

EU-RUSSIA ENERGY RELATIONS: THE NEW MEMBERS' PERSPECTIVE

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EVOLVING TERMS FOR EU-RUSSIA RELATIONS
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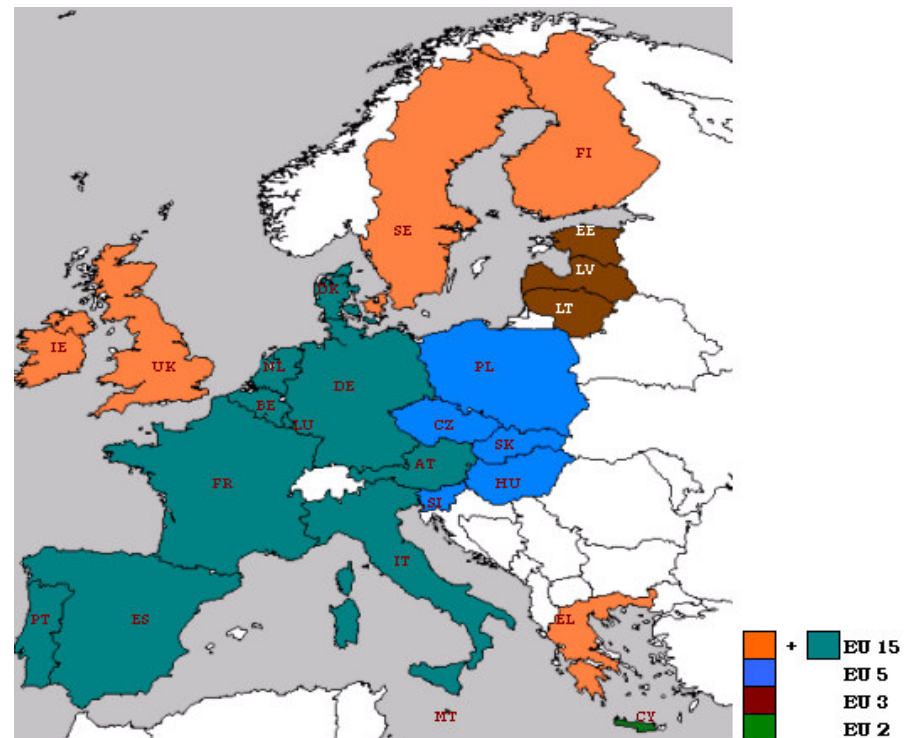
- *‘Safety and certainty in oil lie in variety and variety alone’ (Winston Churchill)*
- Variety and diversity in gas: the crucial issue for new member states in the field of energy supply security
- For Old EU: Russia is part of the solution (increasing gas demand and dependency)
- For New EU: Russia is part of the problem (serious unilateral gas import dependence on Russia)
 - Associated risks: price, security and political
- Insufficient solidarity in helping diversification efforts
 - NABUCCO *versus* South stream

