' risk sharing - which do not allow the interruption or renegotiation of the contract without financial consequences (Ministry of Economics, 2002) - and 'Final Destination' clause, which prohibits the reselling of gas, between the Russian producer Gazprom and European national import monopolies. Where the EC does not criticise the overall character of such contracts, it disapproved the prevention to

[6] This in the Treaty of Amsterdam accepted new policy measure of the EU's second pillar sets out more precisely than, but within the framework of the PCA, specific objectives in areas where the Member States have important interests in common (Kamiński, 2004).

resell the provided Natural Gas within the European Union in a Directive of August 2000 since 'it hampers efficient competition (...) between big intermediaries' (Finon, 2002, pp. 7 and RZ, June 14, 2004). Despite Russia's demur, the Italian Gas and Oil Company ENI managed to get rid of this demand in October 2003 – although a first Russian approval was given already in January (European Commission, 2003d). Austria did the same in June 2004 (RZ, June 14, 2004). However, this forms, together with the take or pay clause and the indexation of gas prices on oil, the basis of Gazprom's financial stability. Because of its bad solvability, the Russian company is even more than others dependent on export revenues for investments (Finon, 2002). A decreasing investment budget and its inflexibility to offer the Western market more attractive deals, can decrease Russian power in the Natural Gas Sector. To cite Marek Czajkowski:

> 'Concerning the power of Gazprom, we do not speak about its loss, but rather about such a possibility. Gazprom has difficulties on the Western markets and can not (does not want to) adapt to the competition of companies, that offer short term contracts and 'spot transactions'. So it is forced to renegotiate its long-term contracts, because it does not have a clear-cut monopolistic position on the market. Norwegian, Algerian and Liberian gas are easy accessible'[7].

Aside from the long term contracts, also the Štokman and Jamal Two pipeline projects that will be discussed in-depth in the second chapter, are major topics in the Energy Dialogue.

1.3. Poland's approach towards the EC policy

A second part now systematically wants to highlight the Polish approach towards this EC policy. With respect to the diversification of natural gas supplies, Poland officially stated in its 'Energy Policy until 2020' to decrease incremental domestic production (Zwoździak, n. d.). A PGNiG natural gas production forecast presents a decline from the just above 4 BCM produced natural gas in 2002 to a 3,6 BCM level in 2020 (AN, PGNiG, 2001). Similar to for instance the energy policy of the Netherlands, Poland does not want to maximise its local production, but tries to save it as the ultimate long-term security of supply; according to Article 11 of the Polish Energy Law of 1997, the Council of Ministers can put limitations in the supply of natural gas if it threatens the long-term energy security of the state (Polish

[7] 'Co do potęgi Gazpromu, to nie ma raczej mowy o jej utracie, lecz raczej o takiej możliwości. Gazprom ma trudności na rynkach zachodnich i że nie może (nie chce) się on dostosować do konkurencji firm, które oferują kontrakty krótkoterminowe i transakcje spotowe. Także jest zmuszony do renegocjacji swych długoterminowych umów, ponieważ nie ma jednoznacznie monopolistycznej pozycji na rynku. Gaz norweski, algierski i libijski są łatwo dostępne w Europie', Marek Czajkowski, Doctor in International Relations at the Jagiellonian University. Cited from personal electronic correspondence on June 26, 2004.

Energy Law, 1997). Polish natural gas reserves are mainly concentrated in the Polish Lowland (around Poznań), the Carpathian Foredeep (around Rzeszów) and the Carpathians (around Krosno). Most low-methane fields (GZ-35, with an average fuel value of 24,94 MJ/m3) are found in the Polish Lowland, with Zuchlów and Zalecze as the biggest, and Brońsko and Barnowko-Mostno-Buszewo (BMB is an oil-gas field which has both pure natural gas and gas dissolved in crude oil) as the most recent documented ones. In the Carpathian Foredeep however high-methane gas (GZ-50, with an average fuel value of 35,93 MJ/m3) is found in Przemysł. Recoverable reserves of natural gas, including gas accompanying crude oil and buffer gas in underground gas storages (UGS) reached 166 BCM in 2003, which is the equivalent of 118 BCM high-methane gas (when 'low-methane gas with a variable methane content is converted into high-methane gas with a calorific value of 38.147 MJ/m3' (Nafta-Gaz, 2003c, pp. 7[8]). Moreover, anticipated reserves are estimated at 780 BCM (recalculated to high-methane gas by the Oil and Gas Institute in Cracow (Ibidem). Further exploration, however, takes place in more complex geological structures and requires the newest technology. The main areas of such exploration and new expected discoveries are the Western part of the Polish Permian Basin, and more specifically in the Kościan-Nowy Tomysł, Ostrzeszów-Kępno and Międzychód-Chrzypsko region, and the Carpathian Foredeep Tarnów-Rzeszów-Przemysł-Lubaczów-Tarnogród area (Nafta-Gaz, 2002a). There are also studies about the utilisation of natural gas stranded reserves in form of LNG in Poland for instance to cover peak shaving or for vehicles, but the expensive implementation hindered until now their implementation (Archiwum Energetyki, 2001a).

After the collapse of communism, Poland ensured its first natural gas import from Russia in August 1993 with the famous and much discussed 'Contract of the Century' (Ministry of Foreign Affairs, 1993). The Russian 25-year deal for a total of 250 BCM natural gas supplies would, with from 2010 on a yearly supply of about 14 BCM, secure Poland's natural gas needs, which according to the Polish Energy Policy expected for 2005 to amount to 12,74 BCM in the effective variant, and 13,72 in the basic one (Ministry of Economics, 2002). That document also reads: 'diversification of import sources, constructed as direct links with at least two foreign natural gas pools by means of pipelines acrossing state frontiers, requires imports from Western Europe' (Karbownik, 2002). Seven years after the agreement with Russia, two 6 - years contracts for total amounts of 2,4 BCM and 2,7 BCM with respectively

[8] The numbers are derived from the PGNiG field documentation approved by the Ministry of Environment on January 1st 2003.

Germany and Norway (the so called Minor Contract) were implemented. The real diversification breakers, however, are the signed, but unratified contracts with Denmark and Norway respectively. One, to the sum of 16 BCM over eight years beginning in 2004. The second agreement will begin four years later and will bring Poland 73,5 BCM over the course of sixteen years (Rey, 2002). The failure of this project, together with its controversial rival the Bernau-Szczecin proposal of businessman Aleksandr Gudzowaty, are analysed in this thesis.

In order to implement these diversification agreements, the supply network flowing to and transiting Poland needed to be updated. In view to Russia, the contract of the century provided a framework agreement for 'the construction of gas pipelines to carry Russian gas across the territory of Poland and on Russian gas deliveries to Poland' (Ministry of Foreign Affairs, 1993), since before the collapse of communism Russian pipelines stopped at the Polish- Byelorussian and Ukrainian border. Russia started to deliver natural gas through the first Jamal pipeline in September 1999, but till today three missing compression pumps hinder it to work at full capacity (Rzeczpospolita, March 10, 2004). In 2003 the Polish Prime Minister Leszek Miller renegotiated the Jamal contract from 250 BCM to 161, prolonging it for two years as a compromise (PGNiG, 2004). This thesis will a.o. focus on the controversy about the still not built second Jamal stretch. Where the delivery of the small-contract natural gas with Germany and Norway possible is through the existing network, needed is a new gas pipeline on the bottom of the Baltic Sea for the gas coming from Norway and Denmark. In one of the existing variants, the BalticPipe would firstly provide Poland Danish gas, and later be extended towards Norway. Aleksandr Gudzowaty, however, proposes an alternative. By building a 146 km pipeline from Bernau to Szczecin, Poland can be connected to the European Natural Gas transport system and receive in this way a.o. Norwegian gas (AN, pp. 121-125).

In the mid 1990s, Prime Minister Jevgenij Primakov stated that Russia must use its energy potential as a strategic element in its foreign policy (Czajkowski, 2003). As the Russian academic Irina Kobrinskaja notes: 'Gazprom [Russia's natural gas potentate] is one of the most important foreign policy instruments'[9]. When in 1989 the Soviet Ministry of Gas Industry was dismantled, Gazprom was founded as a pure monopoly under the supervision of its former Minister Viktor Černomyrdin and took on full responsibility for the Russian

[9] "Gazprom jest jednym z najważniejszych instrumentów polityki zagranicznej' (Głębocki, 2001, pp. 76).

exploitation and pipeline system as well as all the long term export contracts. In this way, it controls 25 percent of world's natural gas exploitation and 23, 5 percent of its reserves (RZ, November 23, 2000). In 2000, the company received 11 billion USD from export revenues, which represented about one third of Russia's GDP. However, the huge gains from export, low internal gas prices, a deteriorating infrastructure and a lack of proficiency increased its debt to 2,8 billion USD in 1999. Production reached its peak in 1991 with 643 BCM (Pleines, 2002), gravely declining afterwards until it was not even capable of fulfilling all export obligations and had to import natural gas from Turkmenistan at the end of the nineties (Heinrich, 2001)[10]. Gazprom's strategy to gain influence in Central European states that are the highly dependent on gas imported from Russia was described by anonymous Polish experts as:

> 'Gazprom firstly aims at creating a joint company with the local gas operator, which received the monopoly on the imports or transit of Russian gas. This entity is then taken over directly by Gazprom or with the help of other on it dependent companies, including also the so called *nomenklatura*. By becoming, directly or indirectly, its co-owner, the Russian consortium becomes a co-determining company, in terms of operating conditions on a given gaseous market. By the same token it influences the energetic policy formation in a given country. Obviously in accordance with its own interests, as well as Russian state interests, since the state is still its main part owner. Similar scheme – as the experts state – was fully realised in Slovakia and Bulgaria. In Romania and Hungary it was only partially realised[11]'.

To what extent this attitude is applicable to Poland will be analysed in chapter two.

Where Poland was an active player in bilateral negotiations to improve its long-term dependence, the European Union gave it an unsatisfactory mark during the accession negotiations for its short- term safety management[12]. Energy storage indeed plays a critical

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[10] Besides from that, Gazprom is Russia's biggest tax payer, it has 350 000 employees and has diversified interests in banking, oil developments and the Russian industry. Since 1992, Gazprom is a Joint-Stock Company, in which 40 percent of the shares are held by the Russian state, 30 percent by Russian businesses (among which for instance Gazprombank, that offered EuRoPol Gaz S.A. a loan to build the Jamal Pipeline), 20 percent by Russian individuals and 10 percent by foreign companies (as e.g. the biggest foreign shareholder Ruhrgas for 4 %).

[11] Gazprom najpierw dąży do utworzenia z miejscowym operatorem gazowym wspólnej firmy, która otrzymałaby monopol na import lub tranzyt rosyjskiego gazu. Podmiot ten jest następnie przejmowany bezpośrednio przez Gazprom lub z pomocą innych zależnych od niego spółek, w tym również tzw. nomenklaturowych. Stając się bezpośrednio lub pośrednio jego współwłaścicielem, rosyjski koncern staje się firmą współdecydującą o warunkach działania na danym rynku gazowym, a tym samym wpływającą na kształtowanie polityki energetycznej danego kraju. Oczywiście zgodnie z własnymi interesami i z interesami państwa rosyjskiego, które ciągle jeszcze jest jego głównym współwłaścicielem. Podobny schemat - twierdzą eksperci najpełniej udało się zrealizować w Słowacji i w Bułgarii. W mniejszym stopniu w Rumunii i na Węgrzech' (RZ, December 19, 2000).

[12] Based on Article 10 from the Polish Energy Law of 1997, the Minister of Economy sets the size of fuel reserves (Polish Energy Law, 1997).

role in balancing the daily fluctuations, seasonal differences and import dependency of energy resources and softens the volatility of energy prices; 'storage levels buffer energy output gaps or overflows' (Semadeni, 2003, pp. 4). This is especially true in the natural gas sector, where consumption fluctuations can in the short-term amplify to more than over 50 %, both place and volume of peak-demand are unpredictable and production is hence unable to directly fulfill the required needs (Ibidem). It is however obvious that an efficient coordination between the different players in the market can minimalized storage service and their maintenance costs. Competition in a liberalized energy market, where more suppliers make use of the same pipeline network, will increase more quickly when short-term security of supply can be guaranteed. For these reasons, natural gas is both stored in large underground bases and compressed in LNG tanks. Polish LNG import overseas from Algeria and Morocco will be possible for Poland only in 2008, when specific port terminals will have been built (Nafta-Gaz, 2003d). This is a highly beneficial diversification storage option, since 'LNG requires 600 times less storage space than its gaseous form and the ability to ignite is strongly reduced' (Semadeni, 2003, pp. 35, Nafta-Gaz, 2001 and Archiwum Energetyki, 2001b). Natural gas is presently stored in depleted gas wells and abandoned mines or salt caverns, but the EU demands its volume to increase. The EU gave Poland, after the closure of the EU-Polish accession dialogue about energy in July 2001 (opened on November 12, 1999 as the fourteenth chapter), six transitional years to realistically come closer to the EU's criteria concerning natural gas storage (Office of the European Referendum, 2003). During this period the obvious gap between the 33 days of ensured natural gas delivery in case of temporary inconveniences in 2002 with the required 90 days as described in Directive 68/414/EEC (actualised by Directive 72/425/EEC) must fade away until 2008 (Information Point of the EU, 2003). This request is internalised in Polish Law by the 'Act on the State Reserves and Obligatory Supply of Fuels' ('Ustawa o rezerwach państwowych oraz zapasach obowiązkowych paliw') of September 6, 2001, which came into force on January 1, 2002 (UKIE, 2002).

The same can be said about Poland's contribution to the realisation of a European liberalised market, aiming to create a unified natural gas market based on 'internal and external competition' (Finon, 2002, pp. 4). On the one hand Polish legislation in this respect is quite unstable and the Energy Law of April 10, 1997 (which came into force in December of that year) was amended several times through often long and onerous processes. The relevant EU Directives on the other hand undergo a painful course to get ratified (Nafta-Gaz, 2003b).

After presenting the basic legal framework, this thesis moves on to the slow liberalisation of the Polish natural gas market.

The Polish Energy Law forms the basic legal umbrella for all natural gas activities apart from gas exploration and production, which are governed by the Geological and Mining Law of February 4, 1994, updated on July 27, 2001 (and came into force on January 1, 2002) (UKIE, 2002). One of its main results was the creation in 1998 of the Energy Regulatory Authority (ERA) that gives out licenses and oversees the development of competition (Polish Energy Law, 1997). The latest amendment to the Energy Law of July 24, 2002 came into force on January, 2003 and created six distribution companies (vide infra). On a European level, the first 'Gas Directive' 98/30/EC - which came into force in Poland in 2000 (AN, Anonymous, 2001) - sets the minimal basis for deregulation of the national market and offers a right of access to the network (the so called 'Third Party Access' (TPA) for direct purchasers by producers of electricity, eligible customers and distributors to an extent of 33% in 2008 (Article 18). A refusal to access can be for instance motivated by economical problems related to 'take or pay' contracts, since they are 'based upon an implicit assumption that the monopoly status of the incumbent would continue', so that its financial solvency can be guaranteed (OECD, 2002, pp. 58). Indeed, losing its monopoly status will cost PGNiG an estimated 25 % loss in the coming years (CIRE, 2004). The EU admits the necessity of these long-term contracts, but sees their commitments as a constraint to the extension of competition in bulk supply (Finon, 2002). Where there was still a choice between negotiated and regulated TPA, its adaptation by the 2003/55/EC Directive of June 26, 2003 spoke in favour of among others regulated TPA and the legal separation of the network from storage activities. The 'Second Gas Directive' of April 26, 2004 (into force on July 1) sets 'a truly competitive European market' (Ristori, 2004, pp. 2) through TPA on the basis of non-discriminatory published tariffs and the legal unbundling of transmission and distribution system operators (vide infra). Due to this, 'there will no longer be any single actor in each country taking full responsibility for ensuring security of supply at an operational and day-to-day level' (Ristori, 2004, pp. 2). Therefore, the Directive explicitly empowers the national ERA's with safeguarding the non-discriminatory, transparent and effective access to the networks (Directive 2004/67/EC). Other relevant Directives are 90/377/EEC dealing with the transparency of natural gas prices and 91/296/EEC on the (technical) transit of gas through pipelines (Information Point of the EU, 2003). Related to the former one, the Polish Minister of Finance set energy prices until 1999, and from 2000 on a standard tariff regime came into

force. The demanded approval of the ERA is intended to secure a stable price level so that the imposition of random tariffs to adjust costs is not possible, which makes PGNiG realise its losses and reform (OECD, 2002). A proposal for a European Parliament and Council Regulation on conditions for access to the gas transmission networks is currently, after an approved first reading on April, 20 that year, further analysed. It will, probably from July 1, 2005 include the consultation of the European Gas Regulators' Forum and the European Regulators' Group into the committee procedures (European Commission, 2004a).

Despite the legal framework in force and the existing privatisation plans, the dismantling of the vertically integrated monopolist PGNiG which takes care of all successive elements from exploration to sale towards several independent companies active in horizontally separated fields is still in its early stage. The gas market chain can be divided into the following six parts: exploration, production and imports, transmission (the transport of natural gas through a high pressure pipeline network), storage, distribution (the transport of natural gas through local or regional pipeline networks with a view to its delivery to customers, but not including supply) (Directive 2003/55/EC) and finally marketing and retail. It is, however, interesting to see how in the Polish Energy Policy, transmission and storage belong in one category. Besides forcing monopolists to choose one field to which their activity has to be limited, competition within the individual fields is also gradually introduced. Table 2 presents how the Polish Energy Policy foresees this happening in Poland.

As visible, in 2002 the country's natural gas market was still 'before its first step' towards competition, though the Antimonopoly Office already in the beginning of the nineties aimed to eliminate internal cross-subsidising, to develop auxiliary service enterprises and to start sector privatisation (Cylwik, 1997). With the creation of PGNiG in October 1996 as a Joint Stock Company entirely owned by the State Treasury, non-core activities got out-sourced. The incumbent natural gas market started opening up de jure from July 2000 on, and will follow the pattern as set out in Table 3.

Table 2: Stages of Creating the Gas Market Competition in Poland

The road to total competition must proceed by stages. The suggested approach would consists of a stage modification of the role of PGNiG and, what follows, the gas sector structure. Within this approach PGNiG would have to evolve from its current Polish wholesale deliverer monopolistic status and imported gas monopolistic purchaser, towards a different arrangement, which would allow private sector importers and wholesale deliverers. This would only be possible after solving problems connected with long term contracts based on the 'take or pay' rule.

The table below sums up the suggested stages.

STAGE	DELIVERIES	TRANSMISSION AND STORAGE	DISTRIBUTION	SALES
For the time being	*PGNIG* contracts the whole *import*, **issues** *domestic gas*, and deals with *every aspect* of gas sale on the *wholesale* level	*PGNIG is* the owner and operator of *transmission and storage* equipment	• *PGNIG* deals with *every aspect* of gas sale on the *distribution* level	PGNIG is the gas market monopolist
Stage 1 – • Specific activity division (unbundling) • First step towards competition Strategy : 'Legal and accountant activity distribution in the gas sector'	• PGNIG dominating subject contracts the whole import and deals with the whole gas sale on the wholesale level • One *exploration-output* company (PGNIG dependent subject, and its complete property) issues domestic gas	• PGNIG dominating subject is the owner and operator of the transmission and storage equipment • Transmission and storage activities are a public property and are made subject to regulation	• Distribution companies (PGNIG dependent subjects and its complete property) are concerned with gas distribution	• On the basis of the existing gas plants, gas traffic companies are being released (property of PGNIG)
Stage 2- • Distribution and traffic privatization* Strategy: 'Restricted number of sellers and buyers, the third party access limited only to domestic **output** company	• Gas import and wholesale activities are managed independently from other activities executed by PGNIG	• PGNIG transmission and storage activity is managed independently from other activities executed by PGNIG • PGNIG guarantees access to transmission and storage equipment for a domestic company which **issues** natural gas	• PGNIG sells shares in every regional distribution company to investors	• Sale of gas traffic companies
Stage 3- • Progressive competition and privatization Strategy: 'Many buyers and sellers, unlimited access for foreign and domestic **output** companies. Private sector participation in gas structure and goods traffic'	• *Deliveries* (including import, wholesale and domestic output) are open to *competition and private sector participation*	• PGNIG transmission and storage activity is managed separately from other PGNIG activities • *Transmission* system and *storage* system are privatized	• Distribution and deliveries are made subject to *separate ownership* • Regulated distribution is open to private sector participation	• Gas traffic is open to *competition and private sector participation*

Source: Ministery of Economics, 2002, pp

* specific privatisation activities will be realised taking into account the conditions of PGNIG euro obligations emission.

Table 3: Opening of the natural gas market for gas extracted in the country and customers taking off more than a specified volume.

