EU's energy efficiency policies worry Russia

By Michal Zuk and Dafydd ab Iago

Since the gas crisis between Ukraine and Russia, in January 2009, the European Commission has intensified work on security of gas supply. Aside from a proposal for a new gas regulation, the Commission has established, with Russia, a revamped early warning mechanism. Towards the end of the year, the executive should also propose a new infrastructure package to help further enhance security of supply.Europolitics spoke to MEP Herbert Reul (EPP, Germany), chair of the European Parliament's Committee on Industry (ITRE).

Are you satisfied with progress on energy security?

Over the past months, together with the Council, we have come to a political agreement on the new security of gas regulation. This agreement will lead to considerable improvement. From this perspective, I am satisfied with progress. However, shortcomings were mainly due to a lack of infrastructure in some member states. In the end, this has to be solved not by the legislator, but by energy companies themselves. The infrastructure package that the Commission is announcing for the end of this year will certainly play an important role in enhancing security of supply.

With the Lisbon Treaty now in force, what initiatives would you like to see Parliament take on energy security?

The new treaty does not change the principle that the European Commission has the sole power to propose legislation. The new legal base for energy will, however, incite the Commission to propose ever more legislation, also in new areas. I am not convinced this would be the right way forward. Take, for example, liberalisation. We already debated the third package while the second one had not even been properly implemented. We had not had the time to see its full potential in many member states. More generally, over the last two years, we have also adopted many amendments to existing legislation and have passed new laws. Let us rather concentrate on implementing these measures. After that, we can then carefully evaluate the results before going further.

How could the proposed

European Energy Community contribute to ensuring EU energy security?

For the time being, only the broad outlines of the proposal have been presented. And, to be perfectly honest, I have not seen any added value so far. The new treaty provides us with a broad legal base for energy legislation. We are also very active already in supporting energy research. Take the Strategic Energy Technology (SET) plan. This still lacks financial backing from member states. Another example is the International Thermonuclear Experimental Reactor (ITER) project. Support from member states is essential. This will not come automatically with yet another new treaty. As to the proposed gas purchasing group, I fear that the natural reaction will be the creation of a gas OPEC. In the end, we might even find ourselves worse off. We should really take the necessary time to evaluate the pros and cons of the proposal before rushing on.

To what extent could renewable and nuclear energy contribute to EU energy security in the future?

Both renewable sources of energy and nuclear energy do already play a constructive role in securing our energy needs. Energy security demands a broad energy mix that does not exclude any source of energy. So, for the EU as a whole, nuclear power will remain important. One should remember, despite the decision of some member states not to build nuclear plants in their territory, electricity from such plants may still be traded throughout the EU. As to renewables, their role will certainly continue to grow. The EU has agreed on a target share of 20% by 2020. This means that more than 30% of all electricity will have to be produced from renewable energy resources. However, we should also consider the costs of such a policy. Billions will have to be invested in upgrading of grids. Prices will rise for consumers. Countries using feed-in tariffs will see even higher rises in electricity prices. We should be very clear on this.

Does external energy dependence hinder the EU's ability to conduct effective foreign policy?

To my knowledge this is not the case. We know very well that energy dependency is not unilateral. All exporting countries, including Norway, depend to a lesser or larger extent on us buying oil, gas and coal. And should the solar energy project Desertec be realised, we would be even more dependent on North African exports. Even if Russia is looking East, existing pipelines to the West will not run dry. On the contrary, Russia is very much worried by the EU's policy to enhance energy efficiency and reduce energy consumption. This might reduce the Russian state's income. What we do need are close ties and a relationship based on mutual trust. This should be our main goal in energy foreign policy. Preconditions for this are regular and open talks on all energy issues. Again, we have made progress here in recent years. And, of course, a truly European energy foreign policy would also mean that member states coordinating their actions with the future European External Action Service (EAS).

America's Richest Oilmen

Harold Hamm of Continental Resources owns more oil and gas than any other American. And none of it's in the deepwater.

HOUSTON -- None of America's oil and gas billionaires was among the Big Oil chieftains summoned to Washington this week for thrashings in Congress and at the White House. Rex Tillerson of ExxonMobil and James Mulva of ConocoPhillips may be plenty rich, but they don't personally have huge fortunes riding on the new regulations about to be foisted on the oil industry.