DIFFERENT TECHNICAL AND HISTORICAL BACKGROUND

EU5: CENTREL + Slovenia

EU3: Baltic states

EU2: Cyprus and Malta



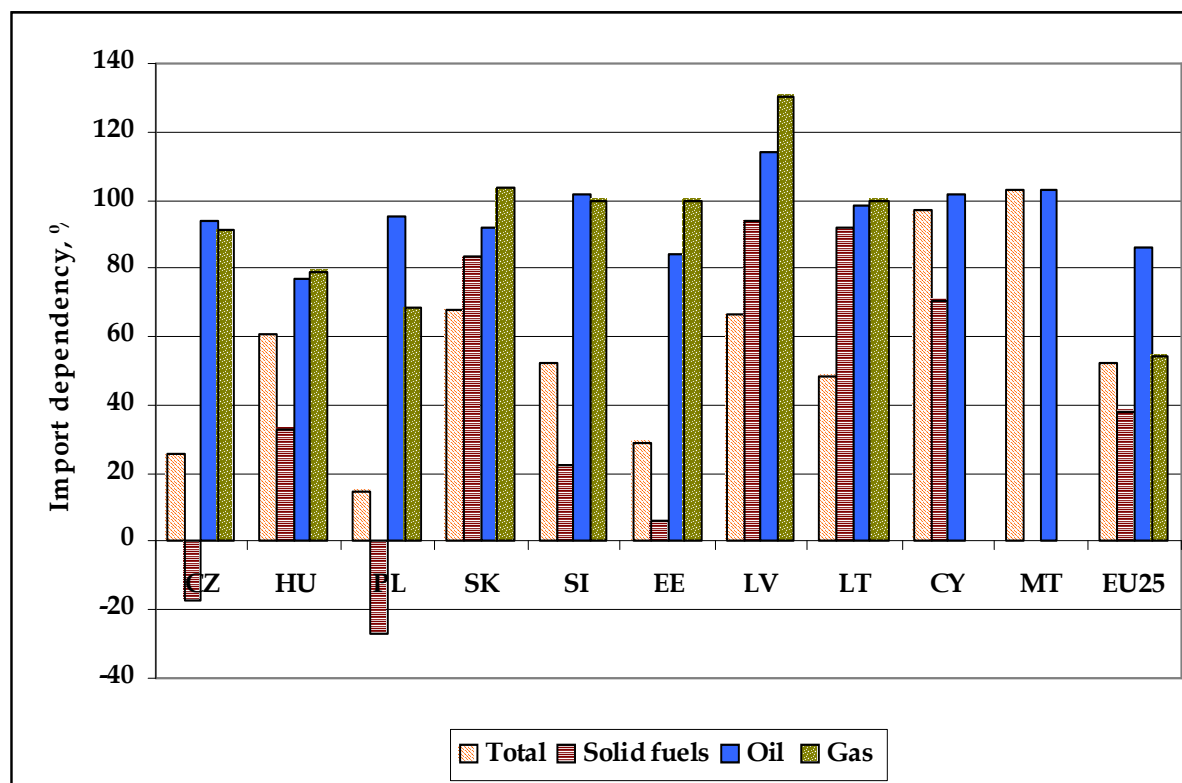
Note: Dark blue EU-15 countries are part of UCTE

GAS: ECONOMIC DEPENDENCE AND MISSING VARIETY

The 2004 enlargement

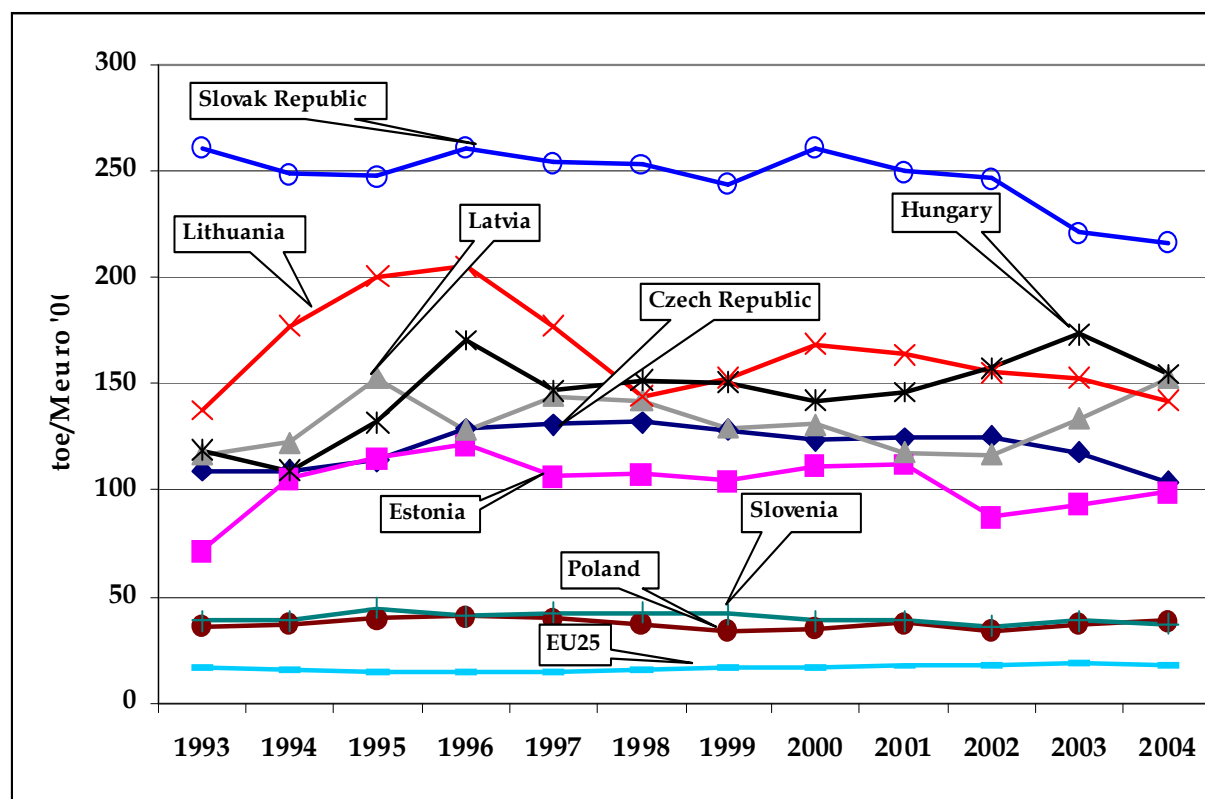
- Brought the EU5 region with abundant local solid fuel sources into the Union.
- It brought two completely import oil dependent nations, Cyprus and Malta into the Union.
- The aggregate diversity of meeting fuel demand is comparable for EU15 and EU8.
- The major issue for EU8 is the very high and unilateral gas import dependence on Russian gas supplies.