Date	Annual Consumption in MCM (Million Cubic Meters)	Number of potential eligible customers	% of market opening
July 2000	> 25	25 est.	35 est.
1 January 2004	> 15	58 est.	60 est.
1 January 2006	any consumption	All	100

Source: Nafta-Gaz, 2003b.

Nowadays, the privatisation of the Polish Natural Gas Market can be situated somewhere between phase one and two. For exploration and production firstly, ERA distributes licenses among PGNiG and foreign investors (with PGNiG holding 103 exploration concessions, and foreign companies 115 in June 2003) (Nafta-Gaz, 2003c). The production and storage branch of PGNiG was separated from the mother company, which import and market most of the gas consumed in Poland, with the implementation of the latest Energy Law Amendment in January 2003 (notice how this intertwines with the table outline). Import is indeed totally controlled by PGNiG, and the internal accounting division between the import and transmission activities of the company has not yet completed. The difference in opinion between the PGNiG Management Board in 2000 and the present one, is that the former wanted to keep the transmission activity under the control of the Polish State, while the latter seeks to privatize everything – 'which can be dangerous since no diversification plans are implemented yet' (Woźniak, 2004). Secondly, in the transmission field, inter-pipeline competition is limited due to economies of scale. Therefore, once more the role of the ERA in the approval of transmission tariffs is crucial in order to avoid PGNiG misusing its natural monopoly status. Since unbundling keeps transmission actors devoid of profits on natural gas sale, their only possibility to ensure the infrastructure maintenance is to increase these transport tariffs. Thirdly, in the beginning of 2003 the 23 regional gas distribution companies merged into six (Nafta-Gaz, 2003a) aiming to improve their commercial size, but limiting at the same time the potential use of benchmark competition measures by the regulator. Moreover, foreign investors moreover, are able to gain more than 50 % of the company's

stock (which places the distribution sector at this moment between stage one and two). It is obvious that retailing and marketing services fourthly are co-extensive with the distribution sector and privatisation is dependent on the former one. Storage activities, finally, are in Poland not planned to be privatised before 2007, which is a missed chance, since the economies of scale are small and TPA in this field is a necessary element for gas retailers to attune the variable customer demand to the contracted supply (OECD, 2002). The main hurdles in boosting the privatisation process of the natural gas sector are for sure the frequent changes in the top management, the uncertainty about Polish bargain power in renegotiating the Gazprom long-term contract and the weak connection of the Polish and European grid (Nafta-Gaz, 2003b).

1.4. Conclusion

This chapter presented the supply-side policy of the EU and Poland concerning the strategic and commercial aspect of natural gas delivery security. It distinguished three pillars: the diversification of natural gas imports, the strengthening of supply networks and the dialogue with supply partners. On a European scale, the long-term safety projects relevant to this thesis in the waiting room are the Štokman, Nabucco and Jamal II pipelines. The umbrella negotiation organ of relevance is the EU-Russia Energy Dialogue. With reference to Poland, diversification from Russian gas is planned to be realised by two signed long-term Scandinavian contracts with matching pipeline projects. The power potential of Poland's Russian negotiation partner Gazprom was presented. Afterwards, this thesis gave additional information about Poland's insufficient storage and ineffective liberalisation process.

Finally, the shortcoming of the above-analysed supply policy needs to be mentioned. Due to the ever-existent lack of political consensus within the EU on a Community energy policy, especially its supply measures remain underpowered and have low potential for applicability (Seeliger, n. d.). The creation of the European Energy (Natural Gas) Policy is induced by big energy companies, gathered in organisations, such as e.g. Gas Transmission Europe (GTE), which proposals for the amendment of the First Gas Directive in 2003 got taken into account. Since the natural gas sector is characterized by economies of scale and the ongoing liberalisation process has not completed thus full Third Party Access and price transparency, the market is oligopolistic and its political and economical line of policy making are often intertwined. Piotr Woźniak for instance told me during the interview:

> 'Ruhrgas is the biggest European gas company. It has no single state share, but the CEO has daily phone calls with 'the political level'. When I was there to discuss the Norwegian Minor Contract, he called President Schröder for his advice' (Woźniak, 2004).

In Poland, the energy policy seems more politically than economically motivated. The creation of the governmental diversification think tank under the former legislator (vide infra) and the frequent changes at the PGNiG Management board are examples of a top-down approach.

Chapter Two: The Diversification Debate

2.1. Introduction: 'We, Poles, are still exposed every single minute[13]'

In February 2004 Poland learned what actually can go wrong, when the security of natural gas supply is not guaranteed by the diversification of its import sources. On February 18, 2004, Gazprom simply turned off the tap to Byelorus for 18 hours. Only a few hours later, the national Byelorusian gas company Bel'transgaz signed a short-term contract until the end of the month with the smaller Russian gas company Transneft. With an average daily temperature of minus 20°C in Minsk, Byelorus obviously could not afford a stop in delivery (RZ, March 2, 2004). Unsuccessful negotiations in the spring between the Byelorusian government and Gazprom brought the Russian-Byelorusian dispute to a standstill. Byelorus got its gas from small independent Russian suppliers, like Transneft and Itera, by means of expensive short-term contracts, which ensured a delivery of 8,3 BCM. According to Gazprom's CEO Aleksej Miller however, the country had already used by the end of May 7,9 BCM and was about to face problems again soon (Idem, May 20, 2004). On June 15, the Russian Minister of Finances Aleksej Kudrin finally offered Byelorus a loan of 175 million USD to buy the earlier that month with Gazprom negotiated 10,2 BCM at 46,68 USD per 0,001 BCM, and Gazprom agreed to pay the Byelorusians more for their transit service (Idem, July 16, 2004).

Gazprom's decision resulted from Byelorus' unwillingness in September 2003, to pay the demanded raise of 30 USD to 50 USD for 0,001 BCM - a price that was still far away from the 130 USD asked of Western Europe. The Byelorusians were prepared to negotiate a price of 46,68 USD, but Russia did not soften its proposal. As a quid pro quo, the Russians proposed to offer an increase in the transfer tariff for natural gas to the same level that the Ukraine was receiving (Idem, March 13, 2004). Indeed, the clear gap between internal Russian natural gas prices and the ones charged to export partners are one of the main obstacles for the World Trade Organisation in considering whether to start negotiations about a possible Russian membership[14]. These low revenues from domestic consumption together

[13] Interview with Piotr Woźniak, Adviser of Prime Minister Jerzy Bużek and Member of the Diversification Group, on July 26, 2004 in Warsaw.

[14] Where the internal market consumes 63 percent of the domestic production, the Russian natural gas companies, in which Gazprom takes care of 90 percent of the production, receive 64,5 percent of their returns from export (Cleutinx, 2003).

with the bad payment attitudes of, for instance, the Ukraine, Moldova and Byelorus - with the latter one already having a debt of 21,4 million USD (RZ, March 2, 2004) - resulted in a decrease in Gazprom's budget for investment from 8,7 in 1997 to 2,2 billion USD in 2000 (Idem, October 5, 2002). Gazprom's strategy, however, reaches further than the sheer objective to charge Byelorus more than Russian domestic consumers. By proposing a loan of 200 million USD, it would make Gazprom able to increase its bargaining power in getting a stake of even more than 50 percent in the shares of Bel'transgaz. Rzeczpospolita sets forth the issue even more explicitly: 'Gazprom wants to buy the company, that owns the Byelorusian natural gas pipeline system [Bel'transgaz][15]'. Similar actions are taking place in other Central European countries. The way Russia looks for shares in various energy companies was described by Balazs Horvath, the former head of the Hungary's security service, in a famous 'Economist' article from 2001, which stated Gazprom's behaviour as 'an extremely serious national security risk'. In Bulgaria, for instance, Gazprom took over 100 percent of the shares in Topenergy, which controls the Bulgarian distribution network, to compensate for the fact that the country couldn't pay its Russian debts. This main tactic is also used in a.o. Moldova and the Ukraine (The Economist, February 17, 2001). Gazprom's actions with respect to Byelorus have, beyond the financial motives, also the incentive to gain influence in the local market by increasing its power in the gas sector.

The question remains, however, if Gazprom could have afforded the huge losses from turning the tap off, only to warn Byelorus. As Piotr Naimski said: 'Russia [understood as Gazprom] has enough other tools to mobilise Byelorus[16]'. There is an additional international objective that may not be neglected. Two dimensions can be distinguished. First of all, Poland was harmed and failed to receive 11 MCM. The country's storage facilities were not able to react quickly enough, so that Poland had to knock at the door of Byelorus and the Ukraine to help them out. Although Aleksandr Jakovenko, the spokesman of the Russian Ministry of Foreign Affairs, stressed the fact that Russia did not mean to cut Poland's natural gas supply, and a letter was sent to PGNiG with apologizes (RZ, March 2, 2004), Poland was not informed in advance. This contrasted sharply with the case of Germany, which was advised by the Russians three days before the event to double the pressure at the German-Czech border crossing of the Brotherhood pipeline, and to halve it at the German-Polish Jamal Pipeline

[15] 'Gazprom chce kupić spółkę, która jest właścicielem białoruskiego systemu gazociągów' (RZ, June 18, 2004).
[16] Interview with Piotr Naimski, Adviser of Prime Minister Jerzy Bużek and Member of the Diversification Group, on April 29, 2004 in Nowy Sącz.

crossing point. As Piotr Woźniak said: 'It had been theoretically possible to save Poland, but the Russians were simply not that polite for us as for the Germans' (Woźniak, 2004).

Poland reacted in three different ways. Firstly, on March 10 in Ciechanów, representatives of EuRoPol Gaz S.A. (Spółka Akcyjna/Joint-Stock company), whose main shareholders are PGNiG and Gazprom, finally placed the cornerstone for the construction of a new gas pumping station on the first stretch of the Jamal pipeline, so that after 18 months, Russian supply could be increased. Secondly, PGNiG asked interested foreign companies, as for instance Gazprom (sic), to invest in additional Polish gas-storage-facility projects. And thirdly, they took into consideration an option of reversing the gas flow in the Jamal pipeline in case Gazprom would repeat its action. However, such a solution was technologically difficult and would require the approval from Gazprom's German subsidiaries Wingas and VNG (RZ, March 10, 2004). Where the benefits for Gazprom in the first two cases are more than obvious, the third case clearly shows how drastically Poland's decisions were limited. So Russia's cut off turned out to be positive for Gazprom with respect to Poland, although the country was not the direct target. And Poles, more than ever before, realised how dependent they were on Russia's natural gas import; two days could not be bridged by their own storage capacity and, even if the Russians had informed the country in advance, there would have been no alternative import source. As Piotr Woźniak noted: 'We, Poles, are still exposed every single minute' (Woźniak, 2004). However, an official opinion on the Russian-Byelorusian event from the Minister of Economy Jerzy Hausner only followed on July 24, 2004 and stated that: 'the national security of the country was not in danger' (Ibidem). Could something else have been said to reassure people's minds, knowing that the Leszek Miller government did not realise the by the former legislator prepared diversification plans? Apart from 'touching Poland on the way', Gazprom's action had also a broader European objective. The second dimension of its strategy was to awake the European Union's attention and get them focused on a fast development of the Štokman Pipeline feasibility study. The turning off showed namely that the supply through the Jamal Pipeline could be interrupted and reminded the EU at how a direct pipeline on the bottom of the Baltic Sea excludes disputes with transfer countries.

The current event perfectly illustrates how urgent the problem of diversification is for Poland. This chapter wants to analyse why Poland is still so dependent on Russia and why the realisation of the Scandinavian project is still uncertain. It starts with a presentation of basic

numbers about the Polish natural gas market and of the actors in the Diversification Debate. It illustrates within this concept the importance of the governmental Diversification think-tank. Afterwards, it systematically highlights the Russian and Scandinavian project. At the end, the thesis sheds light on an extra trump in a diversified, liberalised natural gas market with respect to Poland: the Gas Trading Hub.

2.2. The Polish natural gas market in a numerical nutshell

The 'Guidelines of Poland's Energy Policy until 2020' (Ministry of Economics, 2002), which was firstly approved by the Polish Government in February 2000, presents a prognosis of the Polish Natural Gas Balance over the following two decades. As can been seen in Table 4, a declining domestic production[17] and an increased production will in total ensure the increased demand for natural gas in the future. Three models are worked out: a survival, reference and progress-plus one. In 2020, the annual need of natural gas will fluctuate within a range of 26 and 29,3 BCM and the import demand between 22,4 and 25,7 BCM.

Table 4: The prognosis of the Polish Natural Gas Balance in Billion Cubic Meters (BCM)[18].

Scenario	Natural Gas	2005	2010	2015	2020
Survival	Domestic production	4,3	4,2	3,8	3,6
	Import	12,1	15,5	19,1	22,4
	Total	**16,4**	**19,7**	**22,9**	**26,0**
Reference	Domestic production	4,3	4,2	3,8	3,6
	Import	13,6	17,8	21,2	25,7
	Total	**17,9**	**22,0**	**25,0**	**29,3**
Progress-plus	Domestic production	4,3	4,2	3,8	3,6
	Import	11,4	14,2	18,3	24,0
	Total	**15,7**	**18,4**	**22,1**	**27,6**

Source: Ministry of Economics, 2002.

The maximal percentage of natural gas import from one country over the following two decades was set out in the Decree (Rozporządzenie) of October 24, 2000. Gradually, the table

[17] As mentioned in Chapter One, it is a political choice to remain the domestic production at a status quo level. There is certainly no lack of domestic natural gas fields; in 2003, Poland's natural gas reserves were higher than 50 years ago, despite exploitation. Every year new reserves are found.

[18] When low-methane gas is converted into high-methane gas with a calorific value of 34,3 MJ/m3.

cuts back on the overpresent Russian delivery and forces PGNiG to diversify (Table 5). So the estimated import in 2005 from 11,4 to 13,6 BCM may come for 72%, or 8,21 – 9,8 BCM from Russia. In 2025 the 22,4 until 25,7 BCM will only for 49% or 10,98 -12,6 BCM maximally come from the East.

Table 5: The maximal percentage natural gas imported from one country.

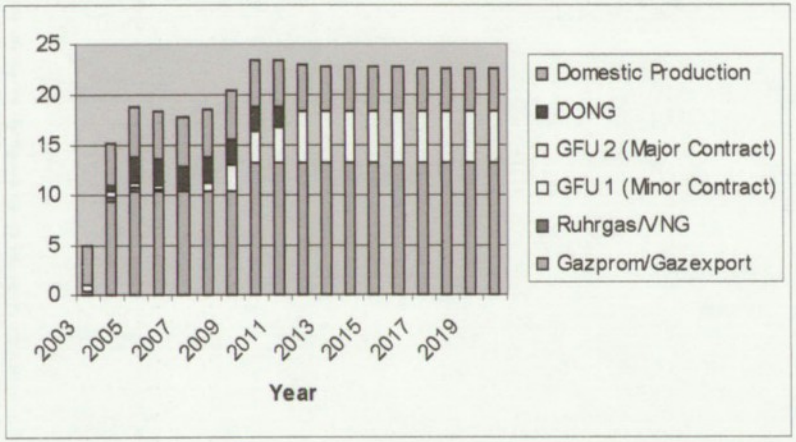
88%	In 2001-2002
78%	In 2003-2004
72%	In 2005-2009
70%	In 2010-2014
59%	In 2015-2018
49%	From 2019 on

Source: Ministry of Economics, 2002.

In September 2001, when the Danish and Norwegian contract were signed, PGNiG made an analysis of Poland's diversified security of supply. As Table 6 shows, the contracted amount of Russian gas increases from 8,43 BCM in 2003 until 13,13 in 2020. Norwegian gas firstly flows within the framework of the Minor Contract; until 2005 at an annual amount of 0,53 BCM, after which 0,40 BCM will be delivered in 2006. In 2008, the Major Contract would come in force and gradually increase supply from 0,88 BCM to 5,30 BCM in 2020. The Danish contract foresees an import of 0,64 BCM in 2004 to 2,55 BCM between 2005 and 2010. In the last year, 2011, only 1,91 BCM would be delivered. Germany exports 0,44 BCM from 2003 until 2005, and lowers it in 2006 to 0,33 BCM. PGNiG foresees – in contrast with the earlier mentioned 'Guidelines'- a domestic production at a fairly stable level of 4,3 BCM. The total amount of contracted import plus the domestic production in this way gradually increases from 13,39 BCM in 2003 to 22,64 in 2020. In the total of 2005. Russia ensures with 10,31 BCM 74,5 % of the import, which is too much. Moreover, when comparing the 18,51 BCM with the above prognosed Natural Gas Balance, we see that in the survival scenario it is 2,11 BCM higher than the foreseen need of 16,4 BCM. In the reference and progress-plus variants the surplus is respectively 0,61 and 2,81 BCM. This is however not a problem, since the contracts are flexible enough to allow a decrease (shown in Table 7), and

Table 6 and Graph 2: The contracted quantity of natural gas under normal circumstances in comparison with the expected demand[19].

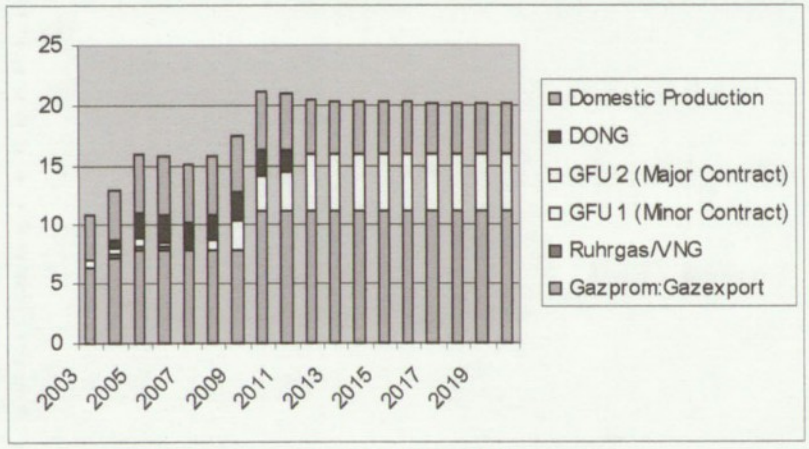
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Gazprom/Gazexport	8,43	9,38	10,31	10,31	10,31	10,31	10,31	13,13	13,13	13,13	13,13	13,13	13,13	13,13	13,13	13,13	13,13	13,13
Ruhrgas/VNG	0,44	0,44	0,44	0,33														
GFU 1 (Minor Contract)	0,53	0,53	0,53	0,4														
GFU 2 (Major Contract)						0,88	2,78	3,19	3,71	5,3	5,3	5,3	5,3	5,3	5,3	5,3	5,3	5,3
DONG		0,64	2,55	2,55	2,55	2,55	2,55	2,55	1,91									
Domestic Production	3,98	4,24	4,88	4,87	4,88	4,81	4,74	4,6	4,6	4,51	4,43	4,36	4,34	4,31	4,26	4,24	4,23	4,21
Total	13,39	15,23	18,51	18,45	17,74	18,33	20,38	23,47	23,35	22,94	22,86	22,79	22,77	22,74	22,69	22,67	22,66	22,64
Survival scenario	14,71	15,56	16,4	17,06	17,72	18,38	19,04	19,7	20,34	20,98	21,62	22,26	22,9	23,52	24,14	24,76	25,38	26
surplus	-1,32	-0,33	2,11	1,39	0,02	-0,05	1,34	3,77	3,01	1,96	1,24	0,53	-0,13	-0,78	-1,45	-2,09	-2,72	-3,36
Reference scenario	15,47	16,68	17,9	18,72	19,54	20,36	21,18	22	22,6	23,2	23,8	24,4	25	25,86	26,72	27,58	28,44	28,3
surplus	-2,08	-1,45	0,01	-0,27	-1,8	-2,03	-0,8	1,47	0,75	-0,28	-0,94	-1,61	-2,23	-3,12	-4,03	-4,91	-5,78	-6,66
Progress-plus	14,37	15,03	15,7	16,24	16,78	17,32	17,88	18,4	19,14	19,88	20,62	21,36	22,1	23,2	24,3	25,4	26,5	27,6
surplus	-0,98	0,2	2,81	2,21	0,96	1,01	2,52	5,07	4,21	3,06	2,24	1,43	0,67	-0,46	-1,61	-2,73	-3,84	-4,96



[19] Table 6 and 7 want to present Poland's situation in September 2001. It does not include the renegotiation of the Jamal Contract in 2003, decreasing the contracted amount from 250 to 161 BCM and prolonging it with two years.

