Diversifying Europe's gas supplies is going to take time, be very expensive, is not practical and may not be necessary – or wise – anyway.

This note covers: Time issues and realism in European gas diversification; what is a already happening anyway in the way of new pipelines and reverse flows etc; very high diversification costs - are they worth it? Will South-East Europeans co-operate?; UK's strong position on primary gas supply and security unaffected and somewhat misleading comment from the UK Energy Secretary ; the EU and the Polish dimension; Ukraine's ample energy resources; long term Russian cooperation over Ukraine essential.

[Plus Appendix Note: why the UK fracking issue is being oversold and politically mishandled].

1. Timing and current developments in progress. Is there a problem?

In the very short term even the most Russia-reliant EU states can withstand a complete Ukraine cut-off (either as a result of physical damage or Ukrainian diversion of transit meant for EU customers). Only 16% of EU overall annual gas consumption flows through Ukraine (which represents some 50-60% total Russian exports to Europe - down from 75-80% in 2011 with Nordstream opening) . Russian gas for Europe travels through two major pipelines, the Brastvo and the Soyuz.

The worst short-term problem is in Ukraine itself and is largely home grown. Although enormously rich in both coal and gas resources, as a result of feeble investment, bad governance and profligate and wasteful consumer subsidies (and a debt-submerged gas authority) it imports 69% of its daily gas needs from Russia. Ukraine is actually a huge coal producer, and consumer, (7th largest reserves in the world) and 8th largest nuclear power producer. It is that daily gas import to Ukraine, which is not being paid for fully and has been twice the cause of Russia-to-Ukraine supply cuts (in 2006 and 2009), which has been the source of the 'Russian problem'. With Gazprom's latest 44% price hike it will almost certainly happen again.

It is in the strong interests of both Europe and Russia to further enlarge alternative supply routes westward.

The Medium-term situation is much more questionable. The Baltic states are obviously vulnerable to deliberate Russian threats, if ever forthcoming. Lithuania has invested in a floating LNG import terminal (floating offshore terminals technology is racing ahead and alters the global supply scene radically, but at a cost – see below). American export capacity will build up very slowly (estimate 90 bcm in place by 2025) and will mostly go to Asia. Poland is building a costly new LNG terminal .Building more renewable generating capacity will help at the margins, although wind power is of course heavily gas dependent.
However, When South Stream opens (with enthusiastic Bulgarian and Serbian support – see below), it will be possible to replace almost the entire volume of Russian gas currently transported through Ukraine. The other half of Russian supplies to Europe is anyway unaffected and EU gas stores are at least 50% full after a mild winter. New gas interconnectors between Hungary, Croatia, Slovenia, Austria, Czech Republic and Poland have already been built. And some reverse flow pumps (between Germany and Poland and Ukraine) already installed.

2. Costs and Longer term outcomes.

Longer term the effects of all this will be marginal. BP forecasts that by 2035 81% of world energy supply will still be fossil fuels (coal, gas and oil evenly divided). If Europe wants more LNG permanently in place of piped Russian gas it will have to pay for it. It will be very expensive and probably, in due course, prove to be both unnecessary and ineffectual. Japan will continue to suck up enormous volumes of LNG, diverting it from Europe to Asia for some time to come. Shinzo Abe is trying his best to get Japan's nuclear sector re-started, but against enormous domestic opposition. Meanwhile Mr. Putin is due in Beijing this week and will seek to conclude the long-running negotiations with China to take very large additional volumes of gas – hitherto resisted by the Chinese on price grounds. No doubt the price will now be judiciously shaved to encourage the Chinese to sign up.

American LNG, if and when it eventually arrives in Europe, will be priced at a good deal more than current US domestic levels and will carry $6-9 of transport and processing charges. Current Continental average prices are about $11 per million btu (against $16+ in Asia). So LNG will be costlier, quite aside from the large capital costs of constructing new LNG import facilities. Domestic fracking in Europe may help, but is being strongly resisted in several countries and in the UK will take several years to get going - and may prove expensive stuff, both commercially and politically. This is because the fracking issue has been both oversold and politically badly mishandled, raising costs and delaying investment (see Appendix 1).

3. UK position, interests and policy.

The UK may believe it has an EU-strategic 'solidarity' interest in assisting Central European countries reduce Russian energy reliance. (If so we have played , and are currently playing, it

completely the wrong way), but we have no problem at all about long term gas supplies or so-called Russian 'strangleholds'. There is no Russian 'stranglehold' on UK gas supplies. Our national problem is NOT the security of primary gas supplies, as the Energy Secretary appears to think. The Norwegians (and indeed the Russians) are longing to pipe us more gas, and numerous new shale gas producers round the world are queuing up to sign supply contracts with Britain, and North Sea gas is still substantial.