NET IMPORTS / TOTAL CONSUMPTION OF PRIMARY FUELS IN NMS



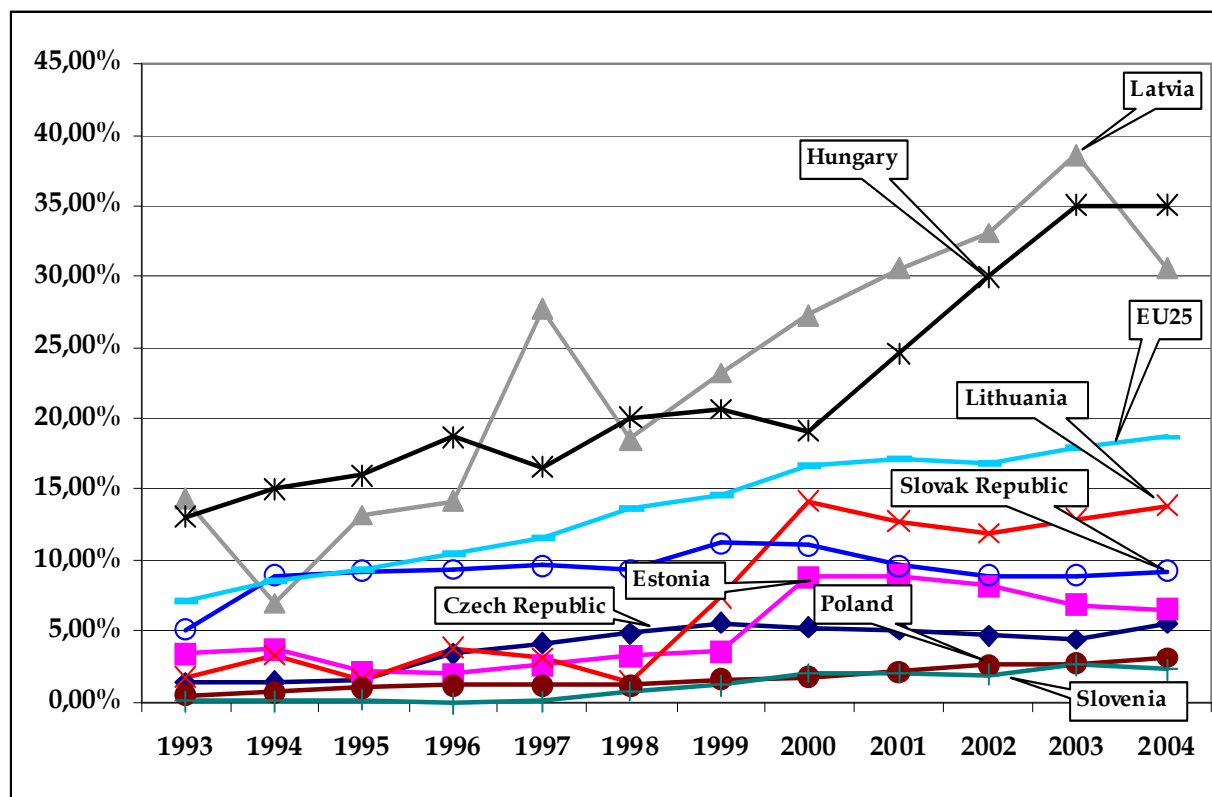
* Definition: $\text{Import Dependency} = \text{Net Imports} / (\text{Bunkers} + \text{Gross Inland Consumption})$. Source: Commission Pocketbook (2006).
Note: A simplified formula, not taking bunkers into account, is used occasionally. This variant gives higher values for import dependency by overlooking maritime transport. Negative numbers indicate that the country is a net exporter. Values over 100 % are possible due to changes in stocks