Table 7 and Graph 3: The minimal contracted quantity of natural gas in comparison with the expected demand.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Gazprom:Gazexport	6,45	7,17	7,89	7,89	7,89	7,89	7,89	11,16	11,16	11,16	11,16	11,16	11,16	11,16	11,16	11,16	11,16	11,16
Ruhrgas/VNG	0,40	0,4	0,4	0,3														
GFU 1 (Minor Contract)	0,52	0,52	0,52	0,38														
GFU 2 (Major Contract)						0,8	2,51	2,87	3,34	4,77	4,77	4,77	4,77	4,77	4,77	4,77	4,77	4,77
DONG		0,57	2,28	2,28	2,28	2,28	2,28	2,28	1,72									
Domestic Production	3,98	4,24	4,88	4,87	4,88	4,81	4,74	4,8	4,8	4,61	4,43	4,36	4,34	4,31	4,28	4,24	4,23	4,21
Total	11,35	12,91	15,77	15,73	15,06	15,59	17,43	20,92	20,82	20,44	20,37	20,29	20,28	20,24	20,19	20,17	20,16	20,14
Survival scenario	14,71	15,56	16,4	17,06	17,72	18,38	19,04	19,7	20,34	20,98	21,62	22,26	22,9	23,52	24,14	24,76	25,38	26
surplus	-3,36	-2,65	-0,62	-1,33	-2,66	-2,79	-1,61	1,22	0,48	-0,54	-1,25	-1,97	-2,62	-3,28	-3,95	-4,59	-5,22	-5,86
Reference scenario	15,47	16,68	17,9	18,72	19,54	20,36	21,18	22	22,6	23,2	23,8	24,4	25	25,86	26,72	27,58	28,44	29,3
surplus	-4,11	-3,78	-2,13	-2,99	-4,48	-4,77	-3,75	-1,08	-1,78	-2,76	-3,43	-4,11	-4,72	-5,62	-6,53	-7,41	-8,28	-9,16
Progress-plus	14,37	15,03	15,7	16,24	16,78	17,32	17,88	18,4	19,14	19,88	20,62	21,38	22,1	23,2	24,3	25,4	26,5	27,6
surplus	-3,01	-2,13	0,07	-0,51	-1,72	-1,73	-0,43	2,52	1,68	0,56	-0,25	-1,07	-1,82	-2,98	-4,11	-5,23	-6,34	-7,46



Source: AN, PGNIG 2001, pp. 7-8.

only the Russian contract prohibits the re-export of imported gas. When adjusting the numbers to the minimal amount obliged to take, the surplus changes to a deficit of 2,13 to 3,78 BCM. For 2020, the situation is different. With 13,13 BCM Russia is still responsible for a too hugh share in the import balance, namely 59,63 %, but this can be explained by the obvious lack of short term contracts. The deficit varies from 3,36 BCM to 6,66 BCM, and when working with the adjusted numbers, from 5,86 BCM to 9,16 BCM. It has to be stressed that all numbers are from 2001, which is before the renegotiation of the Jamal Contract.

These numbers show how huge the Russian part is in the country's energy balance, and how even in the longer run a by the EU-proposed maximum import of 33 % from one source is difficult to reach. Before we analyse the Russian and Scandinavian project in an attempt to explain this, we must look at the main players in the Diversification Debate.

2. 3. The Actors

Here follows an overview of the Russian, Polish, Norwegian, Danish and German actors involved in the Diversification Debate. The political level provides the framework in which commercial natural gas companies can act. However, their internal relationships are often intertwined.

In the Russian Federation for instance, Gazprom's successive CEO's are all closely linked with Russian politics; Viktor Černomyrdin left the company in 1992 to become Prime Minister, Rėm Vjachirev (1992- May 2001) was often seen in the Kremlin[20] and not reluctant to take part in diplomatic business trips, and the current Director Aleksej Miller is one of Putin's best personal friends. And Russian politics on its turn is woven into the company, with for instance in the Supervisory Board Dmitrij Medvedev, the Adjunct Director Administration of President Vladimir Putin and Viktor Iljušin, the Junior Prime Minister in 1996-1997 (Gazprom, 2004). Despite this, a shocking report of the Russian Supreme Control Office of 2001 mentioned that the Russian state as a whole has minimal control over Gazprom (Polityka, January 2001). However, when Piotr Woźniak was asked if a same action as against Jukos can take place, he answered:

> 'Because Gazprom can never be private, such a thing as with Jukos will never happen. Jukos wanted to act too privately, where Gazprom is following the same track as the

[20] Under the Boris Elcin rule, Vjachirev had a direct land line in the office of the Prime Minister (Pleines, 2002).

government, even when the government changes. It is indeed the biggest tax payer and they do have influence, but they are professionals and they know how far they can go. They do not do that many harm, no no' (Woźniak, 2004).

On the political level, especially the visits of the Russian Minister of Foreign Affairs Igor Ivanov in November 2000, of Russia's President Vladimir Putin in February 2000 and of Russian's Prime Minister Michail Kasjanov in May 2001 are important with reference to Poland's Natural Gas situation; it formed one of the main discussion topics of the for the first time in respectively eight and seven years visit of the Russian President and Prime Minister to Poland.

In Poland, the decision authority concerning natural gas issues is organised as follows. Corresponding to the approved 'Guidelines of Poland's Energy Policy until 2020', the Polish Council of Ministers defines the basic diversification guidelines. In this respect, the Group on Diversification Issues of Natural Gas Delivery (Zespól do spraw dywersifikacji dostaw gazu) was established on June 2, 1999 by the Polish Government as an auxiliary organ with sheer advice authority to Prime Minister Jerzy Bużek. After the Council makes a decision based on the Group's opinion, they send on to the Ministry of Finances, which works out the project more in detail and submits it to the PGNiG board (which is still a 100 percent owned by the Polish State). PGNiG on their turn chooses the most convenient proposal and draw up a plan in which they also specify the financial obligations for the Polish State. It is the Economic Committee of the Council of Ministers (KERM/ Komitet Ekonomii Rządu Ministrów) that verifies PGNiG's plan (AN, pp. 157). In Diversification Issues thus, on the Polish level the Council of Ministers, the Ministries of Finances and Economics and PGNiG are involved. During the last years, the PGNiG Management quite often changed. In April 1999, Aleksander Findziński got replaced by Stefan Geroń, who led the company until June 2000. His position got filled in with Andrzej Lipko, who got on his turn fired by Minister Wiesław Kaczmarek in December 2001 after the SLD won the elections. It was Michał Kwiatkowski who became the new CEO until July 2003, when he got the opportunity to lead EuRoPol Gaz S.A. On his chair the former Junior Minister of Economics, Marek Kossowski, took place (Rynek Gazu, 2004).

In May 1992, Lech Wałęsa and Boris Elcin signed the 'Friendly and neighbourly cooperation treaty between the Republic of Poland and the Russian Federation[21]', in which the following

[21] 'Traktat między Rzeczpospolitą Polską a Federacją Rosysjką o przyjaznej i dobrosąsiedzkiej współpracy'.

sentence got included: 'Both Sides will cooperate towards the development of mutual and transit transport connections and their structure, within all the transport fields, including pipeline transport and energetic lines[22]'. A year later, the 'Agreement between the Government of the Polish State and the Government of the Russian Federation on the Construction of a natural gas pipeline system for the transit of Russian gas across the Polish territory and on Russian natural gas deliveries to Poland', which was prepared by the Inter-department Team (Międzyresortowy Zespół) under the leadership of Kazimierz Adamczyk - the former Junior Minister at the Ministry of Industry and Trade (MPiH/ Ministerstwo Przemysłu i Handlu) - was signed on August 25 (Ministry of Foreign Affairs, 1993; AN, EuRoPol Gaz, 1997); the Jamal pipeline, of which the first stretch started to operate in September 1999, transports natural gas from the Western Siberian Jamal field in Russia to Poland, where it is further distributed to Germany and to other Western European countries. A report of the Supreme Control Chamber (NIK/Najwyższa Izba Kontroli) in 1995 showed how Article 2 of the agreement is inconsistent with Article 308 of the Polish Commercial Code; the initial idea of creating a Joint-Stock Company in which both Gazprom and PGNiG would hold 50 percent of the shares, contradicts to the by law required minimum amount of three founders (RZ, December 12, 2001). Therefore, the Russians proposed to give a minority stake to the in 1992 emerged Gas Trading Company, a consortium of Polish and Russian firms that functions as an agent in selling natural gas between Gazexport (100 percent owned by Gazprom) and PGNiG.

As a result, the Joint-Stock Company EuRoPol Gaz S.A. was set up on September 23, 1993 to design, finance, construct and operate the Polish section of the Jamal Pipeline, an investment of 1,3 billion USD (Polityka, March 2004). Both PGNiG and Gazprom have a 48 percent share and Gas Trading owns the remaining 4. The Director and Vice-director of the Supervisory Board are respectively the CEO of Gazprom and PGNiG, initially Rėm Ivanovič Vjachirev and Aleksander Findziński. Kazimierz Adamczyk became the Head of the Management (AN, EuRoPol Gaz, 1997) until he resigned in 2003. Michał Kwiatkowski followed him.

Initially, Polish companies held a stake of 60 percent in Gas Trading and ensured themselves the upper hand; the shares were for 35 percent owned by Gazexport, for 30 percent by

[22] 'Strony będą współpracować na rzecz rozwoju wzajemnych i tranzytowych połączeń transportowych i związanej z nimi infrastruktury we wszystkich dziedzinach transportu, łącznie z transportem rurociągowym oraz liniami energetycznymi' (EuRoPol Gaz, 2004).

PGNiG, for 25 percent by Bartimpex – which imports 10 to 13 percent of the natural gas used in Poland from Russia (Gula, 2001), and for 5 percent both by Węglokoks and Wintershall (in the latest one Gazprom holds 50 percent of the shares) (AN, scheme 2000). After its transformation into a Joint-Stock Company in 1998, PGNiG got approximately 46 percent, Bartimpex 36, Gazexport 16 and Weglokoks and Wintershall both 2,27. Bartimpex' CEO Aleksander Gudzowaty often favors Russian interests, and became in this way the key player in decision making, although he is only a Member of the EuRoPol Gaz S.A. Supervisory Board; 'Alexander Gudzowaty,' according to 'the Economist', 'is the closest Poland has to a Russian-style *oligarch*, and is a lavish supporter of political and charitable causes' (The Economist, February 19, 2001). Gas Trading, a company with only nine employees, really rakes it in with a profit of 17 million PLZ in 1999 and a serious creditors bill for PGNiG. The company is linked with the biggest housing scandal in Warsaw (RZ, December 21, 2000).

Gudzowaty has also the upper hand in the Bank of European Cooperation (BEC/Bank Współpracy Europejskiej) and in the insurance company Cigna STU S. A., which are closely linked to EuRoPol Gaz. Kazimierz Adamczyk for instance, was a Member of the BEC Supervisory Board and when in 1999 they needed an extra loan, BEC helped them out (Idem, March 28, 2001). And PolGaz Telekom, whose shareholders are Bartimpex for 36 percent, EuRoPol Gaz for 32 percent and a division of Gazprom, Gaztelekom for 32 percent, got the right to supervise the optical fibre cable lying along the Jamal pipeline (Idem, November 23, 2000).

On the Norwegian level, the counterpart of PGNiG is the Gas Negotiation Committee GFU, a consortium of five Norwegian companies: Statoil ASA, Norsk Hydro Produksjon a.s., A/S Norske Shell, TotalFinaElf Exploration Norge AS and Mobil Exploration Norway Inc. (AN, PGNiG, 2001). It is important to notice that negotiations between Poland and Norway took place through the consortium, while the BalticPipe project was supported by Statoil on its own. In 2000/2001, the Norwegian Prime Minister was Jens Stoltenberg, the Minister of Oil and Energy Olav Akselsen and the director of Statoil Peter Mellbye. In Denmark, the equivalent of PGNiG is DONG, the Dansk Olie og Naturgas A/S, with its president Holger Lavesen. Poland mainly negotiated with the German 100 percent private company Ruhrgas and VNG-Verbundnetz Gas AG. The most important figure here is certainly Burckhard Bergmann, Ruhrgas' CEO.

After a presentation of the main numbers and actors involved, the concept of diversification in itself still needs to be clarified. The next session will explain how the Governmental think tank on Diversification Issues understood its own task.

2.4. The Diversification Group

Under the supervision of Jerzy Kropiwnicki, the Minister of Regional Development and Construction, the five members of the 'Group on Diversification Issues of Natural Gas Delivery' concentrated from June 2, 1999 until July 4, 2000 on alternative Polish import sources for Natural Gas; Barbara Litak-Zarębska as the Junior Minister of Finances, Jan Szlązak as the Junior Minister of Economics – who got replaced by Andrzej Karbownik on June 26, 2000, Piotr Naimski and Piotr Woźniak as Advicers of the Prime Minister – the later one was at the same time a member of the Supervisory Board of the state owned PGNiG and quitted in March 2000 from both jobs to become the Vicedirector of the PGNiG Management, and Stanisław Węgrzynowicz as the Chief of the Prime Minister's Administration (AN, pp. 203). Where Jerzy Kropiwnicki underlined in his letter of March 31, 1999 to the Prime Minister that the Diversification Group should focus both on working out all possible diversification options and renegotiating the Polish-Russian Jamal Agreement from 1996 (Idem, pp. 12-13), in the official Regulation (Zarządzenie) nr. 29 of the Prime Minister of June 2, 1999, its duties are narrowed down to Kropiwnicki's first pillar and can be summarised as: (a) working out the guidelines of Poland's Natural Gas Diversification strategy, (b) analysing the profitability of Natural Gas delivery from different geographic directions and (c) proposing changes of the current situation (Idem, pp.15). The second pillar is mentioned in later documents indirectly, as for instance in Kropiwnicki's letter to Aleksander Proks, a Secretary of the Government at the Prime Minister's Office: 'The reason for appointing a separate organ is the negative assessment of the existing natural gas delivery system, from the strategic interest and energetic state security viewpoint[23]'. And when I asked Piotr Woźniak why the second pillar did not get formalised, he answered:

> 'Of course, the whole concept of the Group was from the beginning Russia-orientated, but we wanted to avoid the incredible situation that happened in February 2004. That, due to early negotiations with the Russians, something would happen and they would stop or limit the supplies at the moment when we do not have any other

[23] 'Przyczyna powołania osobnego organu jest negatywną oceną istniejającego systemu zaopatrzenia w gaz ziemny z importu z punktu widzenia interesu strategicznego i bezpieczeństwa energetycznego państwa' (AN, pp. 16).

source yet. Before the contract with Norway got signed, we were thus playing the game towards the Russians that everything was more or less OK. Of course, we are not satisfied with the quality, we are not satisfied with the price, we are not satisfied with their professional attitude, but look to what would have happened if we provoked a Russian stop in delivery. Everyone would have accused us, stressing the impossible mission of the Group' (Woźniak, 2004).

The Group described its concept of diversification as:

> 'the physical gas delivery through a direct gas pipeline, from gaseous deposit to Poland. Within the existing conditions, it rests on ensuring gas deliveries from Norway through a newly built gas pipeline. All other solutions are pretentious and exclude real-life diversification[24]'. 'the realisation of Norwegian delivery should have the priority and precede all other directions[25]'.

Other definitions used in Polish politics reflect the same ideas. On October 5, 1999 the Government approved the 'Conceptions concerning state land planning policy' ('Koncepcje polityki przestrzennego zagospodarowania kraju'), in which diversification got defined as:

> 'the assurance of the possibilities of independent natural gas deliveries from different directions and by various methods. The delivery of Natural Gas may not be based on the domination of only one supplier[26]'.

And the in 1999 by the Ministry of Economics worked out 'Guidelines of Poland's Energy Policy until 2020', as mentioned in Chapter One, read:

> 'diversification of import sources, constructed as direct links with at least two foreign natural gas pools by means of pipelines acrossing state frontiers, requires imports from Western Europe[27]' (Karbownik, 2002, AN, pp 39).

The theoretical background, lying at the basis of the Group's definition of diversification, notes five conditions; it distinguishes the diversification of (a) infrastructure (at least two pipelines), (b) distribution (natural gas import from at least two gas fields out of two different countries), (c) proportionality (a fairly equal amount of import supply from each pipeline), (d) contracts (at least two long term contracts) and (e) prefers the shortest way from the gas field

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[24] 'Przez dywersifikację Zespół rozumie fizyczną dostawę gazu bezpośrednim gazociągiem ze złóż gazowych do Polski. W istniejących uwarunkowaniach polega to na zapewnieniu dostaw gazu z Norwegii nowobudowanym gazociągiem. Wszelkie inne rozwiązania są pozornymi i wykluczają rzeczywistą dywersifikację'. (AN, pp 28). This definition was the Group's proposal for the Council of Ministers in approving the 'Guidelines of Poland's Energy Policy until 2020'.

[25] 'Realizacja dostaw norweskich powinna mieć pierwszeństwo i priorytet w stosunku do innych kierunków' (Idem, pp. 40).

[26] 'Struktura dostaw gazu do Polski wymaga dywersifikacji, czyli zapewnienia mozliwosci niezaleznych dostaw gazu z roznych kierunkow i zroznicowanymi metodami. Dostawy gazu nie moga byc oparte na dominacji tylko jednego dostawcy' (Idem, pp. 7).

[27] 'Zróżnicowanie źródeł importu, rozumiane jako bezpośrednie, infrastrukturalne połączenie z przynajmniej dwoma zagranicznymi złozami gazu ziemnego za pomoca rurociągów przesyłowych przekraczających granice państwa, wymagające importu z Europy Zachodniej' (Ministery of Economics, 2002, pp. 31). The Document got accepted by the Council of Ministers on 04.02.2002.

directly to Poland (Ibidem). A real diversification option for Poland thereby excludes the in 1999 by the Ministry of Economics blocked long term swap agreement with the Dutch company Gasunie, blocked by the Ministry of Economics in 1999, that would have allowed Poland to tap off Russian gas sold to the Netherlands and transported through the Jamal Pipeline (with a clause about assured import from Western Europe in case Gazprom would stop or diminish delivery (RZ, April 26, 2000 and Polityka, January 2001), because it does not fulfil conditions (a), (b) and (c). Secondly, the idea of a German long term agreement with Europe's biggest Natural Gas Company Ruhrgas got immediately rejected, since in the country's total Russia, as the biggest importer, guarantees 35 percent. The real chance of re-importing Russian gas thereby obviously does not fulfil conditions (b) and (e). Basically, from the two remaining competing projects, the Group since the beginning preferred a Scandinavian long term agreement through a newly built pipeline (the only one that fulfils the five criteria) above the Russian agreement, in which delivery would take place through the planned second Jamal stretch, which lacks condition (b).

Short term contracts are seen by the Group as complements, but by no means replacements of long term contracts. Among the four possibilities, the Russian and Ukrainian are less preferred than the German and Norwegian. Taking into account the de facto Russian influence in the Ukraine (The Economist, February 17, 2001), condition (b) (and (d) of course) are missing in the former ones. Furthermore, in the analysis of the in 2000 signed short term contracts of 2,4 BCM and 2,7 BCM with respectively Germany and Norway will be showed how the Group always considered them as additions, which can support diversification, but may never hinder the realisation of the long term Scandinavian contract.

This stress on the prior importance of long term contracts is also clearly visible in the Group's description of an import source. It got initially understood as both available foreign gas fields with a productivity high enough to ensure natural gas supply under a long term agreement and the delivery of LNG through specific terminals at the Polish Sea Coast (AN, pp. 47). However, a detailed by the Group out-sourced feasibility study on the LNG possibilities in Poland from MW Kellogg Ltd. under the title 'Development of Polish Oil and Gas Network. Strategic Viability Assessment' in June 1999 immediately excluded the second option because of technical and financial reasons (Woźniak, 2004); not only could Polish ports only be operative from 2008 on (Nafta-Gaz, 2003d; RZ, July 19, 1996), the whole process of liquifying and deliquifying the gas and the long transport route from the Maghreb countries

made the project twice as expensive. The advantages of LNG as an alternative import source as mentioned in Chapter One will only be taken back into consideration when, in the future, it can be imported from the closer Štokmanskaja field (in the Barenc Sea) through bases in Finland or North Russia (Piestryński, 2002).

We will now analyse the Russian and Norwegian long term contracts PGNiG signed. Before the preferred Scandinavian project can be analysed, a presentation of the Russian delivery finds a place. After a short overview of the legal framework, first the infrastructural, and later the quantitative and organisational problem of the Russian natural gas delivery are focused on.