But Harold Hamm does. Hamm, 64, is founder and chief executive of Oklahoma-based Continental Resources (CLR - news - people). By dint of his 73% ownership of Continental, which he took public in 2007, it can safely be said that Hamm directly owns more oil and natural gas than any other American. How much? At least 190 million barrels of oil and natural gas equivalents. Forbes asked Hamm what's it like to be the man with the most oil and gas in America. "It's unfortunate that our industry has sunk to that low," he cracks.

For a nation that gave birth to the industry, it's a surprise that there are so few oil and gas billionaires here. Gone are the larger-than-life oil barons like J.D. Rockefeller or J. Paul Getty. In compiling our list of America's richest energy tycoons, we looked for those who actively control oil and gas assets (including pipelines and refineries). That meant weeding out billionaires' sons like David Rockefeller and Gordon Getty, as well as oil and gas legends like George Mitchell, who sold his company for a big slug of passively held Devon Energy (DVN - news - people) stock. What's left are just 20 oil and gas billionaires.

Hamm isn't the richest of the bunch--that honor goes to the Koch brothers, David and Charles, whose conglomerate Koch industries has enormous holdings in pipelines and refineries. Yet Hamm, a self-made wildcatter, is a bright spot in an industry suffering a public relations nightmare. Unlike BP (BP - news - people) and the other big dogs, he doesn't have any assets at all in the Gulf of Mexico. All his assets are onshore. In fact, greater scrutiny and regulation over offshore drilling could end up benefiting Hamm, driving up the prices for his onshore fields as erstwhile offshore players move to instead deploy their dollars on land. "I think we'll have a big increase in onshore development," says Hamm.

Most of his billionaire peers on our list are similarly land-based. George Kaiser, Tim Headington, Jeffrey Hildebrand, Trevor Rees-Jones, Lynn Schusterman, T. Boone Pickens, the Bass Brothers: Their oil and gas fields are almost entirely onshore in promising new plays like the Marcellus Shale, the Eagle Ford Shale and Hamm's hot spot, the Bakken Shale. W.A. (Tex) Moncrief made big news earlier this year for his stake in an offshore discovery at the Davy Jones prospect--but that well was drilled in the shallow water. "That out there in the deep water is for the big boys," says Charlie Moncrief, Tex's son. Hamm has more than half his bounty in the Bakken, which stretches from North Dakota into Montana. Unlike most of the big shale plays, which are predominately natural gas, the Bakken gives up mostly oil. Estimates of reserves in the Bakken have jumped from 4 billion barrels of oil a year ago to more than 8 billion barrels now, thanks in large part to Continental's finds. Analysts at IHS-CERA figure that given a decade of development the Bakken could be yielding 1 million barrels per day of oil and gas, up from 150,000 bpd today. A million bpd is approximately how much we can currently get from the Gulf of Mexico.

Hamm controls 800,000 acres in the 7-million-acre play. Others with big positions include Hess (HES - news - people) and Marathon Oil (MRO - news - people). Dallas billionaire Tim Headington made most of his fortune selling 350,000 acres in the Bakken to XTO Energy (XTO - news - people) (since bought by ExxonMobil (XOM - news - people) in 2008). Continental, at a market value of $10 billion or so, could be a nice acquisition for a supermajor chased out of the deep water. Except he's not selling. "When all those folks come up from the Gulf, we want them to find that the last acres have just been leased," says Hamm with a smile.

The economics of Bakken oil are not stellar for onshore plays: Hamm says he needs to sell his crude for $50 a barrel to cover costs, taxes and royalties and to generate a 20% rate of return. That's better than oil sands, and in line with deep-water projects, like the one BP had in mind for the ill-fated Macondo well. As a born wildcatter, he's doing what he loves: studying geology and buying up promising acreage. His next stop: Oklahoma's Woodford Shale play, where he thinks Continental will be able to more than double reserves in five years.

Yet it's not all sunshine and moonbeams for Hamm. Though he's not in politicians' crosshairs, Hamm sees Continental's future growth as conditional on the whims of Washington. President Obama requested in his budget proposal earlier this year that Congress move to repeal a set of longtime tax incentives. This, says Hamm, would be a disaster for the independent oil and gas companies that drill 90% of wells in the U.S.These provisions, some of which have been in place for nearly a century, enable a few things. First, it lets oil and gas drillers to expense intangible drilling costs in the year they're incurred. Second, it allows well owners to take annual deductions for the amount that their oil and gas reservoirs are depleted each year. Third, it enables companies to take a domestic-manufacturing tax deduction.