NATURAL GAS DEPENDENCY OF EU8 ECONOMIES

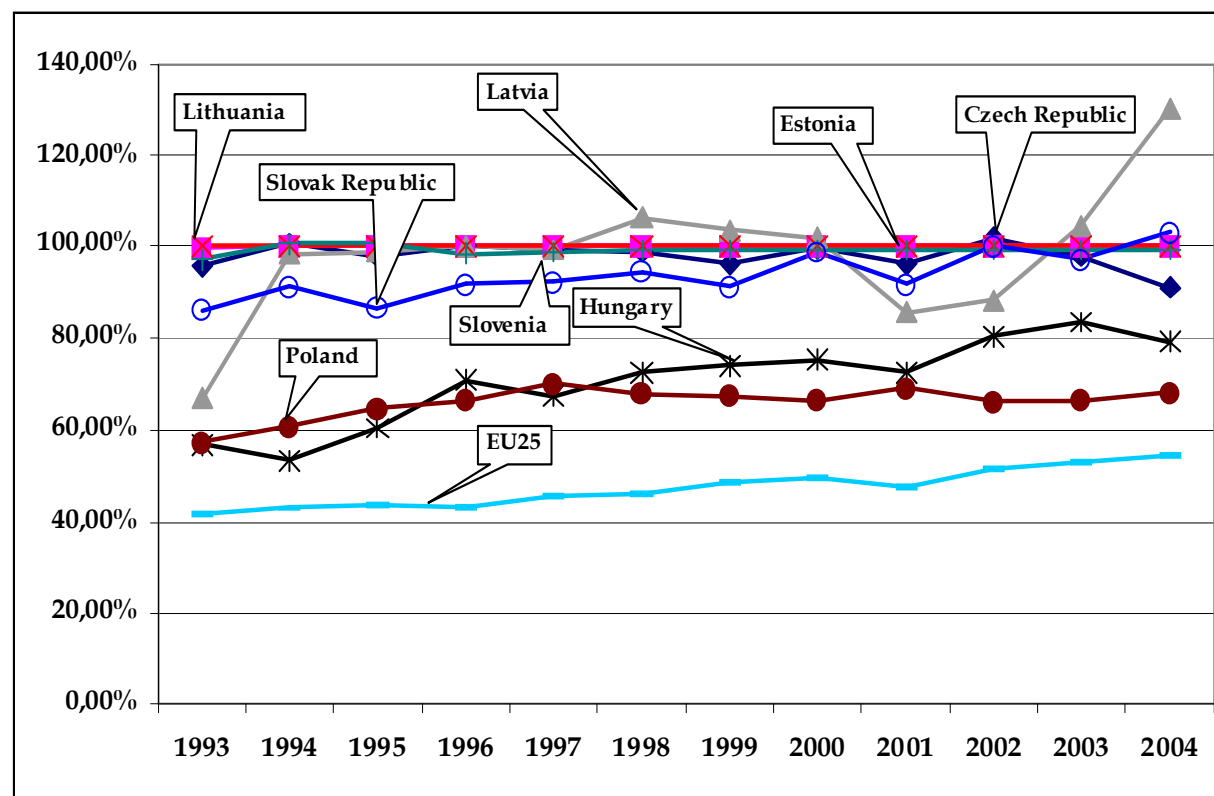


*in year 2000 euro

THE SHARE OF GAS