2. 5. The Jamal Contract

While in the Polish press the Agreement of August 25, 1993 is often identified with the Russian 25-years deal on a delivery of 250 BCM until 2021, the document in itself only states: 'The [Russian and Polish] Presidents recommend the conclusion of long-term trade contracts for the delivery of natural gas from Russia to Poland by means of gas pipelines for a period of five years with a possibility of their extension' (Ministry of Foreign Affairs, 1993). Two later steps needed to be taken to complete the framework for the 'Contract of the Century'. Firstly, the Protocol signed with the Russian government in 1995 further specified the building and location of the pipeline from the Jamal natural gas field in West-Siberia through Byelorus and Poland towards Germany. On Polish territory, two parallel branches were planned to become operative at the end of 2001. The major shortcoming of the Protocol is the 'missing obligation of Polish public funds to a significant extent in the investment[28]'. And secondly, the contract of October 1996 between the Polish Oil and Gas Company (PGNiG) and Gazprom finally set the annual throughput schedule until 2021. The first stretch of the Jamal project pipeline started natural gas deliveries in September 1999, but is not transporting at full capacity yet, as it still requires the construction of three compression plants finished. A huge dispute between the EuRoPol Gaz S.A. shareholders about the way of their financing - on the one hand, Gazprom accused Poland of not observing their financial obligations, and on the other hand, PGNiG pointed at the Agreement of 1995 and used their

[28] 'Mankamentem było zobowiązanie strony polskiej do udzielenia na wsparcie tej inwestycji pomocy publicznej w znacznym zakresie' Janusz Steinhoff, Junior Prime Minister and Minister of Economics in the Jerzy Bużek Government (Gazeta Wyborcza, February 27, 2004).

preferential transit tariff as an argument (RZ, January 8, 2002) broke out. In January 2001, the Report of the Investigation Group of Tomasz Szyszko, the Minister of Telecommunication, pointed out that PGNiG was loosing control over the compression plants, because EuRoPol Gaz S.A.'s minor shareholder Gas Trading (in which Gudzowaty is omnipresent) dominates the decision making. Finally, the dispute got solved in the Fall of 2003 and Bartimpex (leaded by Gudzowaty) got the fiat to build the plants in Ciechanów, Szamotuły and in the region of Zambrowa, good for a total investment of 285 million USD. The last one is supposed to be operational at the end of 2005, so that the annual flow can be increased from 23 BCM to 33 BCM (Idem, May 29 and June 18, 2004). Plans to build a second pipeline (Jamal II) have also been postponed and until now, a final decision is missing.

2. 6. The *Peremyčka*: 'Nothing about us without us[29]'.

Originally, both the Jamal stretches would reach their maximal potential of 65 BCM yearly in 2010. In the 1993 Agreement however, Article 3 mentions how their final position remains open to negotiations (Idem, July 12, 2000). Their initial parallel situation got officially questioned by Gazprom's CEO Rém Vjachirev in a letter to Aleksander Kwaśniewski at the end of 1999. Instead, he proposed to build an arm on the first stretch in the region of Lublin, bending off to the South (Kobryń-Kapuszany) and meeting the Brotherhood Pipeline in Hungary – the so called *peremyčka* (see Map 4). This would allow Russia to supply Western Europe without using the Ukraine as a transit country. Russia's Southern neighbour is known for not paying its energy bills and stealing natural gas - in May 2000, Russia's Vice Prime Minister Viktor Christenko accused them from illegally claiming every month 1,2 to 1,5 BCM (Idem, July 13, 2000). Since the country transports 90 percent, or 120 BCM, of all Russian gas to Europe (Idem, February 6, 2002), Russia's ways of sanctioning are obviously limited. Moreover, Germany already expressed that they do not need a yearly delivery of 65 BCM Russian gas at one border, but would rather prefer to import Russian gas at both the Polish and Czech one, since the growing demand for gas is especially more noticeable in the South (Idem, April 26, 2000 and February 23, 2001). Kwaśniewski asked the Junior Minister of Economics Jan Szlązak and the CEO of PGNiG Stefan Geroń to analyse Vjachirev's idea. During the whole controversy, the Polish President systematically delegated the case to the Ministry of Economics to formulate a governmental opinion and to PGNiG to work out the project. In the Spring of 2000, Jan Szlązak sent two letters to Gazprom, explaining that a final

[29] 'Nic o nas bez nas' (RZ, October 6, 2000).

decision has to be made by the companies PGNiG and Gazprom, but that Poland is interested in such a project (RZ, July 12, 2000). Being a member of the Diversification Group, his action seems contradictory to its initial objective. His letters indeed do not reflect the Group's ideas and Jan Szlązak's acted individually. Both Prime Minister Jerzy Bużek and Minister of Economics, Janusz Steinhoff, explained, that they were not informed. The rumour goes that Szlązak's letters were the reason for his resignation in June 2000, albeit officially he names the race of the Treasury to coal companies for not paying their taxes (Polityka, May 2000).

Map 4: Jamal crossroads: a next version of the Jamal pipeline new stretches' route.

- The Jamal Natural Gas Pipeline.
- The initial project (through the Ukraine).
- The project omitting the Ukraine.
- The Project omitting Poland, Slowakia and the Ukraine.

Source: Polityka, July 2000.

The domestic production in the Carpathians and the Carpathian Foredeep, as well as the presence of national parks were obvious reasons for Minister Steinhoff to prefer the re-routing further to the West, in the region of Włocławko, Łódź and then to Silesia, since here are more potential customers. He did not consider a Polish fiat to the detriment of the Ukraine, since the *peremyčka,* with a maximum capacity of 33 BCM, could only partly threaten Russia's total throughput of 120 BCM (RZ, July 13, 2000) and stated that Poland should not deny the economical benefit of it because of political reasons[30] (Idem, July 22, 2000). Therefore, the official statement of Poland in July 2000 was in favour of the project, but not the Gazprom-proposed project that potentially harmed the Ukraine (Ibidem). But for Slowakia, a more Western position would shorten their part of the stretch and decrease the transit revenues

[30] Minister of Economy Janusz Steinhoff saw the Bernau-Szczecin project as a temporary option in the perspective of the BalticPipe. However, his words in Gazeta Wyborcza, February 27, 2004 prove that he changed his opinion: 'I cannot understand the Politicians from the SLD, who take, together with the chief of Bartimpex, part in lobbing activities concerning the Bernau-Szczecin project' ('Nie potrafię zrozumieć politycy SLD uczęstniczą wraz z szefem Bartimpeksu w lobbing na rzecz projektu Bernau-Szczecin'). When I asked Piotr Woźniak if he can explain this switch, he answered: 'Janusz Steinhoff is a very respectful politician. His opinion in 2000 was a strategic mistake by the ones he got informed by' (Woźniak, 2004).

proposed initially by Gazprom (RZ, October 19, 2000). That Poland, by demanding a more Western position, only wanted to receive more transit tariffs by prolonging the traject from 300 to 750 kilometers on its territory (Idem, September 4, 2000), was a popular opinion in Russian newspapers (Idem, October 14, 2000).

However, the Diversification Group, together with the majority of the public opinion, neither liked the Steinhoff concept, nor Gazprom's proposal for two main reasons. On the one hand, it wanted to safeguard Poland's good relationship with the Ukraine. As a member of NATO and having assured its future place within the European Union, Poland endorsed the engagement of these institutions in strengthening Ukraine's sovereignty and disapproved in line with this principle Russia's blackmailing attempt (Ibidem). It is meaningful to ask which Ukraine Poland tried to defend, since the opinions within the country were divided as well. Firstly, the Ukrainian Prime Minister Juščenko indeed looked towards Poland to reject the Russian proposal. Secondly, Ukrainian scientists pointed at the huge costs - over one billion USD – which makes the project very unlikely to be realised (Idem, October 21, 2000). For less money, the obsolete infrastructure could be easily fixed and increase the throughout by 30 percent (Idem, October 27, 2000). But President Leonid Kučma thirdly, stated that the project would open a market for Ukrainian pipes with a diameter of 140 centimeters (and the director of the company that was most likely to carry off the loot is a relative of him) (Polityka, July 2000). The President surely gambled, saying that nothing serious would happen, since he is still the one who controls the Ukrainian pipeline system. In this respect, Polish politics was criticised in Poland itself, for instance by M. Ostrowski: 'Warsaw cannot be more Ukrainian than President Kuczma himself, who during the Crimean talks has accepted the conditions proposed by president Putin[31]'. On the other hand, the *peremyčka* – no matter in which position - could also threaten Poland, since Russian deliveries towards Western Europe could be benched off before reaching Western Poland (Woźniak, 2004). The different opinions within Polish and Ukrainian politics did silt up the Russian-Polish negotiations.

Although Vjachirev's letter was written 1999, it is only when the news of Szlązak's individual action leaked out, that Polish newspapers focused on the issue (RZ, May 10, 2000). Minister Steinhoff only officially declared on July 21, 2000 – this is on the moment when PGNiG

[31] 'Warszawa nie może być bardziej ukraińska niż sam prezydent Kuczma, a ten w rozmowach na Krymie pogodził się z warunkami stawianymi przez prezydenta Putina' (Polityka, May 2001).

finished already its feasibility studies on the project – that Gazprom's proposal dates from the year before. The scandal makes journalists ad rem. Artur Morka from 'RZ' for instance notes:

> 'The perturbation around the run of the pipeline clearly shows, that very little is still known about what is going on in gas transit and import cases, and about eventual repercussions of still confidential Jamal pipeline decisions, that were made years ago[32]'.

The status quo between Russia and Poland was revitalised in October 2000, when Poland learned through the Western press that four European Gas Companies (the German concerns Ruhrgas and Wintershall, the French Gas de France and the Italian Snam) formed a consortium with Gazprom. Poland and Slowakia were furious that they simply were not informed and ultimately bypassed (RZ, October 6, 2000). They could not hinder the consortium to sign an agreement on a Pipeline project from Russia to Western Europe, through their territories and omitting the Ukraine, on October 20 and even agreed a week later upon participation in the negotiations. They did not really have a choice, since the European Union already worked out seven possible pipeline routes in- and excluding Poland and Slowakia so that, if they decided not to cooperate, they would loose all transit revenues (Idem, October 5, 2000). Of course, Poland was confused by the EU's Realpolitik, and looked for explanations as:

> 'EU, having to choose between gas supply from politically unstable OPEC countries and Russia, will choose rather Russia, not caring too much about neither the political interests of Ukraine, nor Poland, engaged in its defence[33]'.

> And: 'It is a tough lesson for us in *Realpolitik*. The economical interests of the EU have taken over the political interests (that turned out to be treated by EU as local problems) of countries, which only aspire to be EU members[34]'.

At the end of that month, Kwaśniewski declared that Poland would give its fiat for the *peremyčka*, if the Ukraine would be engaged in the construction and exploitation of the pipeline (Idem, October 27, 2000). When Russia's Minister of Foreign Affairs Igor Ivanov visited Warsaw in November, he officially gave Poland the last word on the position of the Polish *peremyčka-part* (Idem, November 23, 2000), but warned at the same time: 'Energy

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[32] 'Zamieszanie wokół przebiegu gazociągu jasno pokazuje, że tak naprawdę wciąż mało wiadomo o tym, co dzieje się w sprawach dotyczących importu i tranzytu gazu, a także o ewentualnych następstwach podejmowanych przed laty i wciąż tajnych decyzji w sprawie rurociągu jamalskiego' (RZ, July 22, 2000).

[33] 'Unia Europejska, mając do wyboru zaopatrywanie się w gaz w niepewnych pod względem politycznym krajach OPEC albo w Rosji, wybierze raczej Rosję, nie przejmując się specjalnie ani interesami politycznymi Ukrainy, ani angażującej się w jej obronę Polski' (Idem, October 19, 2000).

[34] 'Gorzka to dla nas lekcja realnej polityki. Interesy ekonomiczne Unii Europejskiej wzięły górę nad, jak się okazuje lokalnymi dla UE, interesami politycznymi krajów, które do niej dopiero aspirują' (Idem, June 8, 2001).

Security cannot be anybody's hostage[35]'. However, this menace did not prevent PGNiG from refusing the Lublin-position of the pipe on a consortium meeting in December (RZ, December 19, 2000), after which the Polish company Gazprojekt started an analysis (Idem, March 15, 2001). In the Spring of 2001, Poles applied another bargain technique and handed a 'pro memoria' with demands over to the Russian Prime Minister Michail Kasjanov; they were willing to give in, if the 1993 and 1995 agreements could be renegotiated, especially with a focus on decreasing the contracted amount of natural gas import and the financing aspect of the pipeline system, and the Board of EuRoPol Gaz S. A. could get rid of Gaz Trading (Idem, May 25 and June 4, 2001; vide infra). For more than a half year, negotiations did not come to a final decision. Maybe, Russia was waiting until the SLD would gain the elections in the autumn, since for instance Leszek Miller already during the former legislator openly criticised prime Minister Bużek's opinions (Idem, September 4, 2001 and Głębocki, 2001). Later, a first signal that Russia resigned from their *peremyčka* idea, came from the Western Press Agencies Interfax and Reuters in the beginning of February 2002 (Idem, February 5, 2002). Albeit they got their information from unanimous representatives of the Consortium, Gazprom officially denied the news and said that the project waited for the privatisation of the Slovakian transmission operator SPP (Slovensky Plynarensky Priemysel/ Slovak Gas Industry) (Idem, February 6, 2002); in the middle of March, Gas de France, Ruhrgas and Gazprom bought 49 percent of its shares (Idem, March 12, 2002). But from that moment on, silence fell on the project. Because apart from some agreements between Gas Companies no State documents were signed, an official Russian resignation never followed (Idem, October 5, 2002). Russia's switch of interest has three main reasons.

Firstly, in October 2001 the EU-Russian Energy Dialogue recognised for the first time the 'development of the Štokman field in the Barenc Sea' a project of common interest (European Commission, 2004b, pp. 12) In this way, the project gained the same importance as the in November 2000 specified 'second transport axis from Russian resources to the EU via Byelorus and Poland' (European Commission, 2000c, pp. 22). An article of Rusenergy mentions in November 2001:

> 'Theoretically, it [the Jamal natural gas reserves] is more than enough, to compensate the [decreasing] production of the old industries and even postpone all remaining projects of 'Gazprom', including Štokman'[36]. And it continues: 'When following the

[35] 'Bezpieczeństwo energetyczne nie może być niczym zakładnikiem' (RZ, December 9, 2000).

[36] 'Теоретически, этого более чем достаточно, чтобы компенсировать падающую добычу на старых промыслах и даже отодвинуть на более поздний срок все остальные проекты "Газпрома", включая Штокман' (Rusenergy, 2001).

instructions of the Russian president, Gazprom has to concentrate its efforts to one of the two projects, and the choice ahead of it is not easy'[37].

Secondly, the Blue Stream natural gas pipeline, which connects the Russian system to Turkey underneath the Black Sea, was assured money from the European Union and Natural Gas would begin to flow in December 2002. This project offers Russia the possibility to omit the Ukraine in its delivery to Western Europe, though the scope of it (16 BCM) is limited (Botaş, 2004). And thirdly, Russia offered the Ukraine to remit parts of it debts in exchange for a stake in the country's transmission company. In October 2002, they founded a Russian-Ukrainian consortium that will supervise the Ukrainian transmission system. In this way, Russia can control its delivery towards the West without an investment of 1 billion USD. Moreover, European Gas Companies as Ruhrgas are willing to join the consortium and bring in capital for reconstruction works in the Ukraine (RZ, October 5, 2002).

2.7. The renegotiation of the Jamal Contract; a meager decoction of Polish sighs

Apart from the infrastructural dispute over the Jamal pipeline system, there are also quantitative and organisational problems. Firstly, the amount of natural gas contracted formed from its start a bone of contention between Russia and Poland. The overestimated forecasts caused a situation in which, when the two Jamal stretches would be operative at full capacity, Poland would be flooded by Russian gas, and diversification options would have no chance. And secondly, the structure and financing of Jamal pipelines' owner EuRoPol Gaz S.A. were not satisfying. This paragraph discusses the renegotiation process from 2001, when Poland realised it was loosing control.

In November 2000, the Polish Government found out that an optical fibre cable with a capacity of 24 fibres - so that at the same time 5000 talks can be send through (Polityka, March 2001) - accompagnies the Polish Jamal I pipeline. The cable's leaseholder PolGaz Telekom, in which Bartimpex and Gazprom have the main shares (vide supra), was not legimately entitled and the cable in se got illegally installed.

The cable was laid to partly attend to the technical service of it; of the 24 fibres, 4 are needed to support the system and the remaining ones are used for commercial purposes (Idem,

[37] 'Если следовать указаниям российского президента, то "Газпром" должен сконцентрировать усилия на одном из двух проектов, и выбор ему предстоит нелегкий' (Ibidem).

November 27, 2000). When the owner EuRoPol Gaz S.A. leased the cable to PolGaz Telekom through two agreements in September and November 2000, the Minister of Telecommunication Tomasz Szyszko started a governmental investigation group. The Group's conclusion in January 2001 was shocking. Due to the fact that PGNiG does not hold any shares in PolGaz Telekom, it lost its operator's entitlement (RZ, January 16, 2001). The loss infringes Article 4 of the 1993 Agreement, which states that the sole operator of the transit system, including the telecommunications network, has to be PGNiG. Indeed, PGNiG has theoretically an indirect right of say, since it holds 48 percent of the EuRoPol Gaz S.A. shares, but it is in reality thanks to the minor shareholder Gas Trading that decisions are passing through - a report of the NIK says about Gas Trading: '...as a private entity with external capital participation, Gas Trading seeks to realise its own economic interests, that can differ from the State Treasury ones[38]'. EuRoPol Gaz S.A.'s CEO Kazimierz Adamczyk defends in an open letter to Minister Steinhoff, that PGNiG could not be the operator, because it did not have the necessary licences. However, Minister Szyszko objects and asserts that PGNiG theoretically could bring into existence a telecommunication company (Idem, January 20a, 2001).

The cable was built without the approval of the Ministry of Telecommunication, motivated by the Opinion of the Law Office of the Ministry of Telecommunications (Opinia biura prawnego Ministerstwa Łączności) of February 26, 1997, which notes that laying the cable can be done without. Tomasz Szyszko, however, rejected this opinion and corrected that only companies, which install internal company networks operating at one place, do not have to inform the Ministry (Idem, November 28, 2000). The many loopholes in the underdeveloped judicial framework created a morbid growth of illegal local Polish networks. Moreover, because the Jamal optical fibre cable can be used as an international 'information highway' (*infostrada*), its judicial status changes from internal to public, and neither EuRoPol Gaz S.A. nor PolGaz Telekom have a licence for the international transmission of data. Such an *infostrada* is also inconsistent with the Russian-Polish Agreements. As Minister Szyszko says:

[38] '... podmiotem prywatnym z udziałem kapitału zagranicznego i kieruje się własnym interesem ekonomicznym. A interes prywatnego przedsiębiorcy nie musi być tożsamy z interesem skarbu państwa' (RZ, March 8, 2002).

> 'In intergovernmental contacts and agreements, concluded with the Russian side, concerning the transit pipeline construction, there is no single records, that could be the basis for running an international data transfer investment[39]'.

Szyszko's Report thereby suggested an updating of the Telecommunication Law with respect to international transmission, through which PolGaz Telekom actions could be blocked and PGNiG as the legimate provider could regain control (RZ, January 16, 2001).

But there is more. When the Polish central administration got reformed in 1996, the Ministry of Industry and Trade (MPiH), which was entitled to keep an eye on the realisation of the 1993 Agreement, got suspended. Consequently, the whole Jamal investment did not get controlled for five years. The Szyszko's Report therefore suggested the establishment of an International Control Commission. Since it is beyond the authority of the Group to accuse the culprits, it handled its recommendations over to the Council of Ministers and the prosecutor's office in Gdańsk, which is investigating if Polish public functionaries did not act at the detriment of the State Treasury, by constructing a gas pipeline and fiber-optic cable. (Idem, January 17, 2001).

The Szyszko's Report results presented how far Poland diverged. Therefore, Poland tried to regain control by participating in the by Russia proposed intensified dialogue. The visit of President Vladimir Putin in February and of Russia's Prime Minister Michail Kasjanov in May 2001 showed namely Russia's interest in the *peremyčka* project (Głębocki, 2001). But Poland was on its guard against Russia, as R. Rybiński stated in Nowe Państwo:

> 'Mikhail Kasjanov stated that Russia expects Poland to make an immediate decision on the run of the new gas pipeline. It became clear, that from Moscow's point of view, not only partnership, but also any compromise, are out of question. A Polish assent for such a treatment would mean a fiasco for its Eastern Policy[40]'.

In the more than 30 Polish-Russian meetings during the next two years, different aspects of the Jamal investment were discussed. Poland wanted to get rid of EuRoPol Gaz S.A CEO

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[39] 'W umowach i porozumieniach międzyrządowych, zawieranych ze stroną rosyjską w sprawie budowy gazociągów tranzytowych, nie znajdują się żadne zapisy, które mogłyby być podstawą do prowadzenia inwestycji w zakresie międzynarodowego przesyłu danych' (Idem, November 27, 2000).