The president's budget figures that doing away with these incentives would raise $36 billion a year in new tax revenue. Fat chance, says Hamm. Without these incentives, some wells would be dramatically less profitable--so oil and gas companies won't bother drilling them at all. Hamm says without these provisions Continental would likely reduce its spending on drilling (roughly $850 million this year) by more than a third. He thinks others will do the same. On Tuesday the Senate voted 61-35 against a bill that would have ended these provisions and split any funds raised among some energy efficiency and conservation efforts. Whitney Stanco, an analyst with Concept Capital in Washington, says that some pols may only have voted against the bill because they would rather kill the incentives in a different bill that would let them spend any money raised on other projects.

According to Hamm, getting rid of drilling incentives would crush any chance the U.S. has of replacing deepwater oil and gas with onshore production. He's frustrated at the "mixed signals" he says he's getting from the Administration. "I talked with Energy Secretary Steven Chu. They say they want to reduce dependence on foreign oil, but they take away the tools to do it," says Hamm. Hamm criticizes comments by President Obama, who in his oil spill speech Tuesday night asserted that the U.S. uses 20% of the world's oil supply but has just 2% of its reserves. As Forbes has reported in the past, the U.S. likely has ample domestic reserves located under federally owned lands to satisfy all demand, if only the government would open it for drilling.

"There's lots of opportunity with oil in the U.S. today," says Hamm. In claiming otherwise, "People are trying to perpetuate myths and propagate fear."

Russia hopeful of settling Belarus gas dispute

* Gazprom to hold talks with Belarus
* Minsk under pressure to pay up before Monday
* Some export supplies to Europe under threat

By Dmitry Sergeyev

ST PETERSBURG, Russia (Reuters) - Russia said on Saturday it was hopeful of settling a gas dispute with Belarus that threatens to cut some supplies to Europe next week, but signalled it was not ready to compromise on price.

Europe pays close attention to Russia's gas price disputes with its neighbours after supplies to Europe were halted for almost two weeks in January 2009 while Moscow and Ukraine argued over prices and transit terms.

Russia has said it will cut 85 percent of gas supplies to Belarus from Monday if its ex-Soviet neighbour fails to pay $192 million it says it owes to Gazprom (GAZP.MM). Minsk disputes this year's price increases and says it owes nothing.The two parties are due to meet on Saturday in a last-minute attempt to reach a deal.

"I think there is a big chance of a peaceful resolution and of the fulfilment of the contract conditions which were envisaged," Russia's Energy Minister Sergei Shmatko told reporters on the sidelines of the St Petersburg Economic Forum.Any cuts, especially if they affect supply beyond Belarus, could further damage Russia's reputation as a reliable exporter at a time when Gazprom is facing falling demand from crisis-hit Europe and competition from U.S.-made shale gas.

The state-controlled behemoth supplies a quarter of Europe's gas needs and sends one-fifth of its total exports to the region -- expected to reach 160 billion cubic metres this year -- through Belarus, while the rest go through Ukraine.

Gas-hungry Poland, which is trying to secure additional volumes from Gazprom, receives about 8 billion cubic metres of Russian gas through Belarus.

GOOD CHANCE OF RESOLUTION

Russian officials have said supply cuts to Belarus should not affect the rest of Europe. One option would be to compensate by shipping more through Ukraine.

Gazprom's export chief, Alexander Medvedev, told Reuters he saw a good chance of a resolution to the conflict.

Belarus President Alexander Lukashenko said on Friday he did not believe his country had any debts outstanding for Russian gas, for which it has asked to pay last year's lower prices, but would settle any disagreement over the issue.Gazprom says Belarus has been paying $150 per 1,000 cubic metres of gas this year, instead of the $169.20 that Gazprom charged in the first quarter and $184.80 in the second, and could owe more than $500 million by the end of the year.Analysts say low gas prices have been vital to sustaining President Alexander Lukashenko in power in Belarus, which the European Union and United States have long shunned, accusing Lukashenko of running unfair elections and suppressing dissent.

The dispute over energy prices has damaged relations between Moscow and Minsk and have cast a shadow over Russia's drive to create a customs union with Belarus and Kazakhstan.

Belarus hoped the union would free it from export duties on Russian oil but Moscow has refused to scrap the levies. As a result, the union appears set to go ahead without Belarus.