IN ELECTRICITY GENERATION, EU8



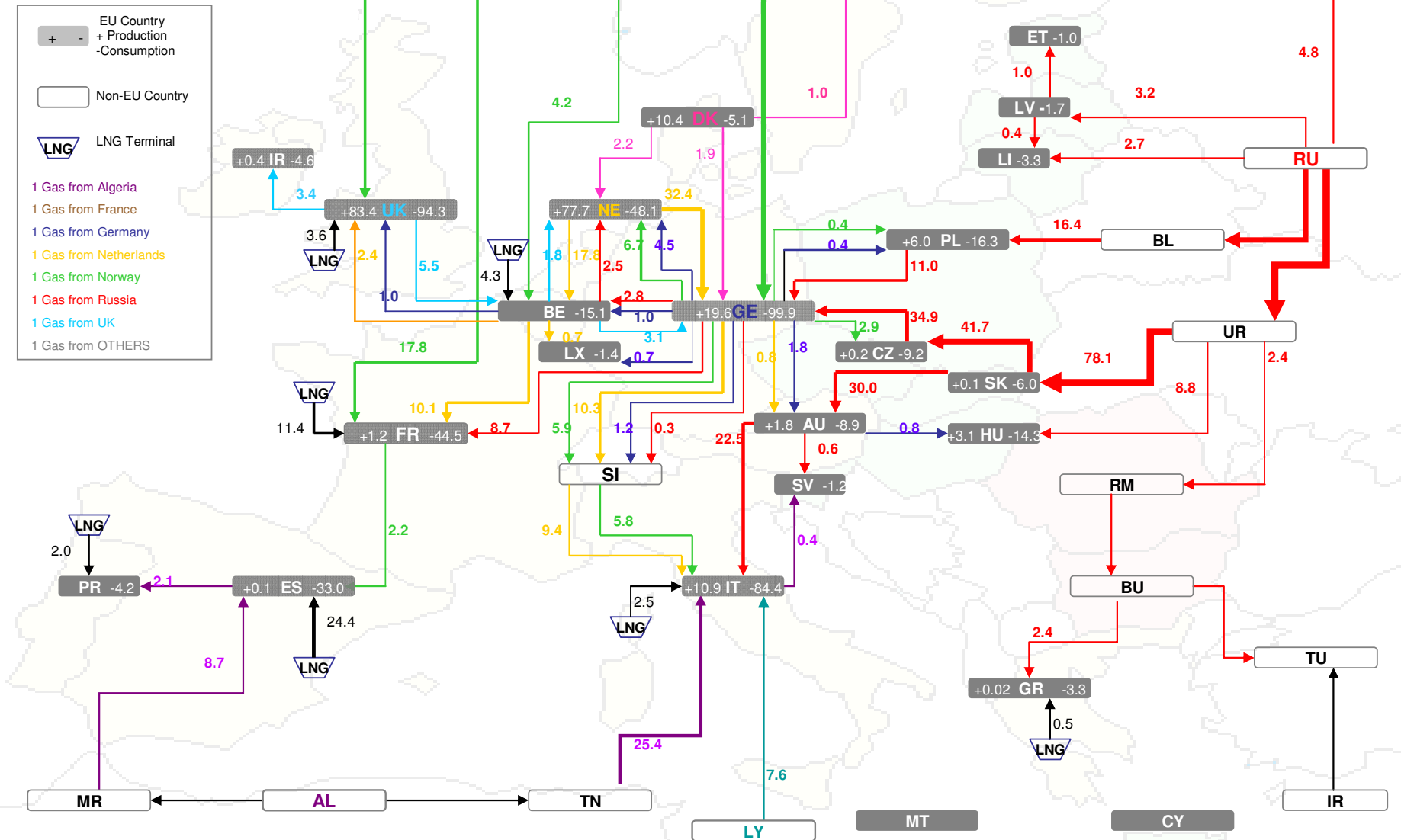
NET GAS IMPORTS TO TOTAL GAS CONSUMPTION, EU8