[40] 'Michaił Kasjanow oświadczył, że Rosja oczekuje, iż Polska 'bez zwłoki' podejmie decyzję w sprawie przebiegu nowego gazociągu. Stało się jasne, że z punktu widzenia Moskwy nie tylko partnerstwo, ale i jakikolwiek kompromis w tej sprawie nie wchodzą w grę. Zgoda Polski na takie traktowanie oznacza fiasko polityki wschodniej' (Nowe Państwo, June 1, 2001). Henryk Głębocki stresses how the Russian press addresses the Kasjanov visit to Poland from a 'Russia-centric viewpoint, concentrating on the fast fulfilling of Moscow's interests' (... Dominował tu wewnątrzrosyjski punkt widzenia, warunkowany koniecznością załatwienia konkretnych, pilnych dla Moskwy interesów. Rosyjskie media podejmowały tez inne wątki, świaczące o charakterystycznym, rosyjskocentrycznym widzeniu tej wizyty...) (Głębocki, 2001, pp. 96).

Kazimierz Adamczyk, to free it from Gas Trading, to raise the Jamal transit tariff and to decrease the contracted amount of Russian natural gas import. Russia on its turn demanded an increased Polish financial contribution to the project.

On a meeting of the PGNiG Supervisory Board at the end of 2001, almost all members voted in favour of a motion of mistrust against Adamczyk, who they considered a good friend of Gudzowaty[41], and the exclusion of Gas Trading from EuRoPol Gaz S.A.[42] (RZ, February 1, 2001). Although Jerzy Bużek received a lettre from Rėm Vjachirev on January 17, saying that Gazprom wanted to solve all contentious issues and stressing that 'no private company operating in Poland has any authority to speak for Gazprom[43]', the PGNiG motion did not succeed in gaining the required unanimity on a EuRoPol Gaz S.A. shareholders meeting and Gazprom was not willing to sign for Gas Trading's liquidation (Idem, February 1, 2001). Kazimierz Adamczyk would remain the Head of EuRoPol Gaz S.A. until July 2003. On its turn, Gazprom did not get through its proposition to weaken the power of the EuRoPol Gaz S.A. CEO, who on the one hand is able to suspend the execution of a Management resolution when he does not agree with it, and on the other hand has the last word when the voting outcome is equal (Idem, January 17, 2001). With respect to Gas Trading, Gudzowaty was not against its liquidation concept; he made a deal with PGNiG and Węglokoks to support his idea about a proportional division of Gas Trading's shares among its shareholders. In such a case, the 4 percent of Gas Trading's shares would be mainly distributed among PGNiG, that would gain about 1,5 percent, and Bartimpex, that would receive 1,4 percent. It would give PGNiG more shares than Gazprom and Bartimpex would be able to 'tip the balance[44]' in EuRoPol Gaz S.A.'s decision making. Of course, Gazprom stressed that every change in EuRoPol Gaz S.A. has to be agreed upon by both PGNiG and Gazprom and that, even when the Gas Trading shares would be sold, the two main shareholders would have the first right to buy them. Russia preferred to create a fifty-fifty situation as initially described in the 1993 agreement.

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[41] Kazimierz Adamczyk sits not only in het Supervisory Board of the Bank of Economic Cooperation and CIGNA Stu, but also represents Bartimpex at the Supervisory Board of Bafri Autostrady S.A. (RZ, December 21, 2000).

[42] Only Andrzej Arendarski rejected the proposal. Arendarski is the Deputy Chairman of the Gas Trading Supervisory Board.

[43] 'Żadna prywatna spółka dzialająca w Polsce nie ma pełnomocnictwa do wypowiadania się w imieniu Gazpromu' (RZ, February 3, 2001). Rem Vjachirev's words have to be interpreted as serving the purpose of receiving a Polish fiat for the *peremyčka*, rather than that he was honnestly keen on removing Gas Trading from EuRoPol Gaz S.A. The never ending negotation period and Minister Karczmarek's decision to dismiss Andrzej Lipko in December 2001 (vide infra) clearly illustrate this.

[44] 'Bartimpex będzie pełnił rolę jezyczką u wagi w tej spółce' (Idem, September 3, 2002).

In exchange for the dissolution of Gas Trading, Poland was willing to discuss the finances of the Jamal I project. From the contracted Polish contribution of 350 million USD firstly, it only paid 150 million USD, motivating that such expenses were symmetrical with the stage of investment realisation and the by Poland received percentage of the pass through (2,7 BCM of the 20 BCM). Moreover, Gazprom engaged itself in 1998 to finish the first stretch by own means (RZ, September 19, 2002). When a final decision about the three compression plants fell in 2003, their construction got partly paid not by Polish contribution, but by an extra loan from Gazprombank to EuRoPol Gaz (Idem, April 25, 2002). Secondly, Russia was mad about the based on the 1995 Agreement by the Polish state abolished tax reductions for the usage of the Jamal pipeline (Idem, May 25, 2001). Due to their lifting, the building of the second stretch would become 1 billion USD more expensive (Głębocki, 2001). Thirdly, Russia raised the matter of the low 1,5 billion USD assets and 20 million USD initial capital and demanded to increase this capital with 200 million USD. However, the proposal of a fairly equal divided amount got blocked by PGNiG. They were rather in favour of reorganising EuRoPol Gaz' 1,5 billion USD debt, because the State Treasury saw it 'the best way for POGC to get back the money invested in EuroPol Gas[45]'. But Gazprom asserted that only a restructurisation would not cure EuRoPol Gaz' financial situation (Idem, August 16, 2002). For 85 percent, the company's debt obligation is to Gazprom (Idem, April 13 and June 21, 2002), with e.g. a loan of 1 billion USD in 1999 at Gazprombank (Idem, December 12, 2001). And lastly, due to the fact that the by Gazprom underpaid transit tariffs form the main source of EuRoPol Gaz' income, a revenue of 150 million USD in 2001 is not likely to radically improve the situation. The Jamal agreements tell the tariff has to be high enough to make EuRoPol Gaz function and to pay off its debt (Idem, August 17, 2002).

Although the prices of transit tariffs of natural gas are confidential, it is known that Poland charged only about half of the by Germany asked 2,5 USD for 0,001 BCM over 100 km (Idem, March 25, 2002). The tariff does not distinguish fixed from flexible quota, and is in this way in violation with the Polish Law. The suggestion of the Polish Office of Energetic Regulation (URE/Urząd Regulacji Energetyki) to install such a dual system and to raise the tariff from 1,4 USD to 2 USD got realised on September 1, 2002, despite Gazprom's protest. Thanks to this increase, EuRoPol Gaz' returns raised in 2002 (Idem, November 14, 2002).

[45] '... najlepszy sposób odzyskania przez PGNiG zaangażowanych w EuRoPol Gazie pieniędzy' (RZ, August 8, 2002).

Poland's proposal to diminish the negotiated Russian imported natural gas has two motivations. Where on the one hand the Polish demand was overestimated and as a result, the Russian flood did not provide space for diversification plans to for instance Norway, the delay in construction on the other hand made the delivery of the contracted gas by Gazexport difficult (RZ, November 7, 2002). As Piotr Naimski said:

> 'According to the contract of 2002, we are about to receive 7 BCM from the East. In the same time, there is a reserved capacity of only 3 BCM in the existing stretch of the Jamal pipeline. How will we receive the other 4 BCM? It is worth remembering, that even if we won't be able to receive them, we will still have to pay for them[46]'.

Already from 2001 on, the put through capacity at the Byelorusian-Polish border in Kondratki was insufficient to deliver the contracted Russian natural gas. An agreement of December 28, 2000 makes a one year delivery possible at the border points Titierowka and Drozdowicze (AN, PGNiG, 2001). What was created as a temporary solution, will be renewed yearly until the renegotiation of the Jamal contract.

Despite the intensive negotiations, an agreement followed only in February 2003. By that time, the key persons in the debate already changed. In June 2000, Stefan Geroń got replaced by Andrzej Lipko, because he did not share the same opinions on the privitisation of PGNiG with the State Treasury (RZ, July 12, 2000) and the Diversification Group on March 22 asked for his dismissal (AN, pp. 63 – 65). Geroń did not belief renegotiations were necessary, as he stated:

> 'There is no need to renegotiate the so called Jamal Contract. It is elastic and allows the renegotiation of prices, as well as of the amount of delivery. The clause about the prohibition of natural gas re-export is little effective, because Poland can consume the Russian gas, and export the in Poland produced one[47]'.

Andrzej Lipko (and a.o. Piotr Woźniak) on his turn was replaced by Michał Kwiatkowski in December 2001 after the SLD won the elections, because Minister Karczmarek did not get informed about a meeting with Gazprom, in which they talked about a fifty-fifty shareholders

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[46] 'Zgodnie z umową w 2002 roku mamy odebrać 7 mld metrów sześciennych gazu ze wschodu. Tymczasem w wybudowanej nitce gazociągu jamalskiego dla Polski jest zarezerwowana przepustowość tylko na 3 miliardy metrów sześciennych gazu. Jak odbierzemy pozostałe 4 miliardy? Warto pamiętać, ze nawet jeżeli nie będziemy w stanie i tak będziemy musieli za nie zapłacić' (RZ, December 12, 2001).

[47] 'Nie ma potrzeby renegocjacji tzw. kontraktu jamalskiego. Jest on elastyczny i pozwala na renegocjację zarówno cen, jak i wielkości dostaw. Klauzula dotycząca zakazu reeksportu gazu jest mało skuteczna, gdyż Polska może zużywać gaz rosyjski, a eksportować wydobywany w Polsce' (Idem, April 26, 2000).

position in EuRoPol Gaz S.A. and the status of its CEO Adamczyk. Wiesław Kaczmarek was a member of the Supervisory Board of company (Varplex) that carried out the isolation for the Jamal Pipeline and in which Bartimpex (Gudzowaty) is the main shareholder. About his dismissal, Andrzej Lipko said: 'It was a nervous reaction of the Minister... with the former team ruling Gazprom it was impossible, and now it became realistic[48]'. Indeed, from June 2003 on, Aleksej Miller ran Gazprom, who - according to Piotr Naimski – is not so keen on cooperation with Gudzowaty (RZ, December 12, 2001).

In February 2003, the 1995 Protocol got an addendum. Poland's Deputy Prime Minister Marek Pol - who, as the Minister of Industry, also signed the 1993 Agreement - and the Russian Prime Minister Viktor Christenko signed an addition, due to which Poland will import in 2003-2020 only 161 BCM. As a tit-for-tat, Poland agreed upon importing an additional 18 BCM in 2021-2022. Where Marek Pol notes that the renegotiation decreases the by Poland imported Russian gas with one third, both Piotr Woźniak and the NIK have other opinions. Woźniak estimates that the reduction is only 17 percent and further specifies:

> 'The gas delivery contract provides for a 'fixed quota' for which Poland must pay and a 'flexible quota' that it may give up. The value of the flexible quota is similar to the reduction that PGNiG declares it has secured. Hence it may turn out that Poland's obligations have not changed a bit as a result of the negotiations' (Warsaw Voice, February 20, 2003).

The NIK in May 2004 states that the energy security of Poland is in danger, due to the unfavourable conditions present in the 2003 addendum of the Jamal contract. The Committee gives three main reasons. Firstly, the agreement is based on the by the PGNiG overestimated demand forecasts, which expected the Polish annual consumption to rise with more than 50 percent over a few years. The result of it, an insufficient decrease in import and the hindered diversification by an oversupply of Russian gas, is in contradiction with the Polish purpose of the renegotiations to open the way for Norwegian and Danish natural gas; a Russian import of 6,5 BCM in 2004 to 7,5 BCM in 2010, where the Minister of Economics estimates the Polish demand at maximal 6,3 BCM in 2004 to 6,8 BCM in 2010 indeed does not leave any room for other options. Even when Poland appeals to the 1995 Protocol to decrease the contracted amount with 10 percent (EuRoPol Gaz, 2004), long term diversification plans for a decent amount of gas are unprofitable. Because Marek Pol, secondly, gave in to receive Russian

[48] 'To była nerwową reakcją ministra... Z poprzednią ekipą rządzącą w Gazpromie nie było to możliwe, a teraz stało sie realne' (Idem, December 12, 2001).

natural gas not only from the first Jamal stretch, but also from three endings of other pipelines at the Polish Eastern border (in Drożdowicze, Wysokoje and Tietierowice), he finished off the second stretch, through which initially 80 percent of Polish import was supposed to flow. Actually, the delay in the construction of this second stretch, which makes the in 1995 contracted delivery practically impossible, formed the basic argument for the Bużek Government to start renegotiation talks (RZ, May 6, 2004). And thirdly, Polish transit tariffs for Russian gas decreased, although the former level was already much lower than the Western European one. From 2003 on the tariff of 2,74 USD for 0,001 BCM will be gradually lowered to 1 single USD in 2014-2019. The important future cut in EuRoPol Gaz S.A. revenues this enhances, makes financing the Jamal II project impossible. The NIK adds, that Marek Pol did not have the attorney to start negotiations in November 2002. According to the procedure, the Minister of Economics has to handle a proposal over to the Prime Minister in which he asks the permission to lead such negotiations. The failure of the negotiations is especially noticeable in their lack to regulate the shareholders situation of EuRoPol Gaz S.A., in which until today Gas Trading holds 4 percent of the shares, the re-exportation of imported natural gas, and to diminish the import price of natural gas (Idem, May 6, 2004).

The description of the Russian supply circumstances makes clear that Poland is not in the most desirable situation. PGNiG is helpless as a monopolist with only one long term contract. Although Slovakia for instance is, due to the lack of domestic production, even more dependent on Russian delivery, the liberalisation of SPP secured it from important Western companies to cooperate with. The state-owned PGNiG would gain considerable bargaining power when a second long term contract would realise diversification. The Scandinavian project offered that perspective. Successively, the Minor and Major Contract are presented.

2. 8. The Minor Contract: the first step

Negotiations with Norway on diversification issues already took place from 1990 on, but for ten years no breakthrough could be seen. A former director of PGNiG and member of the negotiation committee, Janusz Tokarzewski, said in 1996: 'these are preliminary talks, and cannot even be called negotiations[49]', and the Diversification Group's Chairman Jerzy Kropiwnicki wrote to the Prime Minister:

[49] 'są to rozmowy wstępne, których nawet nie można określić mianem negocjacji' (RZ, July 19, 1996).

> 'Negotiations with other partners were on a good track until the day, when Hanna Suchocka's government ended its mission... Negotiations with the Norwegians stopped for unknown reasons and were suspended until their renewal under Jerzy Buzek's government auspices. Norwegian gas is not 'Buzek's environment' strange idea, but the realisation of the programme concerning security of energy introduced 8 years ago, and quite successfully sabotaged all that time by POGC, with the permission of SLD[50]'.

On May 5, 1999, a Joint Declaration (Wspólna Deklaracja) was signed between Jerzy Bużek and the Norwegian Prime Minister Kjell Magne Bondevika to support the realisation of 5 BCM natural gas supply from the Norwegian fields to Poland through a direct pipe (vide infra) (AN, pp. 147-154). The framework Agreement was partly filled in on the same day, with PGNiG and the Norwegian Gas Negotiating Committee reaching a first gas sales agreement, that speaks about an annual 0,5 BCM natural gas delivery through the Netra pipeline to Emden in Germany (RZ, May 27, 2000 and AN, pp. 113). This Minor contract secures the supply from July 1, 2000 until October, 1 2006 and realises in this way the first diversification option away from Russian import. It has to be seen as a try-out in prospect of the Major Contract, demanded by Norway to check out the Polish market (Woźniak, 2004). At the end of 1999, the negotiators still saw three options through which the Norwegian gas from Emden could reach Poland. A first possibility was to transport it through the existing German pipeline system to Bernau (near Berlin), and then further to Szczecin in Poland. This would demand the construction of the Bernau-Szczecin pipeline, which should have been operational by October 1, 2000. The three first months of the contract would be bridged by a swap agreement or the contract's starting date would be postponed. A second option would let the gas flow to the Southern border point Zgorzelec under an agreement that PGNiG would close with German companies. A last alternative would be a six years swap arrangement, but that would not realise a physical delivery of Norwegian gas (AN, pp. 73-81). The Polish Government in the Spring of 1999 namely deferred the signing of a contract between PGNIG and the Dutch company Gasunie, because it was a swap agreement (RZ, December 11, 1999). This narrows the negotiations with German partners down to the companies Ruhrgas AG and VNG AG, since only they are able to provide Poland Norwegian gas directly from Emden (AN, pp. 147-154).

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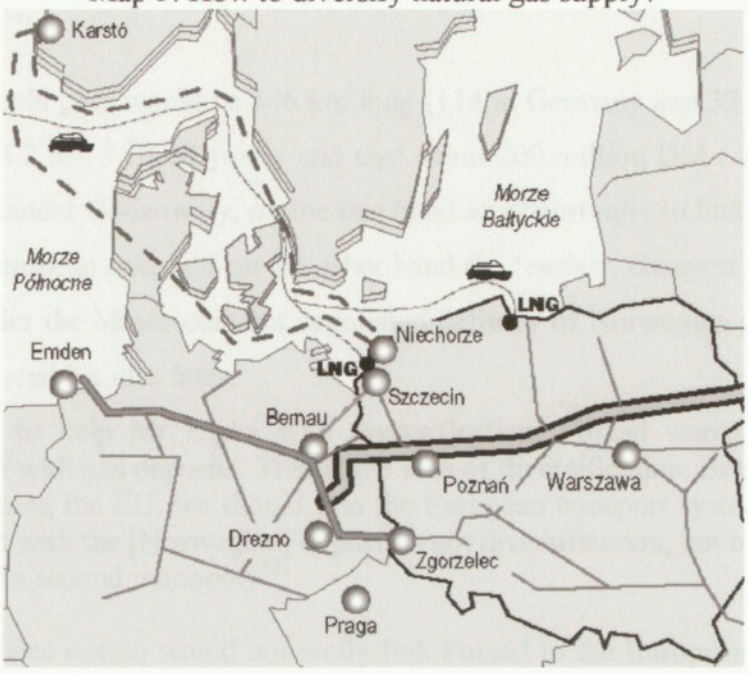
[50] 'Rokowania z pozostałymi partnerami toczyły się dobrze aż do dnia, w którym zakończył swą misję rząd Hanny Suchockiej... Rokowania z Norwegami utknęły z niewiadomych przyczyń i trwały w zawieszeniu aż do wznowienia ich pod auspicjami rządu Jerzego Buzka. Gaz z Norwegii to nie jest dziwaczny pomysł 'otoczenia premiera J. Buzka', lecz realizacja programu bezpieczeństwa energetycznego przyjętego 8 lat temu i sabotowanego przez ten czas dość skutecznie przez PGNiG za przyzwoleniem SLD' (AN, pp. 126-127).

Map 5: How to diversify natural gas supply?



Source: RZ, February 19, 2001.

The Polish government was not in favour of the first project, since it would not realise physical diversification. Due to the fact that the pipeline would be linked to the same system as the existing Jamal stretch, Russian gas could be delivered to Poland via a roundabout way. Theoretically, this is also the case with the Zgorzelec variant (see Map 5), but the international partners of the pipeline differ. The key factor is that Aleksander Gudzowaty is active in the Bernau-Szczecin IRB building company, with a share of 50 percent held by Bartimpex, and that he could realise the same as what he does at the Eastern border of Poland; being the go-between in Russian natural gas import. But there is more. When the Bernau-Szczecin line would be operational in October 2000, and the initially negotiated amount of Norwegian supply would be possibly increased up to 3 BCM from October 2003 on (AN, pp. 76), the Polish North-West would receive so much natural gas, that the Major Contract would not be profitable anymore (Naimski, 2004). The Position of the Diversification Group (Stanowisko Zespołu ds. Dywersyfikacji dostaw gazu) on January 21, 2000 stated more in general:

> 'We are afraid that decisions concerning the construction of the Germany-Szczecin pipeline, with the flow capacity in the compartment of 20-40% of state annual gas consumption, eliminate the opportunity to invest in the pipeline connecting the North Sea Norwegian deposits with the Polish coast. Particularly aimless within this case is

> the continuation of any mutual works with the Norwegian side concerning an agreement[51]'.

The Bernau-Szczecin pipe would be 146 km long (114 in Germany and 32 in Poland), would have a capacity of 2,5 – 3 BCM yearly and cost about 200 million DM (AN, pp. 125). It is, according to Alexander Gudzowaty, on the one hand an opportunity to link the Polish system to the Western European one, and on the other hand the 'easiest, cheapest and fastest way[52]' to receive the under the Minor contract negotiated delivery of Norwegian gas. As Alexander Gudzowaty motivated his idea later:

> 'I wanted to help Mr Lipka with diversification. Poland wants to have a direct connection with gas deposits. That is the idea of diversification. But I think, that since we are joining the EU, we should join the European transport system. I believe that a connection with the [Norwegian] deposit is not diversification, but on the contrary, the creation of a second monopoly[53]'.