Our problem is not gas supply but the security of electricity supplies directly threatened by lack of investment in new gas-burning generating turbines – and indeed by the actual closure of relatively new gas turbine plants , such as Keadby. Despite recent complex electricity market legislation this investment is not happening, for the very good reason that a strong unilateral British carbon tax on gas burning (even though now at a frozen level), plus very large subsidies to non-fossil renewable and nuclear capacity, continues to make gas generator investment thoroughly unattractive.

4. The EU context

In the context of the UK Government's overall EU 'reform and renegotiation' goal this ought to mean fighting for our potential friends, such as Poland, and visibly and vigorously against the string of hostile and costly EU regulations flowing from EU energy and climate strategy, despite recent small easements, constricting and distorting sensible national energy policies. But perversely and in practice UK 'solidarity' with Europe has meant supporting, not challenging, these regulations. As Donald Tusk has rightly argued, in Poland coal is synonymous with both energy security and the path to lower carbon (through more efficient coal-burning plants). Yet instead of reinforcing that view, and winning a key ally for EU reform goals, the UK has persistently sided with Brussels against it, losing crucial Polish support in the wider European debate.

Actually, the right EU energy policy should involve both 'more Europe' on the physical infrastructure side, to allow gas to flow around the region and the market to thereby work, and 'less Europe' in requiring the decentralisation of energy regulations and controls – thus allowing countries like Poland (and ourselves) to pursue our security and decarbonisation policies in the most suitable way for individual national conditions.

5. The Russian and Ukraine and East European contexts.

European energy 'diversification' strategy, and Ministerial statements and policies in support of it, should be rooted in realism, honesty and a firm view of longer term interests. That is what will

in the end win voter respect, as well as being the least dangerous approach to the Ukraine crisis.

The basic reality is that economically, Russia today is impossible to isolate. More Russian gas is bound to flow to Europe, even if the monopoly–supplier position of Gazprom is somewhat weakened. And much more gas will be supplied eastwards, if not to Japan as it restores its nuclear capacity, then to China. Indeed, the louder the European threats to reduce Russian gas consumption, the more the two great powers of modern Asia, Russia and China, will again be thrown together in cooperation – creating the very opposite of the multipolar, balanced world for which the democracies should be striving.

We now live in a totally connected, networked planet, linked together at both business and every other level, including security and international policy, as never before in history. In the medium term we cannot actually cut Russia off, whether in energy terms or in any other way. On the contrary, Gazprom is now pushing ahead and signing up deals with Bulgaria, Serbia, Hungary and Austria to supply gas . It has also announced deals with Switzerland and Italy. The gas will come via Southstream with 63bncf of capacity , and if delivered in the volumes promised will be in flat defiance of ' third energy package' and EU competition rules, quite aside from going directly against the calls for LESS dependence on Russian gas.

All this is why any Ministerial utterances, implying that that diversification is possible, desirable and realistic, and that it is a major factor in UK energy health, are misguided and out of touch with real energy (and climate) priorities, national and international.

Over thirty years ago I sat at a dinner in the German Embassy where Helmut Schmidt outlined to an uneasy Margaret Thatcher German arrangements for taking about 15% of its daily gas needs from the then Soviet Union on long term contracts. The Communists, he assured his listener and the whole table, had all along proved to be the most reliable gas suppliers. They were bound to be because they needed the cash and their markets as much as, or even more than, Europe needed their gas. Maybe Gazprom's total monopoly thrall can be reduced somewhat to some countries, with better connectors and back-up systems. But overall Russian gas will remain a large, important, and probably growing component of the European energy market.

In the immediate future, sanctions have their place, and financial barriers can cause Russia real pain . But holding Ukraine together and rebuilding it cannot possibly be achieved without full Russian co-operation. That is why, although we should not hide our contempt for Putin's methods, we must at the same time make clear that some recognition of, and accommodation to, Russia's interests will have to be on the table.

An economic package which rests on US, European and Russian resources, and establishes Ukraine again as a prosperous and energy-rich non-bloc country is in fact the only possible future for the area, short of unending civil war bloodshed and the rippling out of damage and danger to the whole network post-Western world.

If we are to avoid having a failed state, with all its infectious horrors, polluting the entire post-Cold War global settlement then policy towards Russia has to be a judicious mixture between short term deterrence and longer-term collaboration and realism, not least in the energy sector.

[Appendix Note: why the UK fracking issue is being oversold and politically mishandled]

Lord Howell of Guildford, Chairman of the Windsor Energy Group, formerly served as Secretary of State for Energy and then for Transport under Margaret Thatcher, and more recently as Minister of State in the British Foreign Office.