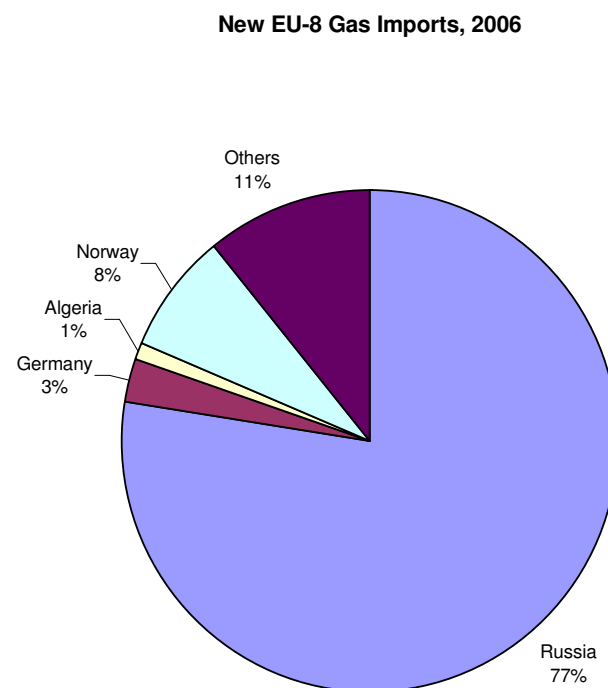
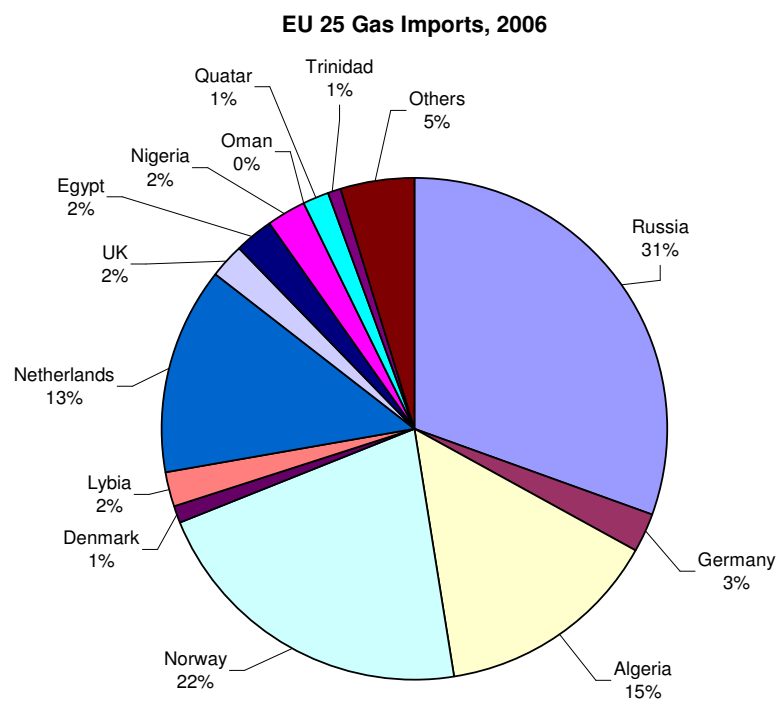
EU-25 NATURAL GAS SUPPLIES 2006, BCM/YEAR



EU-25 Natural Gas Supplies 2006 BCM/yr



GAS IMPORT DIVERSITY: COMPARISON OF EU 25 AND EU8



IMPORT FUEL DEPENDENCY: CONCLUSIONS

- Natural gas dependence of the economies of continental 2004 new Member States are significantly higher than the EU average.
- Hungary and Latvia has a combined issue of high gas dependence in electricity generation and high economic dependence on gas.
- Gas import dependence is significantly higher in new Member States than in the old ones.
- Gas import sourcing is much less diversified for new than for old Member States.
- In sum: unilateral gas import dependence on Russia has become the number one energy security issue for the continental 2004 new Member States.

GAS INFRASTRUCTURE: ISOLATION AND MISSING COOPERATION

CENTRAL AND EAST EUROPEAN GAS PIPELINES



Source: GTE

- East-West transit lines, no regional cooperation
- Sharp contrast to electricity network integration with UCTE
- Russian-German tandem in infrastructure take-over
 - Risk of foreclosure
 - Interest in conserving CEE gas market segmentation
- Russian efforts (sometimes with western allies) to block major new investments to diversify :
 - Germany, Italy