Indeed, the Zgorzelec option would not really link Poland to the European system, since the pipeline stops at the border. However, the delivery in Zgorzelec would be as easy and fast, and the Norwegian gas will be as expensive in Niechorze (through a direct Polish-Norwegian pipeline) as in Emden, after which still German transit tariffs have to be paid (Idem, pp. 127).

The pipeline would be built by IRB. The Polish-German building company IRB, in which Bartimpex and Ruhrgas are equal shareholders, got registered in February and received in May 1999 from the URE (Urząd Regulacji Energetyki) a ten year trade licence for natural gas (Idem, pp. 49-53). It allows IRB to build the pipeline independent from PGNiG and pump through it not only the Norwegian gas from the Minor Contract, but also gas from Ruhrgas 'or from companies linked with it[54]'. Firstly, this would increase Ruhrgas' transit tariffs and export possibilities to Poland. As Andrzej Lipko noted:

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[51] 'Obawiamy się, że decyzje w sprawie budowy gazociągu z Niemiec do Szczecina, o docelowych zdolnościach przesyłowych w przedziale 20-40% rocznej krajowej konsumpcji gazu, eliminują możliwość inwestowania w gazociąg łączący złoża norweskie na Morzu Północnym z wybrzeżem Polski. W szczególności bezprzedmiotowe stanie się również kontynuowanie wspólnych prac ze stroną norweską nad porozumieniem w tej sprawie' (Idem, pp. 9).

[52] 'Trasa Norwegia-Emden-Bernau-Szczecin jest najprostszą, najtańszą i najszybszą' (AN, pp. 127).

[53] 'Chciałem pomóc panu Lipce w dywersyfikacji. Polska chce mieć bezpośrednie połączenie ze złożami gazu. Taki jest pomysł na dywersyfikację. A ja myślę, że skoro wchodzimy do Unii Europejskiej, powinniśmy się połączyć z systemem transportu europejskiego. Uważam, że łączenie się ze złożem nie jest dywersyfikacją, jest to bowiem tworzenie drugiego monopolu' (Rz, December 21, 2000).

[54] '... lub spółki z nim związane' (Idem, pp. 51).

> 'According to Ruhrgas, connecting the Polish gas system with EU gas pipelines would be the best diversification for Poland, but - to tell the whole truth - they only care about their own system'[55].

And secondly, Russian gas would find its way to Poland from the West. This is why PGNiG got informed by the Economic Department to stop negotiations with IRB (AN, pp. 121-125 and RZ, February 3, 2001). Lipko's statement in this matter diametrically differs from Gudzowaty's above cited opinion:

> 'It is all about the fact that the Polish company PGNiG should be a subject on the European gas trade market, and not the object in the trade, created by GAZPROM and Ruhrgas[56]'.

Due to the huge import volume of the Jamal contract, Poland has only a 5 BCM import diversification margin. Since this 5 BCM is the 'absolute minimum' base for the construction of a pipeline directly from foreign gas fields (AN, pp. 126-127), the Diversification Group considered all other projects except from the Major Contract inferior. This is why the Group sees the Bernau-Szczecin project only possibly realised in the longer term. As explained its Member Barbara Litak-Zarębska: 'We are facing, as I believe, a hark back'[57], and its Chairman Jerzy Kropiwnicki:

> 'I am not against the Bernau-Szczecin pipeline in general – provided, that its construction will not endanger the realisation of actual diversification delivery, which is the realisation of a direct connection between the Polish coast and Norwegian deposits. More precisely: when we sign the deal with Norway and the 'big pipe' construction will start- then it is welcome. But sooner - No[58]'.

However, not all members shared this opinion. Jan Szlązak did use his *votum separatum* when the Group's Position in January 2000 (vide supra) got approved. In his motivation letter, he explained the different viewpoint of the Ministry of Economics (Idem, pp. 49-53). In case of a clear division between the construction and operation activities of the Bernau-Szczecin line, in which in the latter one Ruhrgas would be the exclusive partner of PGNiG and not demand

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[55] Według Ruhrgasu, najlepsza dywersyfikacja dla Polski to połączenie naszego systemu gazowniczego z systemem gazociągów Unii Europejskiej, ale tak naprawdę chodzi im o własny system' (RZ, November 15, 2001).

[56] 'Chodzi o to, by Polska firma PGNiG, był podmiotem subject w handlu gazem na rynku europejskim, a nie przedmiotem object w handlu, kreowanym przez Gazprom i Ruhrgas' (Ibidem).

[57] 'Grozi nam, jak sądzę, powrót do punktu wyjścia' (Idem, pp. 140).

[58] 'Nie jestem przeciwnikiem rurociągu Bernau-Szczecin w ogóle – pod warunkiem, że jego budowa nie zagrozi realizacji rzeczywistej dywersyfikacji dostaw, czy realizacji bezpośredniego połączenia polskiego wybrzeża Bałtyku ze złożami norweskimi. Mówiąc dokładnie: jak już zostanie zawarta umowa z Norwegią i zostanie podjęta budowa 'wielkiej rury' – to proszę uprzejmie. Ale wcześniej – nie' (Idem, pp. 127).

any additional conditions of e.g. own supply possibilities for the transport of Norwegian gas[59], the pipeline is a first profitable diversification in the short term and would safeguard the Polish dependence in expectation of the still not sure realisation of the direct Polish-Norwegian pipeline. The Minister of Economics, Janusz Steinhoff, specified this idea and worked out a three stages model, in which chronologically the Zgorzelec option would be followed by the Bernau-Szczecin and later Norway-Niechorze one. As soon as the Bernau-Szczecin possibility can be operative, it is to be preferred above Zgorzelec, because of the access to the Western European pipeline system. In this way diversification can take place before the by 2006 supposed construction of the Norway-Niechorze project will be ready (AN, pp. 147-154). Afterwards, the gas flow in the Bernau-Szczecin pipeline can be reversed. However, this argument does not make much sense (Idem, pp. 53). Firstly, in this way Norwegian gas would reach Germany through an insufficient longer and more expensive way (RZ, February 23, 2001). And secondly, since the pipeline would fall under German and Bartimpex' jurisdiction, such a decision is very unlikely to be taken (AN, pp. 90 and pp. 110).

Steinhoff's scheme seemed to be realised, since PGNiG wanted to sign two additional contracts with Ruhrgas, in which Ruhrgas guaranteed the delivery of the Norwegian gas under the Minor contract until the middle of 2001, under the condition that from that moment on, this gas could reach Poland through the Bernau-Szczecin connection. Junior Minister of Treasury Barbara Litak-Zarębska and Jerzy Kropiwnicki already mentioned this to the Prime Minister on February 9, 2000 and recommended:

> 'The case is urgent. Immediate actions are to be taken. We should not exclude that given concessions should be expelled, since we cannot allow the Bernau/Szczecin pipeline to advance the Norwegian contract accomplishment[60]'.

But despite an official 'recommendation to restrain the Rurhgas agreement realisation[61]', PGNiG's CEO Stefan Geroń wrote to Minister Steinhoff on March 21:

> 'On March 8, 2000, the PGNiG Supervisory Board achieved an accord for signing two contracts concerning Norwegian gas transport through Germany and, after gaining two expert opinions and a second Supervisory Board meeting on March 20, 2000, during which no voting recapitulation motions occurred, I politely inform, that on 22.03.2000 Ruhrgas A.G./VNG will be informed about the above mentioned readiness to sign

[59] PGNiG indeed affirmed on December 20, 1999 that ' nie ma obowiązku zakupu gazu niemieckiego od niemiecko-polskich inwestorów odpowiedzialnych za budowę gazociągu Bernau-granica polska i granica polska-Szczecin' (AN, pp. 73).

[60] Sprawa jest pilna. Trzeba podejmować szybkie działania. Nie należy wykluczać cofnięcia z urzędu udzielonych koncesji, by nie dopuścić do sytuacji, w której budowa rury Bernau/Szczecin wyprzedziłaby zawarcie kontraktu norweskiego' (Idem, pp. 55).

[61] 'Polecenie wstrzymania się od realizacji kontraktu z Ruhrgas' (Idem, pp. 63).

contracts and GFU Norway will be informed about the possession of transit way through Germany[62]'.

The Group immediately asked the Prime Minister to dismiss the PGNiG Management (AN, pp. 63), which however was only realised in June 2000. On March 28, the Supervisory Board of PGNiG approved with a small majority of 6 against 4 the Resolution (Uchwała) Nr 3/II/00 proposed by its Management, that dictated PGNiG to close the earlier mentioned two agreements; a transport agreement with Ruhrgas AG and VNG AG for Norwegian gas only until September 30, 2001 without an obligation to buy German gas, and a second one to realise the Bernau-Szczecin project, of which PGNiG would be the Polish operator and in which it would hold at least 25 % of the shares. According to the Chairman of the PGNiG Supervisory Board, Krzysztof Głogowski, the Resolution is in contradiction with Resolution Nr. 2/II/00, which states that in all negotiations a direct connection with Norway has to have priority (Idem, pp. 141-146). While the Ministry of Economics accepted Resolution Nr 3/II/00 (Idem, pp. 147-154), Jerzy Kropiwnicki in his letter to the Prime Minister recommended another resolution has to be approved by PGNiG, in which among others the exclusion of any link between the transit of Norwegian gas from Emden to the Polish border and the construction of the Bernau-Szczecin pipeline would be included (Idem, pp. 91-92 and 139-140). Two days later, Ruhrgas informed PGNiG that it refuses to transit the Norwegian gas via Zgorzelec, without the permission of the Polish government to construct the Bernau-Szczecin pipeline (Idem, pp. 110). In the beginning of June, on the 21st World Gas Congress in Nice, Piotr Naimski said to Ruhrgas' CEO Burckhard Bergmann why the Diversification Group cannot agree upon such a suggestion[63]. He proposed Bergmann to convert the until now each year renewed import agreements of 0,4 BCM with Ruhrgas/VNG and 0,04 BCM with VNG (RZ, July 13, 2000) into a 6-year contract, so that Poland until 2006 would get a 0,94 BCM delivery in Zgorzelec. The 6 year time given to Poland and Scandinavia in order to construct the Norwegian-Polish pipe, made Bergmann angry, because:

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[62] W związku z uzyskaniem przez Radę Nadzorczą PGNIG S.A. w dniu 08.03.2000 zgody na podpisanie dwóch kontraktów na transport gazu norweskiego przez teren Niemiec i po uzyskaniu dwu ekspertyz oraz po powtórnym posiedzeniu Rady Nadzorczej w dniu 20.03.2000, na które nie zgłoszono wniosku o reasumpcji głosowania, uprzejmie informuję, że dniu 22.03.2000 zawiadomię firmy Ruhrgas A.G./VNG o gotowości podpisania w/w kontraktów oraz zawiadomię GFU Norwegia o posiadaniu drogi transportu przez Niemcy' (AN, pp. 64).

[63] His three arguments were (1) that a pipeline with a capacity of 2,5 BCM with the possibility to double it (AN, pp. 125) would hinder the realisation of the Major Contract, (2) that revising the flow is unlikely when under Ruhrgas' and Bartimpex' jurisdiction, and (3) that the Group wanted to avoid a situation in which the same go-between in Polish-Russian natural gas import issues at the Eastern border, will be active at the Western border as well (Idem, pp. 110).

> 'if Poland together with Denmark, Norway and Sweden will realise the direct connection with deposits other than the Russian ones, then the role of Ruhrgas and its expansion on the European gas market will be limited[64]'.

The key element that explains Bergmann's willingness, despite his anger[65], to research an increased flow towards Zgorzelec (AN, pp. 198-200), is Statoil's modification of ideas. While Statoil's President Peter Mellbye faxed on June 5 to Jerzy Kropiwnicki that: 'the Norwegians have nothing against the construction of Bernau-Szczecin and are ready to gradually broaden the Minor Contract through this connection[66]', during a meeting with Piotr Naimski a day later, he agreed upon postponing the Minor Contract for a year in order to give the Major project time, when the Germans would not take into consideration Naimski's proposal (Idem, pp. 110). The final agreement between PGNiG, Statoil, and the German companies Ruhrgas and VNG for a 6-year supply of 0,94 BCM at Zgorzelec from October 1, 2000 on, was signed on July 13, 2000. The opinions of Peter Mellbye and Fritz Gautier, from the Ruhrgas management, perfectly illustrate the Norwegian and German conception of the contract. When they were asked if they were still interested in the Bernau-Szczecin project, they answered:

> Peter Mellby: 'it will be easier to realise the first supplies through the already existing connections. Besides that, the Polish government was not interested in creating this connection, considering it a threat for the Major contract's conclusion'.
>
> And Fritz Gaultier: 'Such decision will surely not be made this year. I will not exclude [Ruhrgas'] share in the Bernau-Szczecin gas pipeline construction. It will, however, depend on the gas market development in this area[67]'.

Because the construction of an additional needed compression plant in Zgorzelec could not be realised by October 2000, during the first year, apart from the 0,44 BCM German import, only 0,2 BCM Norwegian gas could get delivered (Idem, pp. 201-202). On January 19, 2001 Jerzy Bużek symbolically opened the gas tap in Zgorzelec as a friendly gesture towards Norway (vide infra), since the Minor Contract only would be fully implemented from October 2001 on (RZ, January 20b, 2001).

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[64] 'Jeśli Polska wspólnie z Danią, Norwegią i Szwecją zrealizuje bezpośrednie połączenie ze złożami innymi niż rosyjskie, to rola Ruhrgasu i jego ekspansja na europejskim rynku gazowym zostanie ograniczona (Andrzej Lipko in RZ, November 15, 2001).

[65] 'Bergmann jest wściekły, ale konstruktywny' (Idem, pp. 111).

[66] 'Norwegowie nie mają nic przeciwko budowie Bernau-Szczecin i gotowi są tym połączeniem stopniowo poszerzać mały kontrakt' (Idem, pp. 110).

[67] Peter Mellby: 'że łatwiej będzie realizować pierwsze dostawy przez już istniejące połączenia. Poza tym budową tego połączenia nie był zainteresowany polski rząd, uważając ją za zagrożenia dla zawarcia dużego kontraktu'.
And Fritz Gaultier: 'Taka decyzja na pewno nie zapadnie w tym roku. Nie wyklucze udziału [Ruhrgasu] w budowie gazociągu Bernau-Szczecin. Zależeć to będzie jednak od rozwoju rynku gazu w tym regionie'. (RZ, July 14, 2000).

Of course, Aleksander Gudzowaty was not happy with this outcome. He wrote a letter to the Prime Minister, in which he questions his policy:

> 'The Group does not have an advisor's character, but on the contrary, takes control over the gas engineering policy, in this way practically incapacitating the PGNiG Management. This means also that all the agreements with the Ministry of Economy are of a weakened quality, like for example, the Bartimpex agreement with Minister Janusz Steinhoff considering the 'Szczecin Pipeline' construction, which is now being questioned by the Group[68]'.

Later, he accused Piotr Naimski in an open letter to Jerzy Bużek to blacken Bartimpex' reputation by the German negotiators, as if he would have said: 'as long as Bartimpex is present in the [Bernau-Szczecin] project, the Polish government will not support it[69]'and brought a still undecided action against him (Naimski, 2004). Moreover, he claims a zł. 6 million damages from the Ministry of Treasury for the - in his opinion – illegal recommendation towards PGNiG to stop negotiations (RZ, February 3, 2001 and AN, pp. 129, 130 and 131).

Gudzowaty's link with the SLD was described by Bronisław Wildstein as: 'the relations linking Bartimpex with SLD are equally intense as the ones linking it with GAZPROM[70]'. It is not a surprise thus, that right after they won the elections, Ruhrgas' CEO re-opened the Bernau-Szczecin discussion. In 2003 moreover, Gudzowaty's price quotation got accepted by the Polish government during a secret sitting (Gazeta Wyborcza, February 27, 2004). It is doubtful that his proposal can be more competitive than for instance the natural gas delivery through the BalticPipe, because of the high German transit tariffs. Bartimpex and Ruhrgas are still ready to build the Bernau-Szczecin connection. The story certainly will be continued...

2.9. The Major Contract

The Minor Contract is only a try-out in the framework of long-term Norwegian supply. This would be realised by a pipeline from the Norwegian city Karsto (the Norwegian Continental

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[68] 'Zespół nie ma cech zespołu doradczego, a przeciwnie, przejął sterowanie polityka gazownictwa praktycznie ubezwłasnowolniając Zarząd PGNiG S.A. Oznacza to także, że wszelkie uzgodnienia z Ministrem Gospodarki mają osłabiona jakość, choćby ten przykład, że Bartimpex uzgodnił z Ministrem Januszem Steinhoffem budowę 'Gazociągu Szczecin', który obecnie jest kwestionowany przez Zespół' (AN, pp. 167-169).

[69] 'jak długo w projekcie [Bernau-Szczecin] będzie Bartimpex, to rząd polski nie udzieli mu poparcia' (Idem, pp. 124).

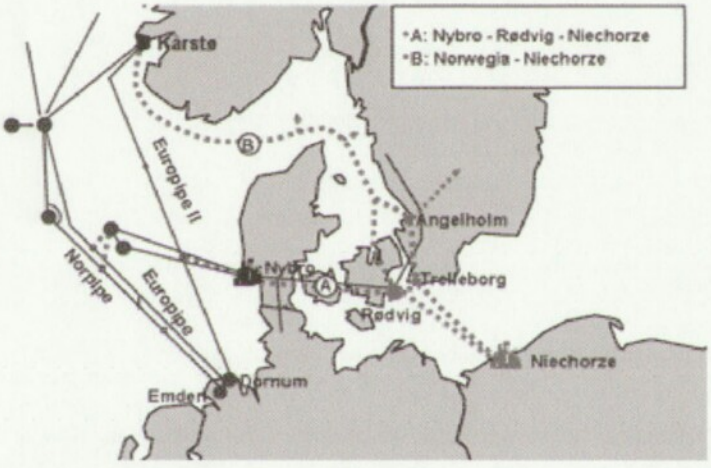
[70] 'Związki łączące Bartimpex z SLD są równie intensywne jak Bartimpeksu z Gazpromem' (RZ, July 6, 2001).

Shelf) to Niechorze at the Polish Baltic Sea shore (See Map 6). The Pipeline would deliver 5 BCM yearly to Poland, and an annual 3 to 5 BCM to other countries like possibly Denmark, Sweden, Lithuania, Latvia, Slovakia and Hungary. In this way, it would ensure Norwegian supply to other Scandinavian countries and be the first long-term prospect for the Central-European market to diversify its Russian dominated natural gas import. As Jerzy Bużek noted in his letter to his Norwegian college:

> 'It is not only Norway and Poland that may benefit from such a venture. Countries of the whole region have already expressed their strong interest in a new transportation route form the Norwegian gas fields' (AN, pp. 174-176).

Here we present the difficulties linked with the route of the Norwegian pipeline, the Danish involvement through the BalticPipe, its competitor the Baltic Gas Interconnector and the EU position in this Baltic Sea debate.

Map 6: The Scandinavian -Polish possible pipeline routes



Source: Statoil a, 2004.

The purpose of the Diversification Group was to 'implement the intentions embedded in the Declaration of May 5, 1999' (AN, pp. 88). Therefore, it sought to get both PGNiG and GFU ready to sign the Major Contract. Two political meetings took place in the Spring of 2000: on April 6, Jerzy Bużek spoke with Jens Stoltenberg in Oslo, and on May 19, representatives of the Norwegian Ministry of Petroleum and Energy and Statoil visited Warsaw (Idem, pp. 82-88 and pp. 93-98). The Polish political request to sign the Major Contract in the beginning of July during the meeting of both Prime Ministers (similar to what happened in 1999), could not complied with, since the Norwegian preparing procedure takes a minimum of 1 year (Idem, pp. 84). Therefore, only a meager political 'Joint Statement' was signed on July 3, in which

the Prime Minister's support the negotiations between PGNiG and GFU aimed at 'the increase of deliveries of natural gas which can form a basis [sic] for a new gas pipeline connection' and 'both Governments will continue to address issues requiring Government involvement as a matter of priority' (AN, pp. 113 a,d pp. 172)[71]. The Major Contract was only signed more than a year later, on September 3, 2001 (RZ, September 4, 2001). Especially in January 2001, the possibility of the contract stood under pressure. Jerzy Bużek's official turning on of the gas tap in Zgorzelec has to be seen as a gesture to support the Norwegian long-term supply project (Idem, January 20, 2001).