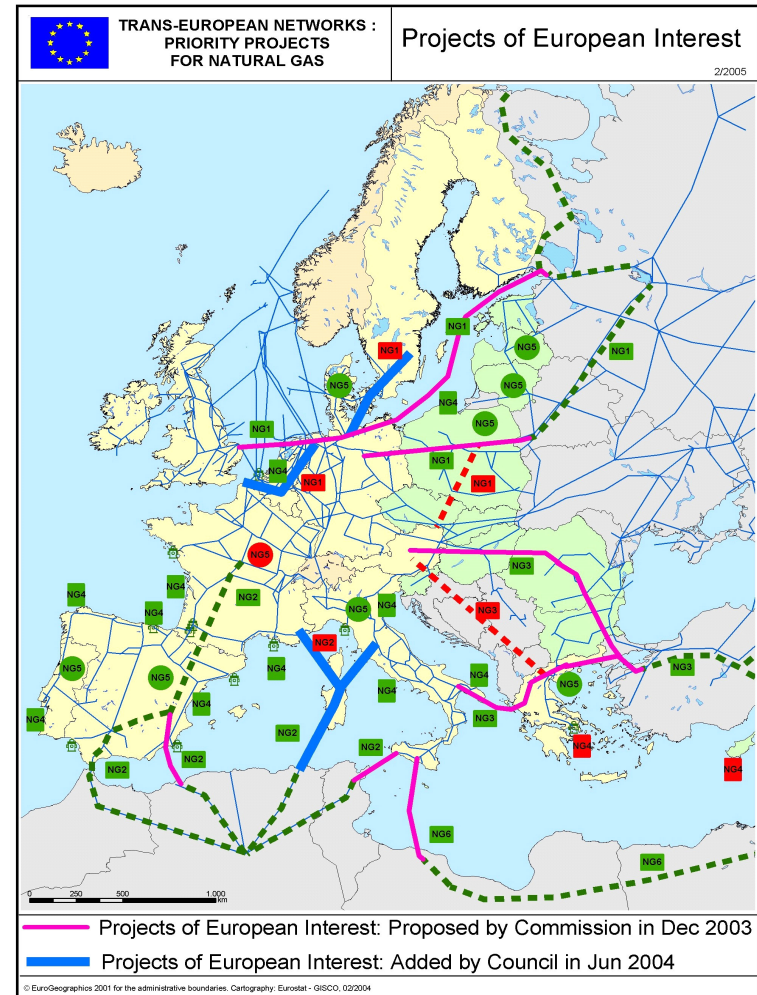
FUTURE INVESTMENT INITIATIVES

Non Russian:

- NABUCCO
- Adria LNG
- LNG in Poland
- Polish-Norwegian-Danish gas cooperation
- NETS
- Security gas storage development in Hungary