The pipeline would have, according to which route would be decided upon, a length of 800 (AN, pp. 125) to 1100 kilometers (RZ, September 4, 2001) and cost about 2 to 3 billion USD. The Norwegian GFU would finance the whole line, which would be paid on account by Poland through an import price that lays 30 percent higher than the Russian one. However, it has to be stressed that the Norwegian natural gas is from a better quality and this price would not be higher than from the Norwegian gas delivered via Emden through Germany at 104-110 USD per 0,001 BCM (Idem, August 9, 2000). Initially planned to be operative from 2006 on, the implementation date later got postponed to 2008. Poland would receive 0,66 BCM in the beginning, and then gradually increase its import up to 5,3 BCM in 2011 to 2024. Although Norway for a long time asserted that a direct line (here understood as without Danish cooperation) would only be feasible when its export of the whole maximum put through of 10 BCM could be safeguard, later on it said that additional contracts – besides the Polish Major Contract - for 3 BCM yearly would be enough (Idem, February 19, 2001). However, in negotiations the Norwegians stated that the 'absolute risk threshold ' is 5 BCM[72] and Piotr Woźniak even lowered this to 4,5 BCM (Woźniak, 2004). To ensure the sale of 5 BCM, Norway asked the guarantee of the Polish government, that even after the privitisation of

[71] Eric Johnson, the Representative of the Director of the Norwegian Gas and Oil Department said on a meeting with Bohdan Jelinski, the Commercial Counselor in the Polish Embassy in Norway, on April 7: 'They can't see any chances for signing the final contract during the Norwegian Prime Minister's visit in Poland in July, since this kind of procedure lasts at least one year (e.g. in the case of the last agreement with France), but we will surely sign 'something binding and important'' (Szans na podpisanie finalnego kontraktu podczas wizyty Premiera Norwegii w Polsce, na początku lipca nie widzą, gdyż procedura taka trwa minimum 1 rok (np. w Przypadku ostatniego kontraktu z Francją), ale na pewno podpiszemy... 'coś ważnego i wiązącego') (AN, pp. 84).

[72] 'Yes, the Norwegians have informed us that the pipeline cost-effectiveness requires sending 10 mld m3, but added immediately that 5 mld m3 is their 'absolute risk threshold' ('Owszem, Norwegowie informali nas, że opłacalność rury wymaga przesyłania 10 mld m3 ale jednocześnie stwierdzili, iż 'absolutny próg ryzyka' stanowi dla nich 5 mld m3' (Idem, pp. 126-127).

PGNiG, the company would be able to take and pay the contracted amount. This unusual demand got commented on by Ruhrgas' CEO Burckhard Bergmann:

> 'The fact that Norwegian suppliers require governmental warranties from PGNiG for their gas supplies, stating that the gas will be received and paid for, in my opinion means that this supplier is not convinced about the present structures' efficiency. In Western Europe we are not familiar with a warranty demand. As far as I know, such warranties were not necessary in other countries in Central Europe[73]'.

The pipeline from Norway could be build in three different ways (See Map 6). The first one (A) would run under water through the Danish strait, and would then be linked to the BalticPipe (the green line; vide infra). This line could deliver 5-6 BCM yearly (AN, pp. 195-197). To make a connection with the Norwegian Continental Shelf possible, an extension from the Western Danish Sea shore to the EuroPipe II is necessary. The second option (B) would start from Karsto and bypass the Danish mainland towards Rodvig, and then merge into the BalticPipe to Poland. And the third option (also B) would construct a direct line via Trelleborg in Sweden to Poland. In this way the Swedish market, which has only a little amount of domestic natural gas production in the South, would receive Norwegian natural gas imports (Statoil a, 2004). Norway did neither want Polish interference in the decision making upon which route should be preferred, nor asked for the search of additional customers[74]. In this respect, the letter of Junior Minister Andrzej Karbownik, right after his appointment on June 26 2000 in the Diversification Group[75], to the Norwegian Ministry of Petroleum and Energy, asking for a meeting between Polish, Norwegian and Danish political representatives to discuss the route of the pipeline before the signing of the Joint Statement on July 3, can be seen as an inconvenient dart out[76]. There was quite some hesitation on which project would be the most adequate. In April 2000, Eric Johnson noted:

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[73] 'Jeżeli dostawcy norwescy wymagają dla dostaw gazu do Polski od PGNiG przedstawienia gwarancji rządowych, iż gaz zostanie odebrany i zapłacony, to jest dla mnie znak, że ten dostawca nie jest przekonany co do sprawności obecnych struktur. W Europie Zachodniej nie znamy czegoś takiego jak wymóg gwarancji. Z tego co wiem, takich gwarancji nie zadano w innych krajach Europy Srodkowej (RZ, February 23, 2001).

[74] Although Poland was officially not entitled to find other customers, it was involved, since 'it is not interested in receiving a fine if the pipeline is not ready in time, but in having gas' (Woźniak, 2004).

[75] Andrzej Karbownik replaced the dismissed Jan Szlązak.

[76] In a letter to the Prime Minister of June 27, Jerzy Kropiwnicki asks for his dismissal: 'I believe that the idea of sending this letter to Norway is highly irresponsible. I would like to remind you that representatives of the Norwegian government have stressed many times that the choice of the transmission route belongs to the supplier, and that our initiative in this matter is not required… I turn to you… to dismiss Mr Andrzej Karbownik from the Group' (Pomysł posłania takiego pisma do Norwegii uważam za w najwyższym stopniu nieodpowiedzialny. Pragnę przypomniec, iż przedstawiciele rządu Norwegii kilkakrotnie z naciskiem podkreślali, iż wybór trasy przesyłu należy do dostawcy i że nie życzą sobie naszej inicjatywy w tej kwestii... Zwracam sie... o powołanie p. Andrzeja Karbownika w skład Zespołu') (Idem, pp. 116). Maciej Musiał, the Director of the Prime Minister's Office (Szef Kancelarii Prezesa Rady Ministrów), answered Kropiwnicki on

> '...that Norway is not interested in the continuation of the 'Danish aspect' and refuses the Danish cooperation within the project. Maybe after the conclusion of our plans (the Major Contract and the gas pipeline) we will take advantage of it, but then... 'it will be convenient for us[77]'.

But when Norwegian and Polish representatives met again in May, they declared:

> 'Contrary to the decision of the Norwegian side made on April 6 this year, presently Norwegians consider the DONG participation as a variant of the project's fulfilment[78]'.

The Danish option would be cheaper, since the BalticPipe would be financed by an international consortium (vide infra). Moreover, the project is feasible by a lesser demand (AN, pp. 195-197). And the disadvantages of the Swedish alternative are 'the strong environmental movements and necessary talks with communities[79]'.

In the time between, Norway and Denmark reached an agreement in which they stated their consensus on a Danish transit tariff. Initially, the Norwegian opinion, which demanded a free send through on Danish territory, contradicted with the opinion of Denmark, that wanted to earn from the international deal. Finally, the Norwegians agreed upon a not higher than what DONG pays, `fair` tariff (Woźniak, 2004). This turn lead to the signing of an agreement in the beginning of October between representatives of Statoil (not the GFU), DONG and PGNiG on the possible construction of the BalticPipe (RZ, October 5, 2000). Later however, the Norwegians switched back to the Swedish idea, since, even though Denmark would charge the same transit price, Norway considered it too high for the transfer of 5 BCM (Grabarczyk, 2004).

The BalticPipe was designed to run the 186 miles from Rodvig to Niechorze across the Baltic Sea. The Pipe would have a capacity of 5 to 6 BCM yearly and cost approximately 330 million Euro, of which Poland was expected to pay one third (RZ, November 10, 2000). In

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July 6, that the dissolution of the Diversification Group on July 4, makes the realisation of Kropiwnicki's request superfluous (AN, pp. 118).

[77] '... że Norwegia nie jest zainteresowana kontynuacja 'wątku duńskiego' i odrzuca duński współudział w projekcie. Może kiedyś po finalizacji naszych planów (duży kontrakt i gazociąg) z tego skorzystamy, ale wtedy... 'gdy będzie to nam na rękę' (Idem, pp. 84).

[78] 'z rozmów norwesko-duńskich wynika, że w przeciwieństwie do stanowiska zajętego przez stronę norweską 6 kwietnia br. obecnie Norwegowie uwzględniają partycypację DONG jako wariant realizacyjny projektu' (Idem, pp. 195).

[79] 'strong ecological movements and the necessity to talk with the communities' ('silne ruchy ekologiczne i konieczność rozmów z gminami') (Idem, pp. 89-90).

February 2000, DONG and PGNiG were working out a feasibility study with support of the European Union[80]. As the by both companies drawn up Press Release of these talks reads:

> 'The new pipeline – BalticPipe - will not only be a transport route for Danish gas to Poland, it should also be seen as an important elimination of a 'missing link' in the gas infrastructure of the Baltic Sea. The connection will add supply diversification and enhance security of supply in the region. The pipeline will open up for gas trade possibilities between Poland and Scandinavia, and it will also be connected to the German system. It might also be of interest to transport Norwegian gas to the region' (AN, pp. 134-136).

A DONG – PGNiG contract from July 2, 2001 foresees a yearly Polish import of an average annual 2 BCM Danish natural gas from 2003 on over 8 years[81] (RZ, September 4, 2001). The Danish Contract did not get ratified by Spring 2003, and thereby expired before implementation.

Analysing this quote leads to an interesting outcome. First of all, it might look strange that the Norwegian perspective is stated as conditional. And secondly, in the previous drafted Press Release could be found that a connection will be realised not only to the German, but also to the Russian [sic] system (Idem, pp. 137-138). The explanation of the for DONG and PGNiG both beneficial Russian motive will bring us to the reserved Norwegian project. Denmark, as a member of the EU, is looking for the diversification of its natural gas supply and Russia would form in this respect a third needed source. When Russian gas could be delivered through the Jamal Pipe to Berlin (See Map 5), and then through the Bernau-Szczecin stretch back towards Poland, only a few kilometers from Szczecin to Niechorze would have to be bridged, to make a full connection to Denmark work (Woźniak, 2004). The money the EU offered for a feasibility study also aimed to support in this way the opening of the Western market for Russian gas. The study moreover concentrates on linking the Danish with the British system, since also in the UK, Russian gas would have safeguard diversification (BASREC, 2002). This places the Bernau-Szczecin debate and the uncertainty about the initially planned parallel Jamal II stretch in another perspective. As earlier mentioned, the PGNiG management under the supervision of Stefan Geroń was in favour of the Bernau-Szczecin plan. An often heard argument was that it is better to ensure diversification through the Bernau-Szczecin line and BalticPipe, even if a Norwegian linkage to it is not sure, than

[80] The project got 2 or 3 million Euro from the EU (Woźniak, 2004).

[81] The 100 percent state owned company DONG only holds a licence for the country's natural gas fields until 2011. Therefore, it cannot offer long-term contracts; an eight years contract was the longest they could write out (Ibidem).

waking up on a blue Monday without anything (Woźniak, 2004); or, to turn it upside down, two birds in the hand are worth one in the bush. Norwegians were afraid that the diversification motive had drove Denmark to the project, and that they would most likely invent in 2011 a reason why the connection of their system with the Norwegian one would not take place. The Europipe II is moreover already working at full capacity and would not serve in this way the first option (A) to get realised (Ibidem). Moreover, the negotiated Danish transfer prices were fair, but still much more expensive than when Norway would be responsible for the natural gas transit through a direct line (Grabarczyk, 2004). Concerning Germany now, the same incentive as the Russian can be given; through the Bernau-Szczecin-Niechorze-Rodvig line export to Denmark could emerge. In this respect, the initial members of the consortium could be extended to Ruhrgas. Or, as Jerzy Bużek formulates it to Jens Stoltenberg:

> 'Others are eager to follow, and there is a logical option to include the German Ruhrgas as soon as the consortium is fully operational' (AN, pp. 174-176).

When the two contracts were signed on July 2, 2001 between PGNiG and DONG, and on September 3, 2001 between PGNiG and GFU, it was obvious that the BalticPipe would not form the precedent of the Norwegian-Polish project. In the contract of September 2001 is specified, that apart from the 5 BCM natural gas delivery to Poland, 1 BCM was intended to serve the Southern-Norwegian, and 2 BCM the Swedish market.

Besides the political speculative - for Norway negative - opportunities of the BalticPipe, also another obstacle was hindering the Norwegian project: the Baltic Gas Interconnector project (BGI) between southern Sweden, eastern Denmark and northern Germany of the Danish Energi E2 and Hovedstadsregionens Naturgas I/S (HNG), the Swedish Sydkraft, Göteborg Energi and Öresundskraft and Lunds Energi and German VNG – Verbundnetz Gas companies. The pipeline will initially have a capacity of 3 BCM yearly, gradually increasing to maximum 10 BCM, cost about 255 Million euro covered by the investors and run from Rostock in Germany to Trelleborg in Sweden (See Map 7) with a split off point 50 kilometer south of Avedøre to Denmark. In this way, it would connect the German pipeline system west of Rostock, the Avedøre plant and the Vattenfall Naturgas pipeline south of Malmö in Sweden (BGI, n.d.). The advantage of the project is certainly its option to reverse transportation and the non-discriminatory Third Party Access. The feasibility study of the project was supported by the EU within the Trans-European Energy Networks Programme (TEN) and currently authorisation processes in the three countries are running. It is only a part

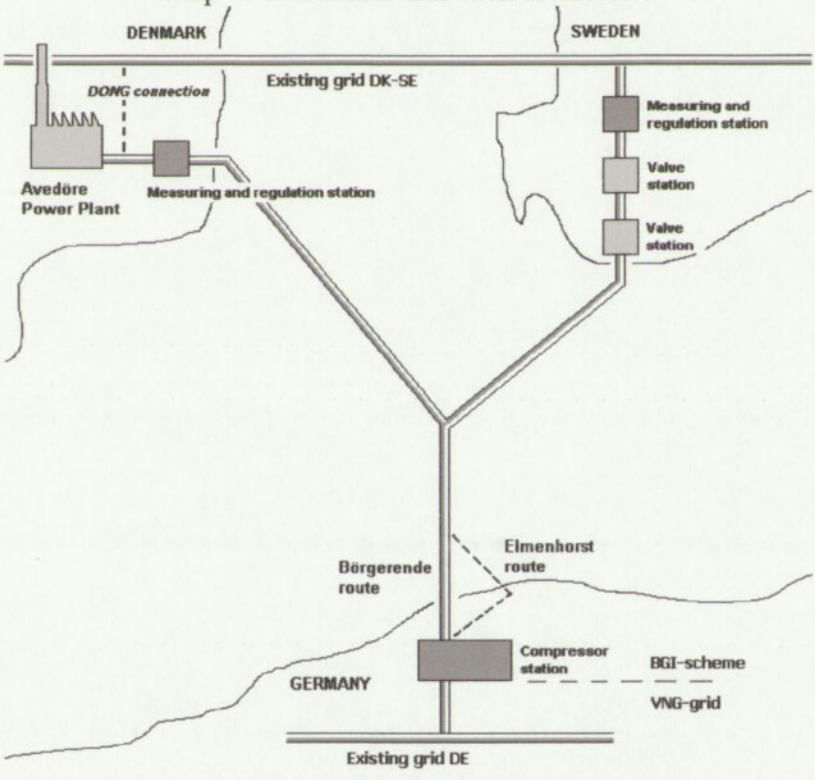
of the Nordic Gas Grid project that would link Northern with Continental Europe, and 'offer a long term alternative transit route for Russian gas to the EU' (Burgos, 1998). The Baltic Gas Interconnector is scheduled to be operative in 2006 (BalticGas, 2004). However, the last two years no noticeable advances are made, because of the sufficient present natural gas supply to Germany and the economic slow down. Minister Steinhoff was in March 2000 totally aware of the BGI's competitive position:

> 'For PGNiG and DONG it is obvious that if the Rostock-Telleborg gas pipeline will come into being, there will be no chances for constructing the connection between the Norwegian shelf deposits directly with the Polish Baltic coast. There arise possibilities for gas transport from Norway to Poland through German regions; Emden or Rostock[82]'.

And the Baltic Gas Interconnector leaflet alludes the same:

> 'There are also plans maturing to transport gas from the Norwegian Continental Shelf via southern Sweden to the Continent, with particular emphasis on the Polish market' (BGI, n.d.).

Map 7: The Baltic Gas Interconnector.



Source: BASREC, 2002, pp. 9.

[82] 'Dla PGNiG S.A. oraz dla DONG jest sprawą oczywistą, że jeśli zostanie wybudowany gazociąg łączący Rostock z Trelleborg, to nie będzie szans na wybudowanie połączenia złóż szelfu norweskiego bezpośrednio z bałtyckim wybrzeżem Polski. Powstaną możliwości do transportu gazu z Norwegii do Polski poprzez Niemcy z rejonu Emden lub z rejonu Rostock' (AN, pp. 151).

Where the BalticPipe got the support of the European Union, the Norwegian direct line on the contrary definitely not. Piotr Woźniak explains how a month before the Norwegian contract was signed, a letter without any date or signature from the EU Directorate General of Energy and Transport arrived at the Ministry of the European Integration Committee (Ministerstwo Komitetu Integracji Europejskiej) in Poland. It mentioned that 'Poland had to follow the EU Directives if it signs a huge contract' – omitting in this way the word 'Norway'. The Polish request for clarification was never complied with, and even when the UKIE director specially travelled to Brussels, he remained devoid of any explanation (Woźniak, 2004). It remains unclear why the EU pointed at Poland and not at Great Britain, since the British Petroleum company signed in April 2001 an agreement with GFU for the delivery of an annual 1,5 BCM. First of all, since PGNiG signed the contract, the Polish government did not have any authority in this matter. And secondly, the Polish-Norwegian contract does not differ from the European or global standards under which almost all other EU Member States earlier signed agreements with GFU[83].

It is known, that the actions of the Norwegian GFU are in violation of the EU competition policy. On June 1, 2001 the Norwegian Ministry of Petroleum and Energy dissolved under pressure of the EU the GFU cartel, because Norway is a member of the European Economic Area (EEA) since 1992[84]. However, it allowed GFU to continue its negotiations with Poland – and the EU turned a blind eye to it (Grabarczyk, 2004). It has to kept in mind, that the Poish-EU accession negotiations about energy were finished in July 2001. This is why Anna Łakoma in RZ warns:

> 'Howat Russel [the spokesman of the European Commission in Norway] claims that Poland, being an EU candidate, should already respect the EU competition law. He warns, that after joining EU, this contract will be treated as illegal[85]'.

Because of the ongoing GFU dissolvement period, during the signing of the Major Contract on September 3, 2001 in Oslo the abbreviation was conscientiously avoided, and one spoke

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[83] However, Ewa Grabarczyk has another viewpoint. Norway did not need EU money for a feasibility study, since it is experienced enough to calculate the costs of a designed pipeline. The fact that Norway has to follow the EU competition rules, **although the EU buys oil from the OPEC cartel,** is in here opinion a result of the EEA agreement (Grabarczyk, 2004).

[84] In this context, Norway can, strictly speaking, veto all directives not implemented in the national parlement, but they never did so. The gas competition directives are until now one out of three not truely implemented and followed. Norway believed in the GFU cartel, as the best competitive solution to guarantee delivery terms and enable the exploitation of smaller gas fields.

[85] 'Howat Russel twierdzi jednak, że Polska jako kandydat do Unii już teraz powinna respektować unijne prawo dotyczące konkurencji. I ostrzega, że po wejściu Polski do Unii kontrakt będzie uznany za nielegalny' (RZ, August 11, 2001).

only about 'Norwegian partners' (RZ, September 4, 2001). The 'for still a moment' legal status of the Major Contract was intended to be solved in the same way Western partners did; rather than renegotiating the conditions with the separate Norwegian partners, they split the contract into different parts (Grabarczyk, 2004). As Piotr Woźniak comments this:

> 'These circumstances show that Brussels didn't want PGNiG to sign the agreement with Norwegian suppliers and tried to exert political pressure on the Polish government in this case. GFU's dissolution under pressure from the EU, and the modification of dozens of operative European agreements with GFU into agreements with particular GFU members by practically all gas companies in Europe didn't change, in most cases, the contract conditions for the Norwegian shelf gas supplies. The dissolution of GFU has no influence on the need to diversify the natural gas supplies to Poland, nor does it improve or worsen the conditions of gas deliveries to Poland. In 'my times' PGNiG wanted to be treated the same as the other gas companies in Europe- it settled a contract with GFU just like all the others did (Ruhrgas, Gasunie, Gas de France, etc.) and it would renegotiate it after GFU's dissolution just like all the others would. The equal treatment rule should be respected without exceptions, which means also with relation to the Polish company[86]'.

Like the Danish contract, the Norwegian was never ratified and expired before implementation. On October 2, 2001 the Polish Government recommended PGNiG to ratify the contract 'as soon as possible'[87], but they did not follow this proposition. Concerning the Major Contract on the one hand, the negotiation partners at the end of 2002 took a mutual decision to postpone the ratification date with one year until the end of 2003. That the realisation of the project was at that moment already unlikely to happen, proves the fact that the Statoil person in charge, Ms Ewa Grabarczyk, got another function within the company. At the end of 2003, both parties declared the project 'dead'. Poland considered its present natural gas supplies satisfying and did not see an increase due to the economic slow down, and Norway had not made advance in its negotiations with Sweden. The ratification date of the Danish contract on the other hand, is still postponed every year (Grabarczyk, 2004).