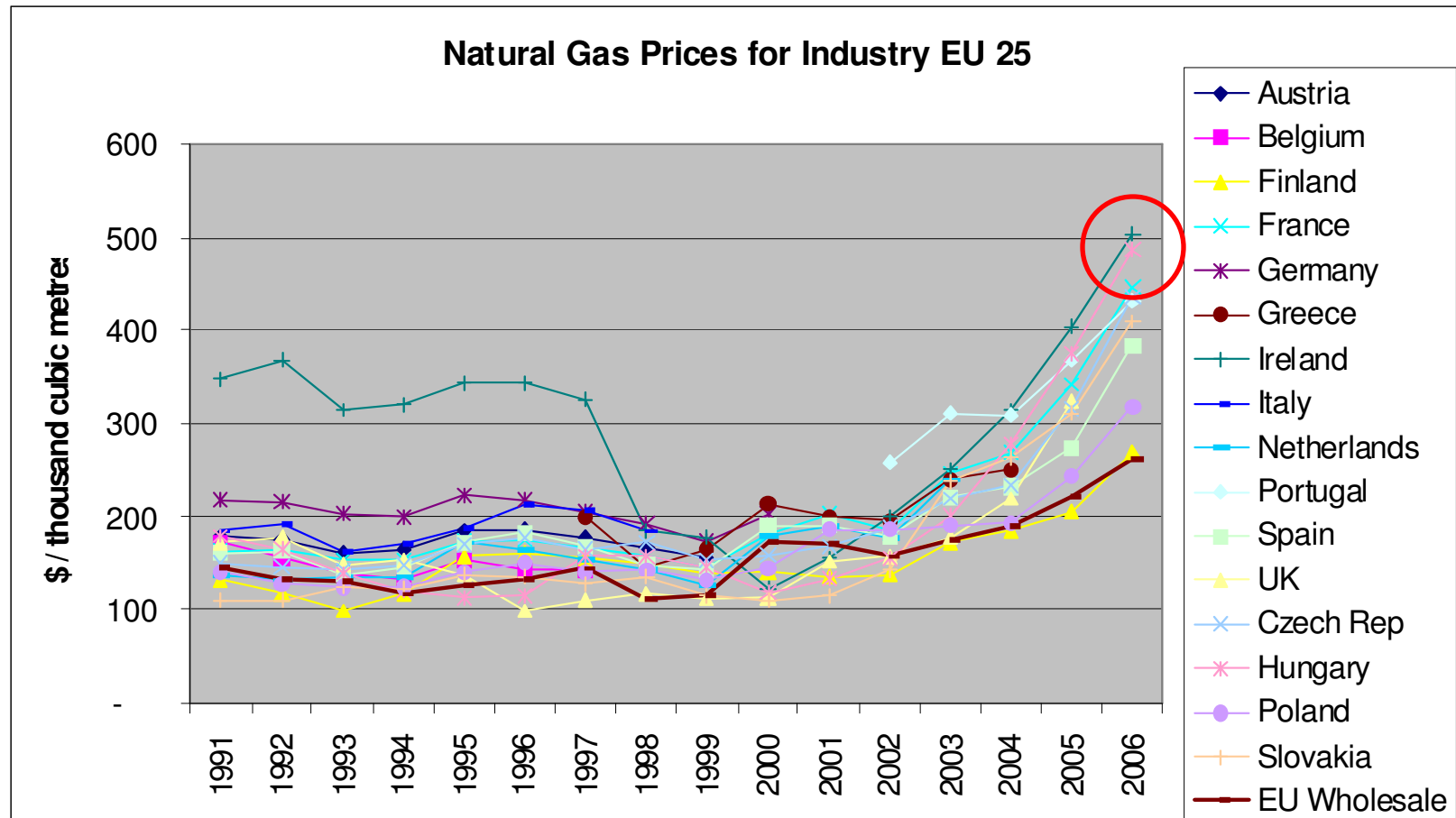
Russian:

- Upgrade of Brotherhood
- Nord Stream
- Blue Stream 2 / South Stream
- Yamal 2



SOME CONSEQUENCES

UNILATERAL DEPENDENCE: SERIOUS PRICE RISK



- Russian lead on GASPEC

UNILATERAL DEPENDENCE: SUPPLY SECURITY RISK

- Long history of gas supply disruptions between Russia and CIS countries: a CIS country is more likely to be cut off by Gazprom in the winter than not.

Numbers of CIS Gas Disputes per Russian President (1991–2006)

Type of Incident	President Yeltsin	President Putin
General Incidents	26	29
Gas Supply Cuts	22	16
Total	48	45

Source: Jakob Hedenskog and Robert Larsson, "Russian Leverage on the CIS and the Baltic States", FOI Swedish Defence Research Agency, June 2007

- Insufficient upstream investments

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UNILATERAL DEPENDENCE: POLITICAL RISKS

- Russian ambition to restore political influence in former empire:
 - Ukraine: ‘pricing-in’ election outcomes...
 - CIS: Georgia, Azerbaijan
- New EU members: Lithuania, Estonia, Hungary, Poland, Bulgaria
- Balkans: Serbia *versus* Energy Community
- Insufficient solidarity from old members will reduce EU cohesion
- Russian operations on Balkans is to undermine EC efforts

- Integrate Russia fully into the European gas business model (look at electricity!)
 - Third party access to Gazprom pipes should be in the focus of EU-Russia energy talks
- To get there, take a hard line: EU citizens should have direct access to the World's second largest gas reserve
- Win the NABUCCO war
 - Financing, regulatory environment
 - Implications for EC, Caspian and Turkish relations

- Set up EU-level consultation body to evaluate major new supply projects and to put a limit on sub-optimal bilateral deals
 - Reject any derogation to TPA if a project endangers EU priority project
- Support gas sector cooperation projects of new member states
- Be active on the price front
 - Continue to promote demand response to gas prices
 - Oil price is the weak point of our partner