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[86] 'Te okoliczności wskazują, że Bruksela nie chciała podpisania przez PGNiG kontraktu z dostawcami norweskimi i usiłowała w tej sprawie wywrzeć nacisk polityczny na polski rząd. Rozwiązanie GFU pod naciskiem Unii i zmiany kilkudziesięciu obowiązujących europejskich kontraktów z GFU na kontrakty z poszczególnymi członkami GFU przez wszystkie praktycznie firmy gazownicze w Europie nie zmieniły w wiekszości przypadków warunków kontraktowych dostaw gazu z norweskiego szelfu. Rozwiązane GFU nie ma żadnego wpływu na potrzebę dywersyfikacji dostaw gazu ziemnego do Polski i ani nie poprawia ani nie pogarsza warunków dostaw do Polski. Za "moich czasów" PGNiG nie chciał być traktowany inaczej niż inne firmy gazownicze w Europie - zawarł kontrakt z istniejącym GFU tak jak wszyscy inni (Ruhrgas, Gasunie, Gas de France etc.) i renegocjowałby go po rozwiązaniu GFU tak jak wszyscy inni. Zasada równego traktowania winna być respektowana bez wyjątków a więc także w stosunku do firmy z Polski' (Woźniak, 2004).

[87] 'Zalecenie rządu dla zespołu PGNiG, by niewzłocznie notyfikował strony norweskiej' (Naimski, 2004).

Not only the EU, but also the SLD opposition, with spokesman Leszek Miller, questioned the Major Contract. Their argumentation is three-fold. Firstly, they argued that with an annual delivery of 5 BCM, the Polish market would be flooded. But Janusz Steinhoff put him in his place:

> 'It is not true that we will have too much gas. You should remember, that most of this stock, which we are receiving within the confines of the contract with Russia, we were to receive from the second Jamal stretch, and its construction is withheld, although we really counted on its creation[88]'.

Moreover, in contradiction to the Jamal Agreement, the Norwegian contract does not have a prohibition on re-export; if there would be too much, it can be easily resold (AN, PGNiG, 2001). The second blame concerns its 'take or pay' condition. Without this clause however, long term agreements do not exist, since the delivery has to be ensured (European Commission, 2000b). And lastly, the SLD formulated its doubts about the price. Firstly, the exact gas prices are secret and cannot be known by outsiders (Woźniak, 2004). And secondly, the cost of the pipeline would be taken care of by the Norwegians. The worst argument in this respect came from the new Minister of Economics, Jacek Piechota, on November 15, 2001, after the SLD won the elections:

> 'with the actual state of the budget, Poland cannot afford to participate, simply in the name of diversification, in the financing of the new gas pipeline from Norwegian deposits[89]'.

With their arguments, the SLD did not represent the majority of the Polish public opinion. A survey about the Norwegian Contract in October 2001 done by the Centrum Badanii Opinii Publicznej/ Public Opinion research Center CBOS[90] gave the Jerzy Bużek government and the Andrzej Lipko crew of PGNiG the green light for their diversification realisation (CBOS, 2001). 83 percent of the questioned people is in favour of the diversification of the Polish energy market and 66 percent believes that signing the Norwegian contract, which diminishes the Polish dependence on Russia, is useful. The questioned people gave therefore the following arguments: (a) a Russian decrease in delivery will open the market for alternative import sources: 96 percent, (b) Gazprom's monopolistic situation empowers it to force Poland

[88] 'Nie jest prawdą, że będziemy mieli za dużo gazu. Proszę pamiętać, że większość tego surowca, który otrzymujemy w ramach kontraktu z Rosją, mieliśmy odbierać z drugiej nitki gazociągu jamalskiego, której budowa na razie została wstrzymana, choć bardzo liczyliśmy na jej powstanie' (RZ, September 4, 2001).

[89] 'przy obecnym stanie budżetu Polski nie stać na to, by wyłącznie w imię dywersyfikacji dostaw uczęstniczyć w finansowaniu budowy nowego gazociągu ze złóż norweskich' (Idem, December 12, 2001).

[90] The survey got realised from October 25 until October 29 2001 among 1000 adult representative Polish inhabitants (CBOS, 2001).

to pay the price it desires: 90 percent, and (c) economically and politically is Russia a difficult partner to rely on: 68 percent. 56 percent of the questioned people have the opinion, that the Major Contract will better Poland's negotiation position towards Russia. The majority also states, that signing the Norwegian contract will not cause extra political tension with Russia (42 percent against 37 percent). The Polish public opinion also supports the security of energy supply. 69 percent believes, that thanks to the Norwegian agreement, the Polish security of energy supply increases. And 47 percent (against 30 percent of refusals and 22 percent of abstentions) is even willing to pay more for Norwegian gas in order to support a decrease in Polish energy dependence. For an average household the gas would be three groszy more expensive per cubic meter, which would increase their energy bill with zł. 6 a year (Woźniak, 2004).

The economic slow down preceded the final decision on the future pipeline landscape of the Baltic Sea. It is sure, that within the next 5 years none of the above described projects is going to be realised (Grabarczyk, 2004). The Major Contract has to be seen in a broader perspective than the one given in Polish newspapers, where especially the change in the Polish political landscape (in Autumn, 2001) forms the motivation of its failure; on a European scale, it are predominantly economical reasons that explain the status quo of all designed Baltic pipelines.

2.10. Poland as a Gas Trading Hub

After having presented the different projects and possibilities to decrease Poland's dependence on Russian natural gas deliveries, this thesis finally zooms in to an additional trump of diversification in a liberalised energy market: the Gas Trading Hub.

Liberalisation in the Natural Gas sector creates an opportunity to open local gas markets at the crossroads of pipelines. In these trading hubs, the arriving gas can be flexibly resold to natural gas companies exactly at the needed moment. Through auctions, short-term trade or spot trade occurs besides mid- and long-term offers. The aim is to make the market 'liquid', so that gas can be traded repeatedly, before it gets physically delivered. The amount of re-trading before physical delivery by a supplier is called 'churn'; 'the greater the "churn", the greater is the liquidity and therefore the greater the price transparency' (Eurogas, 2003). The basic tasks of a trading hub are on the one hand selling and transporting gas and on the other hand offering storage facilities between transactions as well as information services like electronic trade and price transparency (CREG, 2001). Moreover, trading hubs play a big role in the security of

supply and increase the possibilities of choice for producers and consumers. In Europe, there are gas trading hubs in the UK, Belgium, at the Dutch-German border and in Austria. The NBP (National Balance Point) in England has the longest tradition of operating in a liberalised energy market. Despite its expertise, its isolated position does not guarantee a central role in the Continental European Natural Gas Market. It will have a chance when the liberalisation of the European market will not get realised before new pipelines will connect the island with the main land (Energiemanagement, 2003). The only linkage with the continent for the moment is the UK-Belgium Interconnector to Zeebrugge. The nowadays first position of this trading hub is very likely to decline, since it does not have enough storage capacity (CREG, 2001). To remain 'the largest spot market for natural gas in continental Western Europe' (Suez, n.d.), it tries to play Europe's first fiddle in offering high quality information services through the from Fluxys outsourced company Huberator (Huberator, 2004). More chance in this respect however has the Bunde-Oude trading hub at the Northern Dutch-German border, a crossing point of Dutch, German and Norwegian pipelines[91]. The competing mentality of the Dutch company Eurohub and its German counterpart HubCo bothers the trading hub to flourish, though it has been said that they behave themselves as rivals purposefully (Energy Risk, n.d.). The Austrian Baumgarten then, has the ideal geographic position to supply Western Europe Russian gas. As mentioned before, Russian gas is for many EU-15 countries the desired third source in terms of diversification. In this respect, it can become the most important Central European Gas Trading Hub.

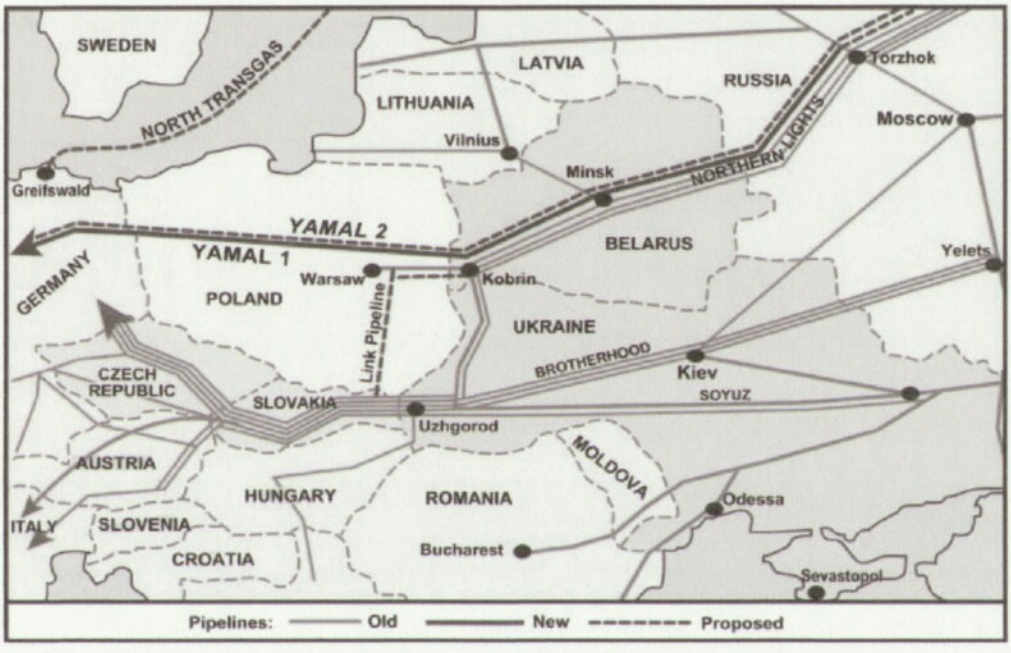
The main obstacle for the trading hub to boom, was the destination clause in the Austrian-Russian natural gas contract. In June 2004 however, the Austrian company OMV managed as the second one in Europe – after ENI in Italy – to get rid of the Russian prohibition to resell the delivered Russian gas. Moreover, they arranged a Russian transit fee comparable with West-European ones. As Marcin Janiec states it: 'the example of Austria shows, that it is possible to earn money from the transit and trade with Russian gas[92]'. Austria's domestic production ensures about 20 percent (or 1,9 BCM in 2002) of the country's demand. Natural gas import is guaranteed by Russian (58 percent; at this moment a 5,5 BCM yearly), Norwegian (10 percent) and German (also 10 percent) supply (UNECE, 2004). Germany,

[91] In November 2002 moreover, the Norwegian company Statoil and German companies Ruhrgas and BEB founded the North West European Hub Company, which aims to link Emden to the Bunde-Oude hub. In April 2004, Eurohub joined them (Statoil b, 2004).

[92] 'Przykład Austrii świadczy o tym, iż na tranzycie i handlu rosyjskim gazem można zarabiać' (RZ, 14 June, 2004).

however, is only a minor gas producer in Europe and its biggest import supplier is Russia (38 percent). Diversification with respect to Norway moreover is not realised through a direct pipeline. Austria functions also as a transit country to supply Italy via the Trans-Austria-Gaspipeline (TAG), Slovenia and Croatia via the South-Eastern pipeline (SOL), France via the West-Austria Gaspipeline (WAG) and Hungary via the Hungarian-Austrian Gaspipeline (HAG) (IGU, 2001). The Petra-West connection links Austria to Germany, and the Nabucco Pipe might bring Caspian Gas through Bulgaria, Romania and Hungary to Austria from 2009 on (Botaş, 2004).

Map 8: Transit Routes: Central/Northern Europe.



Source: Stern, 2004.

When looking at map 8, the idea might come up, that geographically speaking, Baumgarten is not the ideal place to expect the biggest Central European Gas Trading Hub. The same Russian gas can be delivered to Europe through the Polish system and a direct pipeline from Norway would be able to realise diversification in Central- and Eastern Europe. Concerning Russian gas firstly, we mentioned earlier that Germany is not interested in receiving all the gas from the projected two Jamal stretches at the middle of its Eastern border. The Štokman Pipeline fosters the option to partly receive Russian supplies at the Baltic Sea coast in Greisswald. It is interesting to see how close Greisswald is from both Rostock and the Polish border. An over main land natural gas pipeline connection to Rostock exists, and the Štokman pipeline does not reach Rostock on the bottom of the Baltic Sea because of environmental

reasons (Grabarczyk, 2004). Here the additional benefit of a possible link to the future Baltic Gas Interconnector can be seen, a possibility for Russia to reach in this way the Scandinavian market. But as been discussed before, the Danish market could also be reached through the Jamal-Bernau-Szczecin-Niechorze-BalticPipe traject (favoured in the short term by the PGNiG Management of Stefan Geroń and the Ministry of Economics, and in the longer term by the Diversification Group and the Andrzej Lipko crew). The choice for Greisswald cannot be but political; the few kilometers to the Polish border do not make any financial difference. But that Russia does prefer Germany is not a surprise; we saw before how Russia used the Štokman Pipe idea as a threat in an attempt to make Poland to observe its financial Jamal duties and to agree upon the *peremyčka.* Secondly, the Norwegian-Polish Major project, would open Central-Europe for Scandinavian supplies with a capacity of up to 10 BCM yearly. Albeit disapproved by the EU, it would offer much broader possibilities than the by the EU supported 2 BCM Amber Pipeline project at the southern bottom of the Baltic Sea of the joint Polish-Danish-Lithuanian venture PGNiG, DONG and Lietuvos Dujos (Gigawat, 2002). And the EU motivations for its specific Amber support – by spokesman Wolfgang Kerner from the Directorate General Energy and Transport - are equally applicable to the Norwegian-Polish project:

> 'the connection of the Baltic countries with the West- or North-European gas system through the Polish territory is important for two reasons. Firstly, for the protection of gas supplies to Poland and the Baltic countries, and – if it will be necessary – the possibility to use this gas as an energy source after the complete closure of the nuclear power plant Ignalin in Latvia. Secondly, for the creation of conditions that enable the transmission of this stock to other Baltic countries, which will contribute to the enlargement of the EU[93]'.

The realisation (with at the first stage, ratification) of the Scandinavian project would have put Poland on the European Gas Trading Hub Map. The creation of a Gas Trading Hub at the Baltic Sea with Russian and Scandinavian deliveries would have been possible. Geographically speaking, the evidence for it is even higher than in Austria, which lacks a direct Norwegian connection. With the Nabucco Pipeline coming into force in the longer

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[93] 'Połączenie państw nadbałtyckich z zachodnio- lub północnoeuropejskim systemem gazowym przez terytorium Polski jest ważne z dwoch powodów. Pierwszy z nich to zabezpieczenie dostaw gazu dla Polski i krajów nadbałtyckich oraz - jeśli zajdzie taka potrzeba - możliwość wykorzystania gazu jako źródła energii elektrycznej po całkowitym zamknięciu elektrowni atomowej Ignalin na Litwie. Druga sprawa to stworzenie warunków do przesyłu tego surowca do innych krajów nadbałtyckich, co przyczyni się do procesu poszerzenia UE' (Biznes Interia, 2002).

term, Baumgarten would certainly play the leader's role, but that would not exclude, in my opinion, that there still would be place for a smaller Gas Trading Hub in the North.

2.11. Conclusion

This chapter presented and discussed the diversification options for the Polish natural gas market. Following the official policy guidelines, the Diversification Group realised what they were supposed to do. Although the Norwegian-Polish political Agreement from July 3, 2000 offered PGNiG and GFU only a vague framework, the road for a detailed filling in was set. When the Danish contract and the Major Contract were respectively signed in July and September, 2001, the security of natural gas supply in a 'real diversified way' (according to the definition of the Diversification Group) seemed to be safeguarded (see Table 6 and 7). The Polish public opinion was even willing to pay the price-surplus diversification that it entailed (CBOS, 2001). The failure to ratify the Major Contract, the postponement of the Danish contract and the unsatisfying outcome of the Jamal Contract renegotiations led to the present situation, in which the monopolist PGNiG remains stucked with one long-term contract. More than once, Poland was just a pawn in Russia's strategy. In the *peremyčka* case, it was forced to take part in by Russia and Western partners set up negotiations. And the Russian stop in delivery from February, 2004 aimed at Byelorus and the EU, but strickened Poland. It shows exactly how exposed Poland still is to Russian natural gas delivery. Moreover, the small contracts with Germany and Norway do not offer an alternative and have to be interpreted within the light of the Major Contract. The conclusion of this thesis will focus on the economical and political motives of the Polish and EC diversification strategy.

Conclusion

The European Commission does not have a full energy mandate, and it is very unlikely that this will change in the near future (Van Kleef, 2004). Its tools are underpowered and have a low potential for applicability. The EC's objectives concerning security of supply and diversification set out a political European policy that is for sure inducted by big energy companies. During the filling in of the proposed framework, the political and economical level intertwine. Since Poland is a Member of the EU from May 1 this year, it has to follow the outlined energy rules. The analysis in the first chapter therefore concentrated on the EC level and left out the important role of EU member states politics[94].

The relationship of the European Union as a whole with Russia was not always effective, as the warnings of the Irish presidency in February 2004 illustrate. The EU failed to defend a consensus of the different Member States' interests (Euobserver, 2004). Although an EC objective for instance, it was on the Member State's economical level, that the destination clause was first eliminated. The political European idea to weaken Gazprom's position by building out and optimalizing the delivery infrastructure of Maghrebian and Caucasian countries (Czajkowski, 2004), walks a tight rope with the consciousness of the EU-15 about the needed Russian natural gas in order to diversify (RZ, April 19, 2004). Also the EU-Norwegian relationship, where Norway is left in the temporarily aimed EEA status, is far from ideal. The fact that EC energy rules are not fully nationally implemented, but will also never be voted down, illustrates the painful status quo.

In this baroque supranational construction, Poland tried to navigate. The outcome, however, is not roseate; at least twice it felt overruled. In the analysis of the Major Contract's validity firstly, we saw how in the commotion the cartel GFU stood at the forefront. The letter to the Ministry of the European Integration Committee shows however, that also Poland was directly addressed. The political speculations on the Baltic Sea pipeline opportunities for sure motivate this approach. And secondly, it experienced isolation when supporting the Ukraine (although the country's opinions are torn up) in the *peremyčka* controversy. The fact that the project did not get realised, was not a result of Poland's stubbornness to give in, but an outcome of an EU-Russia meeting in the Fall of 2002, where a final decision in favour of the

[94] The recent meeting of Putin, Schröder and Chirac on August 31, 2004, where the Russian increase in energy exports was once more confirmed, can be an example. 'Za poparcie Rosja odwzajemniła się obietnicą, że dostawy rosyjskiej ropy, a także innych nośnikow energii na rynki zagraniczne będą systematycznie zwiększane' (RZ, September 1, 2004).

Štokman idea at the detriment of the Jamal II project fell. The EC definitely keeps up appearances in its EU-Russia Energy Report from January 2004, that still grants the two projects a priority status (European Commission, 2004b), and the in Polish press still undefined position about the second Jamal stretch (RZ, June 18, 2004) is not credible.

Poland tried to follow in the diversification advice of the EC in a political way. The Diversification Group's successes are for sure the signing of the Norwegian-Polish framework agreement in July, 2000 and the Norwegian delivery from Zgorzelec, excluding in this way Gudzowaty's support. This led to a fairly mentionable level of security supply in September, 2001 (Table 6 and 7) and strenghtened PGNiG's bargaining position in bilateral negotiations with Russia. The explanation of the Polish diversification failure is more complicated than the political argument heard in Poland, that the SLD government tried to boycott its implementation.

In the unsuccessful and questionable validity of the Jamal Contract renegotiation process, one can indeed argue a political unwillingness. But every other Polish government would have failed to fulfil the Scandinavian Agreements as well. The economic slow down made on the whole European level the profitability of new pipelines questionable. The silence over the Baltic Sea programmes and the mutual (sic) Norwegian-Polish decision to close the Major Contract implementation talks, can serve as examples.

It left PGNiG, a monopolist in an early stage of liberalisation with only one long-term contract, in a highly dependent position. As recently proved, it even cannot guarantee to cover a 18 hours stop in deliveries. The Russian turn off placed the diversification issue again high on the Polish policy agenda. But the economic (European and domestic) situation makes a re-opening of Scandinavian talks useless. Polish politics should think about the privatisation of PGNiG, so that the company will have Western partners to help it out. Slovakia and the Czech Republic understood already that in the European natural gas domain, it are the big energy companies that play the game. It will only take Poland a few steps to safeguard its supply in this way...

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